Financial Statements

State of Hawaii
Department of Transportation
Harbors Division
Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

Submitted by
The Auditor
State of Hawaii

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Report of Independent Auditors

The Auditor
State of Hawaii

We have audited the accompanying financial statements of the business-type activities of the Harbors Division, Department of Transportation of the State of Hawaii (Harbors Division) as of and for the years ended June 30, 2009 and 2008, as shown on pages 17 through 20, which collectively comprise the Harbor Division's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Harbors Division. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the State's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Harbors Division's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Harbors Division are intended to present the financial position, and the changes in financial position and cash flows, of only that portion of the business-type activities 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, 2009 and 2008, and the changes in financial position or its cash flows for the fiscal years then ended in conformity with U.S. generally accepted accounting principles.

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As described in Note 3, the previously-issued financial statements have been restated for the correction of an error in the State of Hawaii's allocation of the fair value of auction rate securities invested by the State of Hawaii to the Harbors Division. The previously-issued auditor's report, dated May 5, 2009, is not to be relied on because the previously-issued financial statements were materially misstated and the previously-issued auditor's report is replaced by our report on the restated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Harbors Division as of June 30, 2009 and 2008, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2010, on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 16 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Harbor Division's basic financial statements. The supplementary information included in Schedules 1 through 6 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

March 31, 2010

State of Hawaii
Department of Transportation
Harbors Division

Financial Statements

Years Ended June 30, 2009 and 2008

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State of Hawaii
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Management's Discussion and Analysis

Years Ended June 30, 2009, 2008 and 2007

This section of the Harbors Division, Department of Transportation of the State of Hawaii (Harbors Division), relating to the Public Undertaking financial report, presents the reader with an introduction and overview of the Harbors Division's financial performance for the fiscal year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements, and the notes thereto, which follow this section.

The statewide system of commercial harbors consists of ten harbors on six islands. The system plays a vital role in Hawaii's economy as the ports serve as the primary means for goods to enter and exit the state. Hawaii imports approximately 80% of what it consumes, the majority of which enters the state through the commercial harbors system.

The Harbors Division is self-sustaining. The Department of Transportation of the State of Hawaii (DOT) is authorized to impose and collect rates and charges for the use of the harbors system and its properties to generate revenues to fund operating expenses. The Capital Improvements Program (CIP) is also funded by the Harbors Division's revenues and proceeds from the issuance of harbors system revenue bonds.

Financial Highlights

- The Harbors Division's net assets for 2009, 2008 (restated) and 2007 were $608.3 million, $637.0 million and $623.3 million, respectively. Net assets for 2009 decreased $28.7 million from 2008, a decrease of 4.5% and net assets for 2008 increased $13.7 million over 2007, an increase of 2.2%.
- Wharfage revenues for 2009, 2008 and 2007 were $37.5 million, $43.0 million and $41.8 million, respectively. These revenues for 2009 decreased $5.5 million from 2008, a 12.8% decrease. These revenues for 2008 increased $1.2 million over 2007, an increase of 2.9%.
- Total expenses for 2009, 2008 and 2007 were $80.7 million, $83.3 million and $76.6 million, respectively. Expenses for 2009 decreased $2.6 million from 2008, a 3.1% decrease. Expenses for 2008 increased $6.7 million from 2007, an increase of 8.7%.

Financial Highlights (continued)

Total operating revenues for fiscal year 2009 were $74.6 million compared to $85.4 million for fiscal year 2008 and $85.7 million for fiscal year 2007. The major portion of operating revenues is directly related to cargo and ship operations. Service revenues include wharfage, passenger fees and other ship related fees. Service revenues in fiscal years 2009, 2008 and 2007 were $48.3 million, $57.8 million and $58.1 million, respectively. Service revenues for fiscal year 2009 decreased $9.5 million or 16.4% compared to fiscal year 2008 primarily because of decreases in wharfage revenues of $5.5 million, decreases in passenger fees of $1.8 million and decreases in dockage and port entry fees of $1.5 million. Service revenues for fiscal year 2008 compared to fiscal year 2007 were flat, as an increase in wharfage revenues of $1.2 million for 2008 was offset by decreases of $1.0 million in passenger fees and decreases in dockage fees of $333,000 for 2008.

During fiscal 2009, approximately 1.1 million passengers (inbound and outbound) passed through the harbors compared to 2.0 million passengers in fiscal year 2008 and 2.4 million passengers in fiscal year 2007.

Passenger fee revenue for fiscal years 2009, 2008 and 2007 were $2.7 million, $4.5 million and $5.5 million, respectively. The $1.8 million or 40% revenue decrease from 2008 to 2009 and the $1.0 million or 18.2% revenue decrease from 2007 to 2008 are due primarily to the decision by NCL America to reduce its cruise ship operations in Hawaii that commenced effective the second half of fiscal year 2008. During February and May 2008, NCL America removed two cruise ships, the Pride of Hawaii and the Pride of Aloha, respectively, from its Hawaii-based U.S. flagged service. NCL America's decision resulted in approximately 900,000 fewer NCL America cruise ship passengers in 2009 and approximately 400,000 fewer passengers in 2008.

During fiscal years 2009, 2008 and 2007 passengers on U.S. flagged vessels taking a continuous trip whose point of origin and termination is a State of Hawaii (State) port were charged a fee of $2.50 at the point of origin and termination and an in-transit fee of $1.85 at each of the other ports under the tariff for disembarking and embarking. Other passengers are assessed a $2.50 passenger fee for embarking and a $2.50 passenger fee for disembarking. Passenger counts decreased in 2009 by 45% and revenues decreased by 40%, as approximately 30% of the 2009 passengers were in-transit. Passenger counts decreased in 2008 by 16.7% and revenues decreased by 18.2%, as approximately 65.0% of the 2008 passengers were in-transit.

Financial Highlights (continued)

Wharfage revenue in fiscal years 2009, 2008 and 2007 were $37.5 million, $43.0 million and $41.8 million, respectively. The decrease in wharfage revenues of $5.5 million or 12.8% for 2009 was due primarily to the decrease of $5.0 million related to lower cargo volumes handled over Harbors Division's harbor and port facilities during 2009 and due to decreased revenues of approximately $534,000 earned from the activities of the Hawaii Superferry, Inc. for 2009 from that earned in 2008. The Hawaii Superferry, Inc. commenced operations during the second quarter of fiscal year 2008, and ceased operations on March 19, 2009. The net increase in 2008 wharfage revenues of $1.2 million from 2007 or 2.9% was due primarily to $1.3 million earned from the commencement of the operations of Hawaii Superferry, Inc., reduced by lower wharfage revenue earned during 2008 from cargo handling at Harbors Division's ports of approximately $100,000.

Gross rental revenues in fiscal years 2009, 2008 and 2007, were $24.3 million, $25.3 million and $26.0 million, respectively. The decrease in rental revenue of $1.0 million or 4.0% from fiscal year 2008 to 2009 was due primarily to a decrease of approximately $361,000 in rental fees for the use of State pipeline facilities to deliver petroleum products such as diesel, gasoline and jet fuel, a decrease of land rents of approximately $143,000 due to the transfer of leases and permits to the Hawaii Community Development Authority for parcels located at Kewalo Basin as of March 1, 2009, a decrease of approximately $400,000 in rental revenues from parcels located at the former Kapalama Military Reservation, a decrease of approximately $166,000 in parking fees and a decrease of approximately $90,000 for the use of State pipeline facilities to transport water, which were partially offset by an increase in rental revenues of approximately $280,000 earned at Kalaeloa Barbers Point Harbor. The decrease of $700,000 or 2.7% from fiscal year 2007 to 2008 was due primarily to rental renegotiations resulting in higher rental rates offset by lower Honolulu Harbor storage revenues. Net rental revenues after deducting the provision for doubtful accounts were $24.3 million for 2009, $25.1 million for 2008 and $25.5 million for 2007. The provision for doubtful accounts for the fiscal years ended June 30, 2009, 2008 and 2007, affecting rental revenues, was approximately $83,000, $145,000 and $500,000, respectively. The remainder of the provision for doubtful accounts for the fiscal year ending June 30, 2009 affected service revenues by approximately $1,588,000.

Operating expenses excluding depreciation for fiscal years 2009, 2008 and 2007 were $50.2 million, $52.6 million and $46.0 million, respectively. The decrease in expenses from 2009 to 2008 of $2.4 million or 4.6% was due primarily to decreases in harbor operations expenses of approximately $1.3 million, decreases in harbor maintenance costs of $605,000, decreased central services costs of $912,000, and decreased general administration expenses of $1.2 million partially offset by an increase in personnel services costs of approximately $884,000 and an increase in fireboat operations of approximately $897,000. The increase in expenses from 2008

Financial Highlights (continued)

to 2007 of $6.6 million or 14.3% was due primarily to increases in personnel services costs of approximately $2.2 million, harbor maintenance costs of approximately $3.0 million and general administration expenses of approximately $1.5 million.

The decrease in harbor operations expenses of $1.3 million from 2009 to 2008 is due to an approximate $858,000 decrease in ceded land assessments which resulted from decreased revenues earned from decreased cargo volume, a decrease in electricity expense for 2009 of approximately $100,000 and write-offs of project costs which could not be capitalized in 2009 that were lower than those written-off in 2008 by approximately $393,000. The 2009 write-offs of project costs were approximately $270,000. The decrease in harbor operations expenses of approximately $794,000 from 2008 to 2007 was due primarily to write-offs of project costs which could not be capitalized in 2008 that were lower than those written-off in 2007 by approximately $1.7 million. This decrease was partially offset by increased electricity, sewer fee and other utility costs for 2008 compared to 2007.

Fireboat operations expense for fiscal 2009 increased over that of fiscal 2008 by approximately $897,000 because of maintenance expenditures required for vessel dry-dock. Fireboat expenses for fiscal 2008 were $231,000 higher than that of fiscal 2007, as dry-dock expenditures for the vessel were initiated in the last quarter of 2008.

Personnel services costs increased in fiscal year 2009 by approximately $884,000 due primarily to collective bargaining pay increases for white-collar bargaining units that took effect on July 1, 2008 and on October 1, 2008 and for a blue-collar bargaining unit that took effect on March 1, 2009. Personnel services costs increased in fiscal year 2008 by approximately $2.2 million, primarily due to collective bargaining pay increases and to the impact of the adoption of GASB Statement No. 45, *Post Employment Benefits Other Than Pensions Expense* (see Note 12) in 2008.

Harbor maintenance expenses decreased by approximately $605,000 and increased $3.0 million in 2009 and 2008, respectively. The cost of special maintenance projects undertaken in fiscal 2009 decreased in comparison to fiscal 2008 as there were several special maintenance projects undertaken for Honolulu Harbor which were completed during 2008, the expenditures of which approximated $1.2 million. Harbor maintenance expenses for 2008 were higher than 2007 by approximately $3.0 million due to a higher number of 2008 special maintenance projects, for which the costs were higher than projects undertaken during 2007.

Financial Highlights (continued)

Central services costs for 2009 were less than that of 2008 by approximately $912,000 due primarily to lower cash collections from customers and lower cash received from interest-bearing investments against which the 5% State assessment was applied. Central services cost for 2008 were more than that of 2007 by approximately $298,000 due primarily to higher cash received from interest-bearing investments and lower debt service requirements against which the 5% State assessment was applied (see Note 15).

General administration expenses decreased in 2009 by approximately $1.2 million, due primarily to two non-recurring expenditures made only in fiscal year 2008 of approximately $600,000 contributed to fund a joint study with the Hawaii Tourism Authority regarding the impact of the cruise ship industry in Hawaii and approximately $500,000 provided to the Department of Agriculture to fund improvements to its Invicta system. Conversely, these two aforementioned non-recurring expenditures made in fiscal year 2008 resulted in the increase in 2008 general administration expenses over 2007 expenses.

Financial Highlights (continued)

A summary of operations and changes in net assets for the fiscal years ended June 30, 2009, 2008 and 2007 follows:

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

	Year Ended June 30			2009 – 2008		2008 – 2007	
	2009	**2008 as restated**	**2007**	**Increase (decrease)**	**% Change**	**Increase (decrease)**	**% Change**
Operating revenues	**$ 74,612**	$ 85,447	$ 85,663	**$ (10,835)**	**(12.7)%**	$ (216)	0.3%
Nonoperating revenues	**6,284**	13,812	11,751	**(7,528)**	**(54.5)**	2,061	17.5
Total revenues	**80,896**	99,259	97,414	**(18,363)**	**(18.5)**	1,845	1.9
Depreciation	**17,929**	17,227	14,817	**702**	**4.1**	2,410	16.3
Other operating expenses	**50,224**	52,552	45,991	**(2,328)**	**(4.4)**	6,561	14.3
Nonoperating expenses	**12,581**	13,564	15,833	**(983)**	**(7.2)**	(2,269)	(14.3)
Total expenses	**80,734**	83,343	76,641	**(2,609)**	**(3.1)**	6,702	8.7
Net decrease in fair value of pooled cash balances invested by the State of Hawaii	**(7,714)**	(5,823)	–	**(1,891)**	**32.5**	(5,823)	(100.0)
(Loss) income before capital contributions, extraordinary loss and transfers	**(7,552)**	10,093	20,773	**(17,645)**	**(174.8)**	(10,680)	(51.4)
Capital contributions	**22,714**	3,616	4,371	**19,098**	**528.2**	(755)	(17.3)
Extraordinary loss	**(41,354)**	–	–	**(41,354)**	**(100.0)**	–	–
Transfer of capital assets	**(2,524)**	–	–	**(2,524)**	**(100.0)**	–	–
(Decrease) increase in net assets	**$ (28,716)**	$ 13,709	$ 25,144	**$ (42,425)**	**(309.5)%**	$ (11,435)	(45.5)%

Financial Highlights (continued)

A summary of the Harbors Division's net assets at June 30, 2009, 2008 and 2007 are shown below:

Table 2
Condensed Statements of Net Assets
(In Thousands)

	As of June 30			2009 – 2008		2008 – 2007	
	2009	**2008 as restated**	**2007**	**Increase (decrease)**	**% Change**	**Increase (decrease)**	**% Change**
Current and other assets	**$ 240,743**	$ 257,274	$ 291,812	**$ (16,531)**	**(6.4)%**	$ (34,538)	(11.8)%
Capital assets	**674,352**	694,905	659,042	**(20,553)**	**(3.0)**	35,863	5.4
Total assets	**915,095**	952,179	950,854	**(37,084)**	**(3.9)**	1,325	(0.1)
Long-term liabilities	**271,708**	281,347	288,463	**(9,639)**	**(3.4)**	(7,116)	(2.5)
Other liabilities	**35,132**	33,861	39,129	**1,271**	**3.8**	(5,268)	(13.5)
Total liabilities	**306,840**	315,208	327,592	**(8,368)**	**(2.7)**	(12,384)	(3.8)
Net assets:							
Invested in capital assets, net of related debt	**493,877**	499,915	484,199	**(6,038)**	**(1.2)**	15,716	3.2
Restricted	**69,905**	66,359	98,633	**3,546**	**(5.3)**	(32,274)	(32.7)
Unrestricted	**44,473**	70,697	40,430	**(26,224)**	**37.1**	30,267	74.9
	$ 608,255	$ 636,971	$ 623,262	**$ (28,716)**	**(4.5)%**	$ 13,709	2.2%

The largest portion of the Harbors Division's net assets (81%, 78% and 78% at June 30, 2009, 2008 and 2007, respectively) represents its investment in capital assets (e.g., land, wharves, buildings, improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Harbors Division uses these capital assets to provide services to its users of the harbors system; consequently, these assets are not available for future spending. Although the Harbors Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay for such liabilities.

Financial Highlights (continued)

The change in net assets is an indicator of whether the overall fiscal condition of the Harbors Division improved or worsened during the fiscal year. The change in net assets may serve over time as a useful indicator of the Harbor Division's financial position. Net assets or the amount of total assets that exceeds liabilities at June 30, 2009, 2008 and 2007 are approximately $608.3 million, $637.0 million and $623.3 million, respectively.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2009, 2008 and 2007 the Harbors Division had $674.4 million, $694.9 million $659.0 million, respectively invested in capital assets as shown in Table 3. There was a net decrease (additions, deductions and depreciation) of $20.5 million in 2009 from the prior year and a net increase in 2008 of $35.9 million from 2007.

Table 3
Capital Assets
(In Thousands)

	As of June 30			2009 – 2008		2008– 2007	
	2009	**2008**	**2007**	**Increase (decrease)**	**% Change**	**Increase (decrease)**	**% Change**
Land and land improvements	$ **419,081**	$ 388,729	$ 377,337	$ **30,352**	**7.8%**	$ 11,392	3.0%
Wharves	**226,323**	231,161	224,712	**(4,838)**	**(2.1)**	6,449	2.9
Other improvements	**68,122**	68,054	68,053	**68**	**0.1**	1	0.0
Buildings and improvements	**84,324**	83,361	83,053	**963**	**1.2**	308	.37
Equipment	**14,865**	47,509	47,061	**(32,644)**	**(68.7)**	448	1.0
Subtotal	**812,715**	818,814	800,216	**(6,099)**	**(0.7)**	18,598	2.3
Less accumulated depreciation	**(210,917)**	(194,580)	(177,474)	**16,337**	**8.4**	17,106	9.6
Subtotal	**601,798**	624,234	622,742	**(22,436)**	**(3.6)**	1,492	0.2
Construction in progress	**72,554**	70,671	36,300	**1,883**	**2.7**	34,371	94.7
Total	$ **674,352**	$ 694,905	$ 659,042	$ **(20,553)**	**(3.0)%**	$ 35,863	5.4%

Capital Asset and Debt Administration (continued)

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2009, included the following:

- $26.9 million Breakwater Improvements at Kaumalapau Harbor, Lanai
- $3.0 million Pier 1 Yard Expansion and Lighting and Utility Improvements, Honolulu Harbor, Oahu
- $874,000 Modifications Kalaeloa Barbers Point Harbor, Oahu
- $667,000 Security Surveillance System for Neighbor Island Passenger Terminals

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2008, included the following:

- $9.8 million Land Acquisition, Kahului Harbor, Maui
- $4.8 million Substructure Repairs at Pier 2, Honolulu Harbor, Oahu
- $1.2 million Bulkhead Repairs at Pier 29, Honolulu Harbor, Oahu
- $538,000 Crash Barrier Gates for Container Terminals, Honolulu Harbor, Oahu
- $310,000 Demolition of Pier 2 Shed and Misc. Site Work at Inter-Island Barge Terminal, Kahului Harbor, Maui

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

- $27.3 million Reconstruction of Piers 52 & 53 Sand Island Container Yard, Honolulu Harbor, Oahu
- $23.7 million Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu
- $6.9 million Segmented Pier 3 Improvements, Nawiliwili Harbor, Kauai

Capital Asset and Debt Administration (continued)

- $4.8 million Construction of Miscellaneous Improvements, Including Construction Management and Inspections of Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- $982,000 Various Statewide Harbor Security Improvements
- $803,000 Statewide Planning and Development of State Commercial Harbors System
- $770,000 Statewide Maritime Identification Credentialing System

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

- $20.0 million Construction of Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii
- $30.3 million Construction of Pier 29 Container Yard, Honolulu Harbor
- $6.2 million Reconstruction of Pier 2 Fendering System, Nawiliwili Harbor, Kauai
- $4.2 million Commuter Ferry System at Kaunakakai Harbor, Molokai
- $3.2 million Pier 2A Shed Demolition and Container Yard Improvements at Kawaihae Harbor, Hawaii
- $1.7 million Access and Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu
- $1.8 million Pier 1 Makai Comfort Station and Waterline Improvements, Kahului Harbor
- $1.1 million Perimeter Fencing Improvements at Honolulu and Kalaeloa Barbers Point Harbors, Oahu
- $272,000 Disposal of Dredged Spoils Stockpiled at Pier 7, Kalaeloa Barbers Point Harbors, Oahu

Capital Asset and Debt Administration (continued)

- The Harbors Division is committed under contracts awarded for capital improvements projects totaling approximately $40.1 million and $29.0 million as of June 30, 2009 and 2008, respectively. Additional information regarding the Harbors Division's capital assets can be found in Note 5.

The U.S. Army Corps of Engineers (USACE) completed the Kaumalapau Harbor Breakwater Repair project in January 2009. A Project Cooperation Agreement (PCA) signed on September 23, 2003, by the USACE and Harbors established the cost sharing at 80% of this project cost to be borne by the USACE, with Harbors paying for the remaining 20%. In accordance with the PCA, the cost borne by the USACE of approximately $21,141,000 was contributed to Harbors during fiscal 2009 (see Note 5).

The Harbors Division recorded an approximate $41,354,000 extraordinary loss in fiscal 2009 to recognize the impairment in the value of certain capital assets and capital improvements constructed for use by the operations of the Hawaii Superferry. Refer to Note 5 to obtain additional information.

Indebtedness

Harbors System Revenue Bonds and Reimbursable General Obligation Bonds

As of June 30, 2009, $242,725,000 of harbors system revenue bonds was outstanding compared to $253,795,000 and $266,040,000 as of June 30, 2008 and 2007, respectively. The Harbors Division issued $96.5 million in Series A of 2006 Revenue Bonds in July 2006, and in August 2007, the Harbors Division issued $51,645,000 Series A of 2007 Revenue Bonds to refund all outstanding Series of 1997 Bonds. The Harbors Division has managed its debt levels by issuing refunding bonds and defeasing bonds with unencumbered cash from the Harbors Revenue Fund.

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

Act 178, Session Laws of Hawaii 2005, appropriated reimbursable General Obligation bonds of $20.0 million each in fiscal year 2007 and fiscal year 2008, for harbor improvements needed to support the operations of Hawaii Superferry, Inc. See Note 9.

Indebtedness (continued)

Credit Rating and Bond Insurance

All harbor system revenue bonds issued since 1997 have been issued with bond insurance. As of June 30, 2009, the underlying ratings for harbor system revenue bonds were as follows:

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

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

Moody's downgraded the rating of the outstanding Harbors Division Revenue Bonds to A2 from A1 on January 12, 2010 (see Note 21).

Harbor System Revenue Bonds Series A and B of 2002 are insured by Ambac Assurance Corporation (Ambac). During calendar years 2009 and 2008, S&P, Moody's and Fitch, downgraded the financial strength rating of Ambac resulting in a downgrade of the insured rating of the bonds insured by Ambac. On June 24, 2008, for a specified event occurring on June 19, 2008, Moody's downgraded the insured ratings of the bonds insured by Ambac from Aaa to Aa3 due to a rating downgrade of the financial strength rating of Ambac. On July 8, 2008, Fitch withdrew the insured rating of bonds insured by Ambac due to Ambac's request to withdraw the ratings. On November 17, 2008, for a specified event occurring on November 5, 2008, Moody's downgraded the insured ratings of the bonds insured by Ambac from Aa3 to Baa1. On April 15, 2009, a Notice was filed for a specified event on April 13, 2009 when Moody's downgraded the insured ratings of the bonds insured by Ambac from "Baa1" to "Ba3" due to a rating downgrade of the insurer financial strength of Ambac by Moody's. On July 14, 2009 a Notice was filed for a specified event on June 24, 2009 when Standard and Poor's Rating Services (S&P) downgraded the insured ratings of the bonds insured by Ambac from "A" to "BBB" due to a rating downgrade of the insurer financial strength of Ambac by S&P. On August 4, 2009 a Notice was filed for a specified event on July 29, 2009 when S&P downgraded the insured ratings of the bonds insured by Ambac from "BBB" to "CC" due to a rating downgrade of the insurer financial strength of Ambac by S&P. On August 11, 2009, a Notice was filed for a specified event on July 29, 2009 when Moody's downgraded the insured ratings of the bonds insured by Ambac from

Indebtedness (continued)

"Ba3" to "Caa2" due to a rating downgrade of the insurer financial strength of Ambac by Moody's.

Additionally, Notices of a Material Event concerning rating changes were filed with the Nationally Recognized Municipal Securities Information Repositories (NRMSIRs) relating to the Harbor System Revenue Bonds, Series A of 2000, Series A and B of 2004, Series A of 2006 and Series A of 2007, insured by Financial Security Assurance, Inc. (FSA). On March 2, 2009, a Notice was filed for a specified event on November 21, 2008, when Moody's downgraded the insured ratings of the bonds insured by FSA from "Aaa" to "Aa3" due to a rating downgrade of the insurer financial strength of FSA by Moody's. On May 12, 2009, a Notice was filed for a specified event on May 11, 2009, when Fitch Ratings (Fitch) downgraded the insured ratings of the bonds insured by FSA from "AAA" to "AA+" due to a rating downgrade of the insurer financial strength of FSA by Fitch. On November 4, 2009, a Notice was filed for a specified event on October 12, 2009 when Fitch downgraded the insured ratings of the bonds insured by FSA from "AA+" to "AA" due to a rating downgrade of the insurer financial strength of FSA by Fitch.

These downgrades of the bond insurer, Ambac, have resulted in no negative impacts to the harbor system revenue bonds. There have been no increases in the stated interest rates, no requirements to accelerate or to prepay any principal amounts borrowed, nor have there been any requirements to pay additional premiums to Ambac. There have been no downgrades to the ratings of the harbor system revenue bonds.

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 Harbor Revenue Bond Certificate.

The Harbors Division coverage ratio as of June 30, 2009 was 1.82 under the 1997 Harbor Revenue Bond Certificate as compared to the ratio of 2.29 as of June 30, 2008.

Request for Information

The financial report is designed to provide a general overview of the Harbors Division's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the Harbors Administrator,

Request for Information (continued)

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*.

State of Hawaii
Department of Transportation
Harbors Division

Statements of Net Assets

Assets	June 30 2009	2008 Restated (See Note 3)
Current assets		
Cash and cash equivalents *(Note 4)*	**$ 103,425,902**	$ 121,180,729
Receivables, less allowance for doubtful accounts of $4,266,600 in 2009 and $2,745,000 in 2008	**5,655,973**	6,342,446
Notes receivable, less allowance for doubtful accounts of $7,808,000 in 2009 and in 2008 *(Note 16)*	**15,285**	43,471
Interest receivable	**3,534,983**	1,443,480
Due from the Federal Government	**23,046**	579,019
Due from other State agencies	**922,364**	537,723
Other receivables	**51,809**	30,248
Materials and supplies, at cost	**241,233**	241,236
Prepaid insurance and others	**24,083**	24,083
	113,894,678	130,422,435
Restricted assets		
Cash and cash equivalents *(Note 4)*	**16,860,143**	17,746,358
	16,860,143	17,746,358
Total current assets	**130,754,821**	148,168,793
Noncurrent		
Cash and cash equivalents–restricted *(Note 4)*	**107,118,856**	106,072,028
Capital assets *(Notes 5, 10 and 17)*		
Nondepreciable facilities:		
Land	**173,940,070**	173,940,070
Land improvements	**76,086,739**	76,086,739
Other improvements	**66,908**	66,908
	250,093,717	250,093,717
Depreciable facilities:		
Land improvements	**168,987,231**	138,635,292
Wharves	**226,322,765**	231,161,035
Other improvements	**68,122,375**	68,053,566
Buildings	**84,323,969**	83,361,270
Equipment	**14,864,800**	47,509,015
	562,621,140	568,720,178
Less accumulated depreciation	**(210,916,535)**	(194,579,633)
	351,704,605	374,140,545
Construction in progress	**72,553,821**	70,670,415
Total capital assets	**674,352,143**	694,904,677
Other assets		
Unamortized bond issue costs	**2,869,267**	3,033,423
Total noncurrent assets	**784,340,266**	804,010,128
Total assets	**$ 915,095,087**	$ 952,178,921

Liabilities and net assets	June 30 2009	2008 Restated (See Note 3)
Current liabilities (payable from current assets)		
Accounts payable	**$ 7,828,649**	$ 4,461,163
Accrued workers' compensation *(Notes 6 and 13)*	**92,650**	95,772
Contracts payable, including retainages	**1,551,136**	1,792,034
Accrued vacation *(Note 6)*	**600,586**	574,986
Due to Department of Budget and Finance *(Note 9)*	**3,160,273**	1,638,863
	13,233,294	8,562,818
Current liabilities (payable from restricted assets)		
Contracts payable, including retainages	**1,547,433**	4,887,847
Revenue bonds payable, current maturities *(Notes 6 and 7)*	**10,333,564**	10,917,626
General obligation bonds payable, current maturities *(Notes 6 and 9)*	**966,555**	–
Accrued interest payable	**6,420,143**	6,676,358
Security deposits	**2,630,966**	2,816,628
	21,898,661	25,298,459
Total current liabilities	**35,131,955**	33,861,277
Long-term liabilities		
Accrued workers' compensation *(Notes 6 and 13)*	**314,301**	369,510
Other postretirement benefits payable *(Notes 6 and 12)*	**3,114,591**	1,450,866
Long-term debt, less current maturities:		
General obligation bonds payable *(Notes 6 and 9)*	**37,362,029**	38,328,584
Revenue bonds payable, net *(Notes 6 and 7)*	**229,147,713**	239,534,021
Accrued vacation *(Note 6)*	**1,769,735**	1,663,491
Total long-term liabilities	**271,708,369**	281,346,472
Total liabilities	**306,840,324**	315,207,749
Net assets		
Invested in capital assets, net of related debt	**493,877,330**	499,914,529
Restricted–revenue bond requirements	**10,897,658**	10,897,658
Restricted–for capital projects	**59,006,464**	55,461,498
Unrestricted	**44,473,311**	70,697,487
Total net assets	**608,254,763**	636,971,172
Total liabilities and net assets	**$ 915,095,087**	$ 952,178,921

See accompanying notes.

State of Hawaii
Department of Transportation
Harbors Division

Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended June 30	
	2009	2008 Restated (See Note 3)
Operating revenues, net:		
Services	**$ 48,294,865**	$ 57,782,028
Rentals	**24,334,183**	25,263,428
Others	**1,982,629**	2,401,801
	74,611,677	85,447,257
Operating expenses:		
Personnel services	**16,072,301**	15,187,852
Harbor operations *(Notes 5 and 14)*	**14,306,147**	15,647,708
Maintenance	**10,865,686**	11,470,476
State of Hawaii, surcharge for central service expenses *(Note 15)*	**2,409,835**	3,322,223
Fireboat operations *(Note 15)*	**2,837,488**	1,940,911
General administration	**2,179,452**	3,354,778
Department of Transportation, general administration expenses *(Note 15)*	**1,552,911**	1,627,530
Depreciation	**17,928,900**	17,226,748
	68,152,720	69,778,226
Operating income	**6,458,957**	15,669,031
Nonoperating revenues (expenses):		
Proceeds from insurance on capital assets	**–**	3,003,170
Interest income:		
Deposits in investment pool	**6,284,379**	10,808,810
Net decrease in the fair value of pooled cash balances invested by the State of Hawaii *(Note 4)*	**(7,714,016)**	(5,823,388)
Interest expense:		
Bonds *(Note 10)*	**(12,317,662)**	(13,796,247)
Amortization of bond discount, issue costs and loss on refunding	**(263,785)**	277,567
Loss on disposal of capital assets	**–**	(45,668)
	(14,011,084)	(5,575,756)
(Loss) income before capital contributions, extraordinary items and transfers	**(7,552,127)**	10,093,275
Capital contributions *(Note 5)*	**22,713,587**	3,615,762
Extraordinary loss on impairment of capital assets (Note 5)	**(41,354,232)**	–
Transfer of capital assets to other State agency (Note 17)	**(2,523,637)**	–
(Decrease) increase in net assets	**(28,716,409)**	13,709,037
Net assets as of beginning of year	**636,971,172**	623,262,135
Net assets as of end of year	**$ 608,254,763**	$ 636,971,172

See accompanying notes.

State of Hawaii
Department of Transportation
Harbors Division

Statements of Cash Flows

	Year Ended June 30	
		2008 Restated
Operating activities	**2009**	(See Note 3)
Cash received from customers	**$ 74,734,472**	$ 86,521,182
Cash paid to suppliers	**(34,423,673)**	(39,781,303)
Cash paid to employees	**(14,276,732)**	(13,646,961)
Net cash provided by operating activities	**26,034,067**	33,092,918
Capital and related financing activities		
Proceeds received from issuance of refunding revenue bonds	**–**	52,960,423
Repayment for refunded revenue bonds	**–**	(52,902,611)
Government grants received in aid of construction	**1,299,909**	185,233
Acquisition and construction of capital assets	**(16,852,188)**	(50,539,172)
Proceeds from insurance on capital assets	**–**	3,003,170
Principal paid on bonds	**(10,806,214)**	(12,254,754)
Interest paid on bonds	**(15,150,510)**	(15,488,685)
Borrowings from general obligation bonds *(Note 9)*	**1,401,861**	2,699,773
Net cash used in capital and related financing activities	**(40,107,142)**	(72,336,623)
Investing activities		
Interest received	**4,192,876**	13,210,775
Change in fair value of investments of pooled cash balances	**(7,714,016)**	(5,823,388)
Net cash (used in) provided by investing activities	**(3,521,140)**	7,387,387
Net decrease in cash and cash equivalents	**(17,594,215)**	(31,856,318)
Cash and cash equivalents at beginning of fiscal year	**244,999,116**	276,855,433
Cash and cash equivalents at end of fiscal year	**$ 227,404,901**	$ 244,999,115
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	**$ 6,458,957**	$ 15,669,031
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**17,928,900**	17,226,748
Provision for doubtful accounts	**1,521,976**	736,347

(Continued on following page)

State of Hawaii
Department of Transportation
Harbors Division

Statements of Cash Flows *(continued)*

	Year Ended June 30 2009	2008 Restated (See Note 3)
Changes in assets and liabilities:		
Receivables	**$ (1,213,519)**	$ 257,223
Materials and supplies	**3**	(4,741)
Payables	**(213,826)**	(2,419,938)
Accrued workers' compensation	**(58,331)**	7,002
Accrued vacation	**131,844**	90,025
Security deposits	**(185,662)**	80,355
Other postretirement benefits payable	**1,663,725**	1,450,866
Net cash provided by operating activities	**$ 26,034,067**	$ 33,092,918
Supplemental disclosure of noncash capital and related financial activities		
Amortization of bond discount, issue costs and loss on refunding	**$ (263,785)**	$ (277,567)
Development of capital assets from other sources	**$ 22,713,587**	$ 3,615,762

See accompanying notes.

1. Financial Reporting Entity

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

The Harbors Division is part of the DOT, which is part of the executive branch of the State. The Harbors Division's financial statements reflect only its portion of the proprietary fund type. 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 "Certificate of the Director of Transportation Providing for the Issuance of 1997 State of Hawaii Harbor Revenue Bonds," dated March 1, 1997 (1997 Certificate), defines the "Undertaking" as all of the harbor and waterfront improvements and other properties under the jurisdiction, control and management of the Harbors Division, except those principally used for recreation and the landing of fish.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting policies of the Harbors Division conform to U.S. generally accepted accounting principles, as applicable to enterprise activities of governmental units as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the Harbors Division has elected not to apply the Financial Accounting Standards Board pronouncements on accounting and financial reporting that were issued after November 30, 1989.

An enterprise fund is used to account for the acquisition, operation and maintenance of government facilities and services that are entirely or predominantly supported by user charges. The Harbors Division's operations are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

2. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

Cash and cash equivalents, for the purpose of the statements of cash flows, include all cash and investments with original maturities of three months or less and pooled cash balances invested by the State.

Restricted Assets

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

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are reported at their gross value when earned, reduced by an allowance for doubtful accounts.

Accounts are written-off upon the approval of the State Department of the Attorney General, when it believes, after considering economic conditions, business conditions, and collection efforts, that the accounts are uncollectible.

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

Risk Management

The Harbors Division is exposed to various risks for losses related to, among other risks, torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

2. Summary of Significant Accounting Policies (continued)

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. Depreciation is not provided for in the year of acquisition, but is provided for the entire year in the year of disposal. 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 revenue or expense.

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 are capitalized in the year incurred. Interest cost is capitalized during the period of construction for capital improvement projects except those projects funded by grants from the State or the federal government.

The Harbors Division applies the requirements of Governmental Accounting Standards Board Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, (GASB 42) to determine if any event or circumstance occurred that potentially leads to impairment of its capital assets. See Note 5.

Bond Issue Costs

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

2. Summary of Significant Accounting Policies (continued)

Unamortized Debt Premium (Discount)

Debt premium (discount) is amortized using the effective interest rate method over the term of the related debt, and the unamortized balance is reflected as an offset against the related long-term liabilities in the statements of net assets. See Note 7.

Refunding of Debt

The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is reported as a deduction from or an addition to the new debt liability. See Note 7.

Accrued Vacation

The Harbors Division accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences, in accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences* (GASB 16). Vacation is earned at the rate of 168 hours per calendar year, depending on an employee's date of hire. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment.

Operating Revenues

Operating revenues are those that result from providing goods and services and are reported net of bad debt. The provision for bad debts for the years ended June 30, 2009 and 2008 was approximately $1,522,000 and $736,000, respectively. Operating revenues also excludes revenues related to capital and related financing activities, noncapital financing activities, and investing activities.

2. Summary of Significant Accounting Policies (continued)

The Harbors Division has pledged its future operating revenues, net of certain operating expenses, to repay $242,725,000 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 January 2031.

The total principal and interest remaining to be paid on the bonds is approximately $381,647,000. Principal and interest paid and total operating revenues, net of certain operating expenses, were approximately $24,290,000 and $33,368,000, respectively for the year ended June 30, 2009 and approximately $27,743,000 and 43,141,000, respectively for the year ended June 30, 2008.

Operating 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, which are reported in the statements of revenues, expenses and changes in net assets, after nonoperating revenues and expenses as capital contributions.

Reclassifications

Certain reclassifications have been made to the prior year balances to conform to the current year presentation.

3. Restatement of 2008 Financial Statements

In preparation of the June 30, 2009 allocation schedule which allocates the decline in fair value of the auction rate securities to the respective State agencies, the State determined that it had included bond fund investment income in its allocation for the 2008 fiscal year. Although the inclusion of the bond fund investment income had no effect on the State's balances, the effect on

3. Restatement of 2008 Financial Statements (continued)

the Harbors Division was a $2,305,848 understatement of the cash and cash equivalents in the statement of net assets as of June 30, 2008 and a corresponding overstatement of the net decrease in the fair value of pooled cash balances invested by the State of Hawaii in the statement of revenues, expenses and changes in net assets for the year ended June 30, 2008. The effect of the restatement adjustment on the Harbors Division's financial statements at June 30, 2008 and for the year then ended is as follows:

	June 30, 2008 As Previously Reported	Adjustments	As Restated
Statement of Net Assets			
Cash and cash equivalents	$118,874,881	$ 2,305,848	$121,180,729
Unrestricted net assets	68,391,639	2,305,848	70,697,487
Statement of Revenues, Expenses and Changes in Net Assets	**Year Ended June 30, 2008**	**Adjustments**	**As Restated**
Net decrease in the fair value of pooled cash balances invested by the State of Hawaii	(8,129,236)	2,305,848	(5,823,388)
Increase in net assets	11,403,189	2,305,848	13,709,037
Statement of Cash Flows			
Change in fair value of investments of pooled cash balances	(8,129,236)	2,305,848	(5,823,388)

4. Cash

At June 30, 2009 and 2008, information relating to the insurance and collateral of cash deposits is not available since such information is determined on a statewide basis and not for individual departments or divisions of the State. This information, on a statewide basis, is included in the State Comprehensive Annual Financial Report (CAFR) which can be obtained at the Department of Accounting and General Services website: http://hawaii.gov/dags/rpts. Substantially all of Harbors Division's cash is under the custody of the State Director of Finance. Cash deposits of the State are either federally insured or collateralized with obligations of the State or the U.S. government. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

4. Cash (continued)

Statutes authorize the State Director of Finance to invest pooled cash deposits, with certain restrictions based on risk:

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

Credit risk – the State's investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, banker's acceptances, and money market funds and student loan resource securities maintaining a Triple-A rating.

In fiscal 2009 and 2008, a portion of the State's pooled cash deposits were invested in auction rate securities that were collateralized by student loans guaranteed by the federal government. These auction rate securities were determined to be impaired by the State and the Harbors Division's allocated equity share of the investments was reduced by approximately $7,714,000 and $5,823,000 at June 30, 2009 and June 30, 2008 as restated, respectively. The change in fair value of the auction rate securities is recorded against interest income in the statements of revenues, expenses and changes in net assets.

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

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

5. Capital Assets

The changes in capital assets were as follows:

	Balance July 1 2008	Additions	Deductions	Balance June 30 2009
Nondepreciable assets:				
Land and improvements	$ 250,093,717	–	–	$ 250,093,717
Depreciable assets:				
Land improvements	138,635,292	31,481,580	(1,129,641)	168,987,231
Wharves	231,161,035	104,134	(4,942,404)	226,322,765
Other improvements	68,053,566	375,277	(306,468)	68,122,375
Buildings	83,361,270	962,699	–	84,323,969
Equipment	47,509,015	2,022,149	(34,666,364)	14,864,800
Total at cost	818,813,895	34,945,839	(41,044,877)	812,714,857
Less accumulated depreciation for:				
Land improvements	40,790,365	4,320,651	(905)	45,110,111
Wharves	90,864,251	7,013,851	(1,265,382)	96,612,720
Other improvements	29,037,949	2,074,415	(91,916)	31,020,448
Buildings	24,595,778	2,112,575	–	26,708,353
Equipment	9,291,290	2,407,408	(233,795)	11,464,903
Total accumulated depreciation	194,579,633	17,928,900	(1,591,998)	210,916,535
Construction in progress	70,670,415	19,790,064	(17,906,658)	72,553,821
Total capital assets	$ 694,904,677	36,807,003	(57,359,537)	674,352,143

5. Capital Assets (continued)

	Balance July 1 2007	Additions	Deductions	Balance June 30 2008
Nondepreciable assets:				
Land and improvements	$ 240,270,513	$ 9,823,204	$ –	$ 250,093,717
Depreciable assets:				
Land improvements	137,066,198	1,569,094	–	138,635,292
Wharves	224,711,606	6,449,429	–	231,161,035
Other improvements	68,053,566	–	–	68,053,566
Buildings	83,053,555	307,715	–	83,361,270
Equipment	47,060,781	615,112	(166,878)	47,509,015
Total at cost	800,216,219	18,764,554	(166,878)	818,813,895
Less accumulated depreciation for:				
Land improvements	36,546,165	4,244,200	–	40,790,365
Wharves	84,249,299	6,614,952	–	90,864,251
Other improvements	26,960,266	2,077,683	–	29,037,949
Buildings	22,518,048	2,077,730	–	24,595,778
Equipment	7,200,315	2,212,183	(121,208)	9,291,290
Total accumulated depreciation	177,474,093	17,226,748	(121,208)	194,579,633
Construction in progress	36,299,570	44,880,314	(10,509,469)	70,670,415
Total capital assets	$ 659,041,696	$ 46,418,120	$ (10,555,139)	$ 694,904,677

The Harbors Division decreased construction in progress by approximately $260,000 during fiscal year 2009 and approximately $694,000 during fiscal year 2008 for costs associated with terminated projects and completed projects for which costs could not be capitalized. The decrease in construction in progress for both years is included in harbor operations expense in the accompanying statements of revenues, expenses and changes in net assets

Hawaii Superferry, Inc. (HSF) operated, for approximately two years, a large capacity roll on/roll off high speed daily ferry service for the transport of passengers and vehicles between Honolulu and Kahului Harbors. After HSF commenced service in 2007, the Hawaii Supreme Court ruled that an environmental assessment must be performed with respect to certain improvements at Kahului Harbor intended for use by HSF. Act 02, Second Special Session of

5. Capital Assets (continued)

2007, allowed large capacity ferry vessel companies such as HSF to operate under certain conditions while the required environmental reviews were conducted. On March 16, 2009, the Hawaii Supreme Court held Act 02 unconstitutional. Following this decision, HSF halted all operations as of March 19, 2009, and removed its ferry vessel from Hawaii shortly thereafter. On May 30, 2009, HSF, and its parent HSF Holding, Inc., (Debtors), filed Chapter 11 bankruptcy petitions in the U.S. Bankruptcy Court (Bankruptcy Court) for the District of Delaware. The Bankruptcy Court on July 1, 2009 approved the Debtors' motions to abandon and release their interest in the two ferry vessels to the U.S. DOT Maritime Administration, the first mortgagor of the vessels.

The March 16, 2009 Hawaii Supreme Court decision was a prominent legal event which had a significant effect on and curtailed the service utility of the capital assets that were constructed or purchased by the Harbors Division to accommodate the operations of HSF. In accordance with GASB 42, an impairment loss of approximately $41,354,000 for fiscal year 2009 has been recognized for these capital assets, rendering their carrying value to $0. These assets have been idle and no foreseeable use by any other operator for the purposes for which they were acquired is anticipated. This impairment loss is reported as an extraordinary loss in the accompanying statements of revenues, expenses and changes in net assets because of the unusual, unexpected and infrequent occurrence of events that caused these assets to no longer have a service life. The classification of this loss as an extraordinary loss is in accordance with paragraphs 19 through 24 of APB Opinion No. 30, *Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. This impairment loss is comprised of the undepreciated asset cost totaling approximately $36,929,000 for capital assets that were placed in service and utilized by HSF until March 19, 2009 which were categorized as Land Improvements, Wharf Improvements and Equipment, such as Barges and Ramps, of approximately $1,128,000, $1,369,000 and $34,432,000, respectively and approximately $4,425,000 for costs included in construction in process that were related to HSF's operations.

The U.S. Army Corps of Engineers (USACE) completed the Kaumalapau Harbor Breakwater Repair project (Project) in January 2009. The Project Cooperation Agreement (PCA) signed on September 23, 2003 by USACE and Harbors established the cost sharing for the Project to be 80% funded by the USACE and 20% funded by the Harbors Division. In accordance with the PCA, 10% of the costs were contributed by the Harbors Division at the beginning of the project and the remaining 10% is to be contributed in annual installments, with variable interest,

5. Capital Assets (continued)

over a period of 30 years, the cost borne by the USACE will be contributed to Harbors at the completion of the project. The total cost of this project disclosed by the USACE is approximately $26,959,000, of which the USACE has paid 80% or approximately $21,141,000, which it contributed to Harbors in fiscal 2009. The amount contributed by USACE is reported as capital contributions in the statement of revenues, expenses and changes in net assets.

6. Long-Term Liabilities

The changes in long-term liabilities were as follows:

	Balance July 1 2008	Additions	Deductions	Balance June 30 2009	Current	Noncurrent
Accrued workers' compensation	$ 465,282	$ 129,234	$ 187,565	$ 406,951	$ 92,650	$ 314,301
Accrued vacation	2,238,477	1,086,358	954,514	2,370,321	600,586	1,769,735
Other postretirement benefits payable	1,450,866	2,602,712	938,987	3,114,591	–	3,114,591
General Obligation bonds	38,328,584	–	–	38,328,584	966,555	37,362,029
Revenue bonds	253,795,000	–	11,070,000	242,725,000	10,440,000	232,285,000
Less:						
Unamortized discount	(92,194)	–	(8,131)	(84,063)	(7,381)	(76,682)
Unamortized premium	2,855,975	–	347,306	2,508,669	339,749	2,168,920
Unamortized deferred loss on refunding	(6,107,134)	–	(438,805)	(5,668,329)	(438,804)	(5,229,525)
Revenue bonds, net	250,451,647	-	10,970,370	239,481,277	10,333,564	229,147,713
	$292,934,856	$ 3,818,304	$ 13,051,436	$283,701,724	$ 11,993,355	$271,708,369

6. Long-Term Liabilities (continued)

	Balance July 1 2007	Additions	Deductions	Balance June 30 2008	Current	Noncurrent
Accrued workers' compensation	$ 458,280	$ 134,154	$ 127,152	$ 465,282	$ 95,772	$ 369,510
Accrued vacation	2,148,452	1,085,766	995,741	2,238,477	574,986	1,663,491
Other postretirement benefits payable	–	2,316,683	865,817	1,450,866	–	1,450,866
General Obligation bonds	35,630,811	2,697,773	–	38,328,584	–	38,328,584
Revenue bonds	266,040,000	51,645,000	63,890,000	253,795,000	11,070,000	242,725,000
Less:						
Unamortized discount	(2,001,511)	–	(1,909,317)	(92,194)	(8,131)	(84,063)
Unamortized premium	2,231,776	928,865	304,666	2,855,975	348,662	2,507,313
Unamortized deferred loss on refunding	(3,692,448)	(2,477,971)	(63,285)	(6,107,134)	(492,905)	(5,614,229)
Revenue bonds, net	262,577,817	50,095,894	62,222,064	250,451,647	10,917,626	239,534,021
	$300,815,360	$ 56,330,270	$ 64,210,774	$292,934,856	$ 11,588,384	$281,346,472

7. Revenue Bonds Payable

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

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

The Revenue Bonds are subject to redemption at the option of the Director of DOT and the State during specific years at prices ranging from 102-1/2% to 100% of face value.

In August 2007, the Harbors Division issued $51,645,000 Series A of 2007 Revenue Bonds and received proceeds of approximately $53,360,000. These Revenue Bonds refunded all outstanding series of 1997 Bonds and will mature through the year 2027 with interest rates ranging from 4.25% to 5.50%. The net cash savings on the refunding was approximately $2,517,000 and the economic gain recognized on the refunding was approximately $1,600,000. The unamortized deferred loss on the refunding was approximately $2,478,000.

7. Revenue Bonds Payable (continued)

The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2009:

Year of Issue	Final Redemption Date	Interest Rates	Original Amount of Issue	Current: Principal Due July 1 2009	Current: Principal Due January 1 2010	Total Current	Noncurrent
2000	July 1, 2029	4.50–6.00%	$ 79,405,000	$ 2,635,000	$ –	$ 2,635,000	$ 56,385,000
2002	July 1, 2019	3.00–5.50%	24,420,000	525,000	–	525,000	11,140,000
2004	January 1, 2024	2.50–6.00%	52,030,000	–	3,580,000	3,580,000	27,135,000
2006	January 1, 2031	4.00–5.25%	96,570,000	–	2,300,000	2,300,000	88,005,000
2007	July 1, 2027	4.25–5.50%	51,645,000	1,400,000	–	1,400,000	49,620,000
			$304,070,000	$ 4,560,000	$ 5,880,000	$ 10,440,000	$232,285,000
Less:							
Unamortized discount						(7,381)	(76,682)
Unamortized premium						339,749	2,168,920
Unamortized deferred loss on refunding						(438,804)	(5,229,525)
						$ 10,333,564	$229,147,713

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

Fiscal Year Ending June 30	Principal	Interest	Total
2010	$ 10,440,000	$ 12,727,149	$ 23,167,149
2011	10,995,000	12,231,418	23,226,418
2012	8,880,000	11,673,661	20,553,661
2013	11,965,000	11,119,949	23,084,949
2014	12,625,000	10,457,361	23,082,361
2015-2019	58,330,000	43,220,180	101,550,180
2020-2024	67,195,000	25,947,493	93,142,493
2025-2029	47,700,000	10,514,775	58,214,775
2030-2031	14,595,000	1,029,675	15,624,675
	$242,725,000	$138,921,661	$381,646,661

7. Revenue Bonds Payable (continued)

The debt service requirements reflect the sum of the amounts to be paid in accordance with the repayment schedules of the bonds issued. Principal and interest payments are required to be funded in the 12-month and 6-month periods, respectively, preceding the date on which the payments are due. Accordingly, the debt service requirements include reserves of $10,440,000 as of June 30, 2009, for payments due on July 1, 2009 and January 1, 2010.

8. Harbor Revenue Bond Requirements

1997 Certificate – Minimum Net Revenue Requirement

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

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

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

The harbor revenue bond debt service requirements, including minimum sinking fund payments during the current fiscal year, computed in accordance with Section 6.03 of the 1997 Certificate totaled $23,167,149. Net revenues of the Public Undertaking, as defined by the 1997 Certificate amounted to $42,148,788 or 1.82 times the minimum net revenue requirement for the fiscal year ended June 30, 2009 and $55,712,000 or 2.29 times the minimum net revenue requirement for the fiscal year ended June 30, 2008.

8. Harbor Revenue Bond Requirements (continued)

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, 2009 and 2008.

(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, 2009 and 2008.

(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.

8. Harbor Revenue Bond Requirements (continued)

In lieu of the credit of monies to the harbor debt service reserve account, the Harbors Division may cause to be so credited a surety bond or an insurance policy payable to the Harbors Division for the benefit of the holders of the Revenue Bonds of a series or a letter of credit in an amount equal to the difference between the reserve requirement and the amounts then on credit to the harbor debt service reserve account. In the event a surety bond, insurance policy, or letter of credit is secured to satisfy that portion of the reserve requirement allocable to a series of Revenue Bonds, so long as such surety bond, insurance policy, or letter of credit is in effect, the owners of such series of Revenue Bonds shall not be entitled to payment from or a lien on the funds on deposit in the harbor revenue special fund credited to the harbor debt service reserve account to satisfy that portion of the reserve requirement allocable to other series of Revenue Bonds, nor shall the owners of Revenue Bonds of such other series be entitled to any payment from such surety bond, insurance policy, or letter of credit. The surety bond, insurance policy, or letter of credit shall be payable (upon the giving of notice as required thereunder) on any date on which monies will be required to be applied from the harbor debt service reserve account to the payment of the principal or interest on any Revenue Bonds of such series and such withdrawals may not be made from amounts credited to the harbor debt service reserve account for such series of Revenue Bonds.

Prior to the use of a surety bond, insurance policy, or letter of credit pursuant to the provisions of this paragraph (other than any such use at the time of issuance of the 1997 Series Revenue Bonds), DOT shall receive written confirmation from the rating agency that the rating on the Revenue Bonds outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a surety bond, an insurance policy, or a letter of credit provided pursuant to this paragraph, the Harbors Division shall be obligated either: (a) to reinstate the maximum limits of such surety bond, insurance policy, or letter of credit or (b) to credit to the harbor debt service reserve account, funds in the amount of the disbursement made under such surety bond, insurance policy, or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the harbor debt service reserve account allocable to a series of Revenue Bonds equals that portion of the reserve requirement allocable to such series; provided, however, a failure to immediately restore such reserve requirement shall not constitute an event of

8. Harbor Revenue Bond Requirements (continued)

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.

9. General Obligation Bonds

In fiscal 2006, the State issued $350,000,000 of General Obligation bonds, Series DI, dated March 23, 2006; in fiscal 2007, the State issued $350,000,000 of General Obligation bonds, Series DJ, dated March 28, 2007; and in fiscal 2008, the State issued $375,000,000 of General Obligation bonds, Series DK, dated May 1, 2008. Interest rates on the Series DI, Series DJ and Series DK General Obligation bonds range from 3.00% to 5.50%.

Approximately $40,000,000 was appropriated from the Series DI, Series DJ, and Series DK General Obligation bonds for harbor improvements to support the operations of the HSF. The Harbors Division executed a $38,500,000 contract for the construction of barges and ramps with the balance of the appropriation used to finance other harbor upgrades needed to support the operations of HSF. As of June 30, 2009 and 2008, approximately $39,731,000 and $38,329,000, respectively, have been expended under this appropriation and any unpaid interest is reflected in Due to Department of Budget and Finance in the accompanying statements of revenues, expenses and changes in net assets. The expenditures made from this appropriation during fiscal year 2009 of approximately $1,402,000 are reflected in the Due to Department of Budget and Finance in the accompanying statements of revenues, expenses and changes in net assets. Interest

9. General Obligation Bonds (continued)

incurred from inception, of approximately $4,850,000, was either capitalized or paid as of June 30, 2009. Specifically, approximately $1,131,000 of the total interest incurred was capitalized to the construction project before being placed into service. Interest payments have commenced, and principal payments are scheduled to commence in March 2010.

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

Fiscal Year Ending June 30	Principal	Interest	Total
2010	$ 966,555	$ 1,858,207	$ 2,824,762
2011	1,140,760	1,819,229	2,959,989
2012	1,609,314	1,771,602	3,380,916
2013	1,678,482	1,702,350	3,380,832
2014	1,757,503	1,623,176	3,380,679
2015-2019	10,149,254	6,754,699	16,903,953
2020-2024	12,896,100	4,007,716	16,903,816
2025-2028	8,130,616	804,233	8,934,849
	$ 38,328,584	$ 20,341,212	$ 58,669,796

10. Interest Cost

Total combined interest cost incurred related to Revenue and General Obligation Bonds for the fiscal years ended June 30, 2009 and 2008 amounted to approximately $14,914,000 and $15,778,000, respectively. Of this amount, approximately $2,596,000 and $1,982,000 was capitalized during fiscal 2009 and 2008, respectively, as part of the construction cost of harbor facilities.

11. Leasing Operations

The Harbors Division's leasing operations consist principally of the leasing of land, wharf and building space under revocable permits and long-term leases. The revocable permits provide for tenancy on a month-to-month basis and are renewable annually at the option of the State. The long-term leases, which are classified as operating leases, expire in various years through September 2058. These leases generally call for rental increases every five to ten years based on a step-up or independent appraisals of the fair rental value of the leased property.

The following is a schedule of approximate future minimum lease rentals on noncancelable operating leases as of June 30, 2009.

Fiscal Year Ending June 30	Amount
2010	$ 8,305,261
2011	8,460,472
2012	8,279,740
2013	7,980,558
2014	7,824,385
2015–2019	25,474,460
2020–2024	21,201,103
2025–2029	18,175,784
2030–2034	13,934,056
2035–2039	7,502,402
2040–2044	4,925,381
2045–2049	2,715,056
2050–2054	2,696,862
2055–2059	1,988,326
	$ 139,463,846

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

12. Retirement Benefits

Employees' Retirement System

All eligible employees of the State, which includes the Harbors Division, are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the ERS at City Financial Tower, 201 Merchant Street, Suite 1400, Honolulu, Hawaii, 96813.

Members of the ERS belong to either a contributory, noncontributory or hybrid option. Only employees of the Harbors Division hired on or before June 30, 1984 are eligible to participate in the contributory option. Members are required by State statute to contribute 7.8% of their salary to the contributory option and 6% to the hybrid option. The Harbors Division is required to contribute to all options at an actuarially determined rate. Total contributions by the Harbors Division for the fiscal years ended June 30, 2009, 2008 and 2007, were approximately $1,590,000, $1,386,000 and $1,335,000, respectively. The contribution rate for each of the fiscal years ended June 30, 2009, 2008 and 2007 was 15.00%, 13.75%, and 13.75%, respectively. The required contribution in each of those three years was 100% of the contribution rate.

Post Retirement Healthcare and Life Insurance Benefits

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

Plan Description

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

12. Retirement Benefits (continued)

As of July 1, 2007, the State and, thus, the Harbors Division adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other than Pensions* (GASB 45). GASB 45 establishes standards of accounting and financial reporting by employers for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 45 was implemented prospectively with a zero net OPEB obligation as of July 1, 2007.

The Trust Fund is administratively attached to the Department of Budget and Finance in the executive branch of the State. The Trust Fund issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the Trust Fund at 201 Merchant Street Suite 1520, Honolulu, Hawaii 96813 or the State's website at www.eutf.hawaii.gov.

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

Funding Policy

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

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

12. Retirement Benefits (continued)

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

For active employees, the employer's contributions are based upon negotiated collective bargaining agreements.

The State is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Annual OPEB Cost

The actuarial valuation of the Trust Fund does not provide OPEB information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's ARC, interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in the State's CAFR or in stand alone departmental financial statements. The following table shows the components of the annual OPEB cost that have been allocated to the Harbors Division by the State, which was based on an allocated ARC rate of annual covered payroll of 36.1% and 37.4% at June 30, 2009 and 2008, respectively:

	June 30, 2009	June 30, 2008
Annual required contribution	$ 2,603,000	$ 2,317,000
Contributions made	(939,000)	(866,000)
Increase in net OPEB obligation	1,664,000	1,451,000
Net OPEB obligation, beginning of the year	1,451,000	-
Net OPEB obligation, end of the year	$ 3,115,000	$ 1,451,000

Contributions are financed on a pay-as-you-go basis and the Harbors Division's contributions for the years ended June 30, 2009, 2008 and 2007 were approximately $939,000, $866,000 and $687,000, respectively.

12. Retirement Benefits (continued)

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

Actuarial Methods and Assumptions

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

In the July 1, 2007 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5.0% discount rate, annual payroll increases of 3.5% and annual healthcare trend rates increasing annually from 3% to 10%. The unfunded actuarial accrued liability is being amortized using a 30-year amortization period as a level percentage of projected payroll.

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

13. Risk Management

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

13. Risk Management (continued)

For the policy years ended December 31, 2008, 2009 and 2010 respectively, the State has retained the first $1,000,000 per occurrence of property losses, the first $4,000,000 per occurrence with respect to general liability claims and the first $500,000 per occurrence with respect to criminal acts.

The State obtained commercial coverage for losses in excess of these retention limits. The property loss, windstorm, flood, earthquake and boiler and machinery loss limit per occurrence is $175,000,000 for policy years 2008 and 2009 and $100,000,000 for policy year 2010. The terrorism loss limit per occurrence is $50,000,000 for policy years 2008, 2009 and 2010. The State also obtained general liability insurance and crime insurance for State employees with a $10,000,000 per occurrence or aggregate limit for policy years 2008, 2009 and 2010.

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

14. Ceded Lands

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

Included in the Harbors Division's operating expenses in the accompanying statements of revenues, expenses and changes in net assets for the fiscal years ended June 30, 2009 and 2008 are approximately $6,254,000 and $7,112,000, respectively of OHA ceded land expenses.

15. Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Harbors Division, after deducting any amounts pledged, charged or encumbered for the payment of bonds and interest during the fiscal year. The assessments amounted to approximately $2,410,000 and $3,322,000 for the fiscal years ended June 30, 2009 and 2008, respectively.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to approximately $1,553,000 and $1,628,000 for the fiscal years ended June 30, 2009 and 2008, respectively.

The Harbors Division incurred costs of approximately $2,837,000 and $1,941,000 for fireboat operation services provided by the City and County of Honolulu during the fiscal years ended June 30, 2009 and 2008, respectively.

The Hawaii Harbors Task Force was formed in April 2005 by the Governor's office to respond on a priority basis to the pressing demands for infrastructure improvements in Honolulu Harbor. The Aloha Tower Development Corporation (ATDC) was tasked to work in partnership with the Harbors Division with the executive officer of the ATDC serving as the chief executive of the Hawaii Harbors Project Office. The ATDC was assigned to plan and execute major long-term redevelopment projects such as the former Kapalama Military Reservation and various projects at Honolulu Harbor. Act 200, Session Laws of Hawaii, 2008, was enacted to authorize a statewide Harbors Modernization Plan 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. Act 200 also designated the ATDC as the entity responsible for the management and implementation of the Harbors Modernization Plan under the direction of the DOT. The Act authorizes the DOT to issue harbor revenue bonds to finance the improvements. The cost of the Harbors Modernization Plan, originally estimated at $842 million, was revised to $618 million in 2008.

16. Aloha Tower Complex Development

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

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

The developer later went into bankruptcy. The subsequent operator of the Marketplace assumed the obligations of the sublease and the Operations Agreement in March 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the Marketplace construction was substantially completed, several items on a Harbors Division construction punch list have yet to be completed and are being pursued with the new operator.

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 requires 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 is to be reduced by expenses incurred by ATDC for the Hawaii Harbors Project Office. The Amendment also requires an equity participation payment to be made in an amount of 50% of the difference between the total revenues and total operating expenses of ATDC for a fiscal year (the equity payment), provided that if the equity payment exceeds two and one-half times the actual operating expenses of ATDC for such fiscal year, ATDC must make a supplemental payment equal to 75% of the difference between the equity payment and the product of two and one-half times the actual operating expenses of ATDC.

16. Aloha Tower Complex Development (continued)

These payments are to be applied to reduce the amount owed to the Harbors Division for losses in revenues by ATDC prior to July 1, 2004. The balance owed to the Harbors Division by ATDC as of June 30, 2009 and 2008 was approximately $7,771,000 and is included in notes receivable and the related allowance for doubtful accounts in the accompanying statements of net assets.

17. Transfer of Assets to Other State Agencies

In 1990, the State Legislature enacted Act 86, which transferred certain lands at Kewalo Basin and Fort Armstrong under the jurisdiction of the Harbors Division to the Hawaii Community Development Authority (HCDA), a State agency which oversees the development of the Kakaako Community Development District (District).

Approximately 73 acres of the Harbors Division's land was transferred to HCDA under Act 86. Act 86 provides for HCDA to ensure due and adequate satisfaction of provisions for any covenant between the State or any county or any department or board thereof and the holders of bonds issued by the State or such county, department or board, if any.

As part of HCDA's development of the District, the western portion of the Kewalo Basin area is scheduled for redevelopment. The Harbors Division has long been negotiating with HCDA to resolve issues relating to the Harbors Division's continued operation and management of Kewalo Basin until HCDA was ready to proceed with its redevelopment plans. By an informal understanding, the Harbors Division retained all revenues generated from its management of Kewalo Basin and continued to manage maritime operations and provide for maintenance and capital improvements during this interim period. The Harbors Division June 30, 2006 financial statements were restated to reflect the transfer of the Kewalo Basin capital assets acquired prior to 1991 with a net book value of approximately $1,400,000, and the transfer of Piers 1 and 2 with a net book value of approximately $4,500,000.

Due to the importance to preserve Piers 1 and 2 at Honolulu Harbor to support maritime needs, Act 165, SLH 2006, was enacted to remove this area from the jurisdiction of HCDA and convey authority back to the Harbors Division. Accordingly, Piers 1 and 2 were transferred back to the Harbors Division during fiscal 2007 at a net book value of approximately $4,400,000.

17. Transfer of Assets to Other State Agencies (continued)

Kewalo Basin capital assets acquired or constructed by the Harbors Division subsequent to 1991 were reflected as assets of the Harbors Division until March 1, 2009 when HCDA assumed management of Kewalo Basin. These assets, with a net book value of approximately $2,524,000, were then transferred to HCDA and are reflected as a transfer of capital assets in the accompanying statements of revenues, expenses and changes in net assets.

18. Kapalama Land Development

Between 1990 and 1993, the State acquired three parcels of land totaling approximately 61.8 acres within the Kapalama Military Reservation area, comprised primarily of areas adjacent or near to Piers 39 through 41 at Honolulu Harbor (the KMR site). Governor's Executive Order No. 3497 set aside two parcels comprising 40.6 acres to the Harbors Division for harbor purposes on September 24, 2002. The set-aside of the remaining 21.2-acre parcel is pending. This parcel was purchased for approximately $34.9 million and involved the use of approximately $8.2 million of the Department of Transportation, Airports Division's (Airports Division) funds. There have been ongoing efforts between the Harbors Division and Airports Division to designate the portion of the parcel to be used for their respective purposes. Discussions have also been explored regarding the possibility of the Airports Division selling its interest in the parcel to the Harbors Division. As a result, action on the issuance of a further Executive Order for the remaining parcel has been deferred until the matter could be resolved.

Plans for the future development of the KMR site will involve the creation of a new cargo container yard and vessel berthing piers. This project is a key priority under the Harbor's Modernization Plan. Legal advice has been rendered that in order to transfer the Airports Division's interest in the remaining parcel noted above to the Harbors Division, the $8.2 million paid by the Airports Division toward the purchase price of the KMR site must be settled.

The Harbors Division is also seeking the transfer of approximately 11.344 acres of ceded lands that were previously promised to the Airports Division near the KMR site to consolidate the lands needed for the future development. Resolution of these matters is dependent upon compliance by the Airports Division and cooperating State agencies with the recommendation and requirements of the Federal Aviation Administration.

19. 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, 2009 and 2008, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

20. 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 $50,572,000 and $39,288,000 at June 30, 2009 and 2008, respectively.

Accumulated Sick Leave Pay

Employees earn sick leave credits at the rate of 14 hours for each month of service depending on the employee's hire date. Unused sick leave may be accumulated without limitation and is not convertible to pay upon termination of employment. Accordingly, no liability for sick pay is recorded. However, for public employees who retire or leave government service in good standing with sixty days or more of unused sick leave, the unused sick leave is converted to additional retirement service credit at the rate of one additional month of service for each 20 days of unused sick leave. The accumulated sick leave liabilities as of June 30, 2009 and 2008 were approximately $6,428,000 and $6,512,000, respectively.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

20. Commitments and Contingencies (continued)

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or Harbors Division's financial statements.

Environmental Issues

Iwilei District Participating Parties

The Harbors Division is subject to laws and regulations relating to the protection of the environment. The Harbors Division has been identified by the State Department of Health as a potentially responsible party for petroleum contamination in the Honolulu Harbor/Iwilei area. Pursuant thereto, the Harbors Division entered into a voluntary agreement with the Department of Health and other third parties to share in the responsibility for the investigation and potential remediation of petroleum contamination in the Iwilei District. This group of potentially responsible parties, known as the Iwilei District Participating Parties (IDPP), has conducted various investigations to determine potential contamination in the Iwilei area from 1997 to present, which investigations have determined the existence of petroleum contamination at various locations. Potential remedial alternatives are still being studied, however, since the project has not yet advanced to the stage where total costs to the IDPP can reasonably be estimated, due to: (1) the extent of environmental impact, (2) the undetermined allocation among the potentially responsible parties, (3) the ongoing review of reasonable remediation alternatives, and (4) continued discussion with the regulatory authorities, it is not possible to reasonably estimate the total amount of the potential cost to the IDPP or the share allocated to the Harbors Division. Although, it is not possible to reasonably estimate the extent of the additional services or the costs associated to those services until the study and investigation of the remedial alternatives has been completed, the Harbors Division, in accordance with Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (GASB 49), accrued only for the estimated cost of the study and investigation allocated to the Harbors Division of approximately $476,000, which the Harbors Division recorded in maintenance expense and in accounts payable as of June 30, 2009. No liability was recorded in fiscal 2008 as the estimated cost of the study and investigation of the remedial alternatives was not known as of June 30, 2008.

20. Commitments and Contingencies (continued)

Environmental Protection Agency

During December 2008, the United States Environmental Protection Agency (EPA) conducted an audit to determine Harbors Division's compliance with its Storm Water Environmental Permits. As a follow up to this audit, on June 18, 2009, the EPA issued an Administrative Order directing the Harbors Division to revise its Storm Water Management Plan, upgrade environmental inspections and procedures, improve documentation of environmental inspections and follow up actions, establish "Best Management Practices" (BMPs) standards, and include the use of permanent BMPs in any construction projects that are undertaken on Harbor Division premises. The EPA is also requiring that the Harbors Division develop a resources plan which will demonstrate how the Harbors Division will maintain environmental compliance in the future. The EPA established several intermediate deadlines and an overall compliance deadline of December 31, 2010. The Harbors Division entered into an agreement with Weston Solutions, Inc., an international environmental consulting firm, to assist the Harbors Division in complying with the Administrative Order, the cost of which is approximately $156,000, which the Harbors Division recorded in maintenance expense and in contracts payable as of June 30, 2009, in accordance with GASB 49. Additional fee proposals for consulting services that will allow the Harbors Division to comply with the EPA requirements dictated in the Administrative Order are currently in process. As a result, it is not possible to reasonably estimate the extent of the additional services or the costs associated to those services until Weston Solutions has completed its analysis.

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.

21. Subsequent Events

On January 12, 2010, Moody's Investors Service (Moody's), downgraded the rating of the outstanding Harbors Division Revenue Bonds to A2 from A1. Moody's downgrade was based on declining debt service coverage levels that has accelerated in recent years due to declines in cargo and cruise passenger volume. Moody's rating outlook for Harbors Division is stable based on the current cash reserves and Moody's expectations that debt service coverage will remain between 1.25 times and 1.75 times.

Supplemental Information

State of Hawaii
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Cash and Cash Equivalents of the Public Undertaking

June 30, 2009

Unrestricted cash and cash equivalents	$ 103,425,902
Restricted cash and cash equivalents:	
For construction–special purpose funds	33,683,688
For construction–revenue bonds	59,006,464
For revenue bond debt service payments	16,860,143
For security deposits	2,630,966
For risk management	900,080
For revenue bond harbors reserve and contingency account	10,897,658
	123,978,999
	$ 227,404,901

With Director of Finance, State of Hawaii	$ 225,419,401
Funds Delegated to Other State Agency, ATDC	1,970,000
On hand	15,500
Total	$ 227,404,901

State of Hawaii
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Harbors Division

Construction in Progress of the Public Undertaking

Fiscal Year Ended June 30, 2009

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Statewide:						
Environmental Consultant for Commercial Harbors	$ 26,138	$ –	$ –	$ –	$ –	$ 26,138
Various Special Maintenance Projects Requiring Civil/Structural Engineering Services	36,901	–	–	–	–	36,901
Various Commercial Harbor Security Improvements	871,563	72,613	–	37,902	–	982,078
Screening Equipment for Neighbor Island Passenger Terminals: Kahului Harbor, Maui; Hilo Harbor, Hawaii; Nawiliwili Harbor, Kauai	–	1,347	–	–	1,347	–
Maritime Workers Identification Credentialing System	38,567	714,075	–	17,214	–	769,856
Security Surveillance System for Neighbor Island Passenger Terminals: Kahului Harbor, Maui; Hilo Harbor, Hawaii; Nawiliwili Harbor, Kauai	585,447	67,430	–	13,673	666,550	–
Installation of Septic System at Harbor Agent's Office, Kalaeloa B.P. Harbor and Installation of Lift Station and Force Main at Port Allen	–	1,461	–	–	1,461	–
Inter-Island Ferry System	2,492,922	129,548	424,705	109,633	3,156,808	–
Inter-Island Ferry System Site Improvements, Honolulu & Kahului Harbors	–	3,389	–	–	3,389	–
Subtotal carried forward	4,051,538	989,863	424,705	178,422	3,829,555	1,814,973

State of Hawaii
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Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	4,051,538	989,863	424,705	178,422	3,829,555	1,814,973
Statewide (continued):						
Inter-Island Ferry System Site Improvements, Nawiliwili Harbor	–	46	–	–	46	–
Statewide Petroleum Facilities Development Plan	202,757	5,447	–	6,068	214,272	–
Barges and Vehicle Ramp Systems for Inter-Island Ferry Service	–	2,856	716,997	–	719,853	–
Environmental Engineering Service for special maintenance program	1,125	–	–	–	–	1,125
Planning and Development of State Commercial Harbors	770,796	31,753	–	771	–	803,320
Consulting Engineer's Report of the Public Undertaking	36,394	8,037	–	–	–	44,431
Site Surveying Services for CIP projects Statewide	4,538	–	–	–	–	4,538
State Commercial Harbor Plan and Development projects	431	135,676	–	–	–	136,107
Statewide cruise ship industry study	2,662	3,428	–	16	–	6,106
Inter-Island Ferry Environmental Services and Planning Project	465,230	955,495	–	42,808	1,268,182	195,351
GIS for the State of Hawaii DOT Harbors Division	–	17,079	–	–	–	17,079
Subtotal carried forward	5,535,471	2,149,680	1,141,702	228,085	6,031,908	3,023,030

State of Hawaii
Department of Transportation
Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 5,535,471	$ 2,149,680	$ 1,141,702	$ 228,085	$ 6,031,908	$ 3,023,030
Honolulu Harbor:						
POL Study, Piers 19-35, Honolulu Harbor						
Reconstruction of Piers 52 and 53 Sand Island	–	203,875	–	–	203,875	–
Container Yard, Honolulu Harbor, Oahu	22,674,584	53,301	3,466,657	1,097,722	–	27,292,264
Domestic Commercial Fishing Village Site improvements, Pier 36-38, Honolulu Harbor, Oahu	–	27,565	–	–	27,565	–
Ferry Terminal at Pier 19, Honolulu Harbor, Oahu	–	3,608	–	–	3,608	–
Phase 1: Construction of Pier 2 Cruise Terminal; Honolulu Harbor, Oahu	–	2,664	–	–	2,664	–
Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu	18,105,568	144,622	4,500,675	926,533	–	23,677,398
Planning Services for the Development of the new Kapalama Container Terminal, Honolulu	532,068	116,631	–	26,014	–	674,713
Crash Barrier Gates for Container Terminal in Honolulu Harbor	–	52,075	–	–	52,075	–
Phase 1 Environmental Assessment of the Former Kapalama Military Reservation Area, Honolulu	99,684	–	–	–	–	99,684
Subtotal carried forward	46,947,375	2,754,021	9,109,034	2,278,354	6,321,695	54,767,089

State of Hawaii
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Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 46,947,375	$ 2,754,021	$ 9,109,034	$ 2,278,354	$ 6,321,695	$ 54,767,089
Honolulu Harbor (continued):						
Substructure Repairs at Pier 2, Honolulu Harbor	–	464	–	–	464	–
Installation of Radiation Portal Monitoring System at Fort Armstrong, Honolulu	–	60,309	–	–	60,309	–
Methane Mitigation, Piers 36-38, Lease Parcel 8, Honolulu Harbor, Oahu	–	(4,294)	–	–	–	(4,294)
Construction of Miscellaneous Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu	2,956,269	620,602	–	147,062	–	3,723,933
Construction Management & Inspection for various Pier 2 Cruise Terminal Improvements, Honolulu Harbor, Oahu	1,104,208	–	–	–	–	1,104,208
Pier 29 Extension, Honolulu Harbor, Oahu	251,708	–	–	–	–	251,708
Pier 1 Yard Expansion and Lighting and Utility Improvements Project, Honolulu Harbor, Oahu	2,878,022	84,570	–	53,233	3,015,825	–
Replacement of Pier 11 Roadway Security Barriers, Honolulu Harbor, Oahu	23,587	5,554	–	1,110	–	30,251
Condominium Property Regime, Piers 30-38	139,571	–	–	–	–	139,571
Historic Documentation for the Development of the New Kapalama Container Terminal	134,255	–	–	–	–	134,255
Subtotal carried forward	54,434,995	3,521,226	9,109,034	2,479,759	9,398,293	60,146,721

State of Hawaii
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Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 54,434,995	$ 3,521,226	$ 9,109,034	$ 2,479,759	$ 9,398,293	$ 60,146,721
Honolulu Harbor (continued):						
General Engineering Services for the Development of the New Kapalama Container Terminal, Honolulu						
Methane Mitigation Piers 36-38, Lease	76,718	56,869	–	4,716	–	138,303
Parcels 3, 4, 5 and 6, Honolulu Harbor	123,775	67,647	–	6,044	–	197,466
Design and construction for various KMR property and building adjustments, Honolulu	–	23	–	–	23	–
Barge Terminal Improvements at Piers 39 and 40	339,290	24,112	–	2,554	–	365,956
Furnishing and Delivery of One Energy-efficient Five-passenger SUV and One Sedan, Harbors Division-Engineering Branch	–	2,625	–	–	2,625	–
Construction of Pier 29 container yard	51,778	567,483	–	14,283	–	633,544
Port of Honolulu Passenger/Cargo Ship Facilities Improvised Explosive Devices (IEDS) Threat Prevention Program	–	7,102	–	–	–	7,102
Coordination for Inter-Island Ferry Lay Berth	–	35,754	–	–	–	35,754
Methane Mitigation, Piers 36-38, Lease Parcels 4 and 5, Domestic Commercial Fishing Village	–	38,538	–	538	–	39,076
Subtotal carried forward	55,026,556	4,321,379	9,109,034	2,507,894	9,400,941	61,563,922

State of Hawaii
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Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 55,026,556	$ 4,321,379	$ 9,109,034	$ 2,507,894	$ 9,400,941	$ 61,563,922
Honolulu Harbor (continued):						
Installation of Additional Cruise Ship Bollards at Pier 2, Honolulu Harbor	–	969	–	–	–	969
Transfer Proj fr SM to CIP & Fixed Asset Air Conditioning repairs @ Honolulu Harbor Admin Building	746,392	26,228	–	–	–	772,620
Kalaeloa Barbers Point Harbor:						
Kalaeloa Barbers Point Modifications	871,629	2,180	–	–	873,809	–
Installation of Septic System at Harbor Agent's Office, Kalaeloa B.P. Harbor	–	8,281	–	–	8,281	–
Perimeter Fencing Improvements at Honolulu and Kalaeloa Barbers Point Harbor, Oahu	24,582	18,032	–	1,107	–	43,721
Access and Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu	9,893	171,000	–	4,218	–	185,111
Testing and Disposal of Dredged Spoils Stockpiled at Pier 7, Kalaeloa Barbers Point Harbor, Oahu	8,460	331,884	–	7,901	348,245	–
Kewalo Basin:						
Demolition and Cleaning of the Former GRG Enterprise Site	–	(1,995)	–	–	–	(1,995)
Subtotal carried forward	$ 56,687,512	$ 4,877,958	$ 9,109,034	$ 2,521,120	$ 10,631,276	$ 62,564,348

State of Hawaii
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Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 56,687,512	$ 4,877,958	$ 9,109,034	$ 2,521,120	$ 10,631,276	$ 62,564,348
Kahului Harbor:						
2025 Master Plan Environmental Assessment	161,005	–	–	–	161,005	–
Pier 1 Comfort Station, Waterline and Sewer line Improvements	–	178,827	–	–	178,827	–
Replacement of Piers 2 and 3 Bull Rails, Kahului Harbor, Maui	–	9,670	–	–	9,670	–
Demolition of Wharf Street Shed, Kahului Harbor, Maui	–	1,565	–	–	1,565	–
Demolition of the Pier 2 Shed and Miscellaneous Site Work at Inter-Island Barge Terminal	–	13,693	–	–	13,693	–
Pave Former Wharf Street Shed Site	961,948	40,483	–	3,729	1,006,160	–
Pier 1 Makai comfort station and waterline improvements	41,945	109,817	–	4,031	–	155,793
Blue Earth EIS, Maui	178	90	–	–	–	268
Provide Tug assist services, Kahului Harbor	–	933	–	–	933	–
Hana Harbor Reconnaissance Study	–	30	–	–	–	30
Kahului Reconnaissance Study	–	30	–	–	–	30
Subtotal carried forward	57,852,588	5,233,096	9,109,034	2,528,880	12,003,129	62,720,469

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Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 57,852,588	$ 5,233,096	$ 9,109,034	$ 2,528,880	$ 12,003,129	$ 62,720,469
Kaumalapau Harbor:						
Kaumalapau Harbor Survey	–	837	–	–	837	–
Breakwater Repair	3,370,212	2,448,230	–	–	5,818,442	–
Kaunakakai Harbor:						
Ferry System Improvements at Kaunakakai Harbor, Molokai Maui	121,716	10,965	–	–	–	132,681
Hilo Harbor:						
Pier 1 Shed Modifications, Hilo Harbor, Hawaii	–	(9,750)	–	–	(9,750)	–
Pier 3 Breasting Dolphins and Catwalks, Hilo Harbor, Hawaii	–	94,000	–	–	94,000	–
Construction of Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii	1,415,612	215,133	–	67,158	–	1,697,903
Design for Pier 1 Shed Roofing and Siding Improvements, Hilo Harbor, Hawaii	–	4,911	–	–	–	4,911
Subtotal carried forward	62,760,128	7,997,422	9,109,034	2,596,038	17,906,658	64,555,964

State of Hawaii
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Harbors Division

Construction in Progress of the Public Undertaking (continued)

Project	Balance July 1 2008	Additions by Source of Funds: Harbor Special Fund	Additions by Source of Funds: Harbor Revenue/GO Bonds	Additions by Source of Funds: Capitalized Interest	Transfer Out	Balance June 30 2009
Subtotal brought forward	$ 62,760,128	$ 7,997,422	$ 9,109,034	$ 2,596,038	$ 17,906,658	$ 64,555,964
Kawaihae Harbor:						
Kawaihae Harbor Modifications Feasibility Study	573,423	645	–	–	–	574,068
Bathymetric and Underwater Survey at Pier 1	28,949	–	–	–	–	28,949
Pier 2A shed demolition and container yard improvement	3,972	31,922	–	–	–	35,894
Nawiliwili Harbor:						
Segmented Pier 3 improvements	6,832,559	42,541	–	–	–	6,875,100
Nawiliwili Harbor Channel Modification Project	262,648	460	–	–	–	263,108
Kauai Commercial Harbors 2025 Master Plan Environmental Impact Statement	198,496	–	–	–	–	198,496
Reconstruction of Pier 2 Fendering System	10,240	11,486	–	516	–	22,242
	$ 70,670,415	$ 8,084,476	$ 9,109,034	$ 2,596,554	$ 17,906,658	$ 72,553,821

State of Hawaii
Department of Transportation
Harbors Division

Revenue Bonds of the Public Undertaking

Year Ended June 30, 2009

	Final Redemption Date	Interest Rate	Original Amount of Issue	Balance at June 30, 2009		
				Current	Noncurrent	Total
Issue of 2000	July 1, 2029	4.50-6.00%	$ 79,405,000	$ 2,635,000	$ 56,385,000	$ 59,020,000
Issue of 2002	July 1, 2019	3.00-5.50%	24,420,000	525,000	11,140,000	11,665,000
Issue of 2004	January 1, 2024	2.50-6.00%	52,030,000	3,580,000	27,135,000	30,715,000
Issue of 2006	January 1, 2031	4.00-5.25%	96,570,000	2,300,000	88,005,000	90,305,000
Issue of 2007	July 1, 2027	4.25-5.50%	51,645,000	1,400,000	49,620,000	51,020,000
			$ 304,070,000	$ 10,440,000	$ 232,285,000	$ 242,725,000

State of Hawaii
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Income From Operations Before Depreciation

Year Ended June 30, 2009

		District											
		Oahu			Hawaii		Maui			Kauai		
	Statewide	Honolulu	Kalaeloa	Kewalo	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Nawiliwili	Port Allen	Total
Operating revenues, net:												
Services:												
Wharfage	$ –	$ 27,985,591	$ 1,777,709	$ –	$ 1,452,410	$ 1,755,815	$ 3,111,173	$ 156,217	$ –	$ 1,255,749	$ –	$ 37,494,664
Pax debark/embark	–	1,112,449	–	–	730,831	–	257,444	–	–	562,597	–	2,663,321
Dockage	–	3,225,344	582,553	–	263,673	35,320	412,913	37,286	–	339,654	6,459	4,903,202
Demurrage	–	585,571	–	–	30,471	84,547	40,927	–	–	28,466	–	769,982
Port Entry	–	656,250	97,006	62	83,000	30,862	81,906	10,113	–	56,350	2,600	1,018,149
Mooring charges	–	282,746	–	437,927	25,102	–	73	2,011	–	–	306,894	1,054,753
Cleaning charges	–	175,908	130	–	–	–	2,633	–	–	6,393	1,149	186,213
Other services	–	44,645	100,801	2,865	23,961	11,026	6,685	5,436	–	2,198	6,964	204,581
Surcharge	–	–	–	–	–	–	–	–	–	–	–	–
Total services	–	34,068,504	2,558,199	440,854	2,609,448	1,917,570	3,913,754	211,063	–	2,251,407	324,066	48,294,865
Rentals:												
Wharf space and land	–	15,823,325	861,027	287,986	102,929	213,957	360,154	14,308	300	373,615	206,267	18,243,868
Storage	–	1,925,605	82,962	5,400	126,926	104,226	380,787	2,113	–	337,907	17,118	2,983,044
Automobile parking	–	854,420	28	27,506	30,295	6,076	91,889	–	–	69,781	13,668	1,093,663
Pipeline water	–	73,683	6,054	–	38,137	–	41,129	–	–	39,367	–	198,370
Other pipeline	–	312,773	635,213	–	325,810	17,416	383,330	8,773	–	64,682	67,241	1,815,238
Total rentals	–	18,989,806	1,585,284	320,892	624,097	341,675	1,257,289	25,194	300	885,352	304,294	24,334,183
Others:												
Sale of utilities	–	786,330	123,326	28,068	54,256	12,700	89,468	–	–	37,532	3,650	1,135,330
Miscellaneous	–	660,772	3,039	12,668	2,766	17,836	133,051	11,506	–	4,119	1,542	847,299
Total others	–	1,447,102	126,365	40,736	57,022	30,536	222,519	11,506	–	41,651	5,192	1,982,629
Total operating revenues	–	54,505,412	4,269,848	802,482	3,290,567	2,289,781	5,393,562	247,763	300	3,178,410	633,552	74,611,677

(continued on following page)

State of Hawaii
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Income From Operations Before Depreciation (continued)

		District										
		Oahu			Hawaii		Maui			Kauai		
	Statewide	Honolulu	Kalaeloa	Kewalo	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Nawiliwili	Port Allen	Total
Operating expenses before depreciation:												
Personal services	$ 6,564,306	$ 6,600,408	$ 170,125	$ 46,042	$ 693,880	$ 112,944	$ 935,673	$ 41,665	$ –	$ 830,036	$ 77,222	$ 16,072,301
Harbor operations	6,549,356	4,810,486	583,116	429,564	361,882	478,996	492,707	11,333	–	559,369	29,338	14,306,147
Maintenance	957,033	4,109,759	372,730	215,211	584,261	2,090,023	1,341,735	471,941	161,481	443,265	118,247	10,865,686
State of Hawaii, surcharge for central service expenses	2,409,835	–	–	–	–	–	–	–	–	–	–	2,409,835
Fireboat operations	–	2,837,488	–	–	–	–	–	–	–	–	–	2,837,488
General administration	2,068,476	51,672	435	5,538	16,452	4,177	9,008	–	–	21,830	1,864	2,179,452
Department of Transportation, general administration expenses	1,552,911	–	–	–	–	–	–	–	–	–	–	1,552,911
Operating expenses	20,101,917	18,409,813	1,126,406	696,355	1,656,475	2,686,140	2,779,123	524,939	161,481	1,854,500	226,671	50,223,820
Allocation of statewide expenses (1)	(20,101,917)	14,684,877	1,150,385	216,205	886,546	616,914	1,453,136	66,752	81	856,329	170,692	–
Total operating expenses	–	33,094,690	2,276,791	912,560	2,543,021	3,303,054	4,232,259	591,691	161,562	2,710,829	397,363	50,223,820
Income (loss) from operations before depreciation	$ –	$ 21,410,722	$ 1,993,057	$ (110,078)	$ 747,546	$ (1,013,273)	$ 1,161,303	$ (343,928)	$ (161,262)	$ 467,581	$ 236,189	$ 24,387,857

NOTES:

(1) Statewide expenses are allocated to the harbors based upon their respective current-year operating revenues to total current-year operating revenues for all harbors.

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

Year Ended June 30, 2009

Net revenues, as defined by the 1997 Certificate:	
Operating income before depreciation	$ 24,387,857
Add:	
Interest income	6,284,379
State of Hawaii, surcharge for central service expenses	2,409,835
Cash available in the harbor reserve and contingency account	10,897,658
Deduct:	
General obligation bond requirements, payments	(1,830,941)
	$ 42,148,788
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments	$ 23,167,149
Ratio of net revenues to harbor revenue bond debt service requirements	1.82

State of Hawaii
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Accounts Receivable Aging

June 30, 2009

	Total	Current	30 Days	60 Days	90 Days
Accounts receivable	$ 9,922,551	$ 5,646,245	$ 359,441	$ 288,705	$ 3,628,160