KOBAYASHI, KANETOKU, DOI, LUM & YASUDA CPAs LLC

HARBORS DIVISION
DEPARTMENT OF TRANSPORTATION
STATE OF HAWAII

(An Enterprise Fund of the State of Hawaii)

Financial Statements and Supplemental Information

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

Submitted by

THE AUDITOR

STATE OF HAWAII

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

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KOBAYASHI, KANETOKU, DOI, LUM & YASUDA CPAs LLC

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Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying statement of net assets of the Harbors Division, Department of Transportation, State of Hawaii (the Harbors Division), an enterprise fund of the State of Hawaii, as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Harbors Division's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Harbors Division as of and for the year ended June 30, 2009, were audited by other auditors whose report dated March 31, 2010, expressed an unqualified opinion on those statements.

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

As discussed in note 1 to the financial statements, the financial statements of the Harbors Division are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the State of Hawaii that are attributable to the transactions of the Harbors Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the 2010 financial statements referred to above present fairly, in all material respects, the financial position of the Harbors Division as of June 30, 2010, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 4, 2011, on our consideration of the Harbors Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The management's discussion and analysis on pages 3 through 15 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 basic financial statements taken as a whole. The supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in our audit 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.

Kobayashi, Kanetoku, Doi, Lum & Yasuda CPAs LLC

August 4, 2011

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

Management's Discussion and Analysis

June 30, 2010 and 2009

The following Management's Discussion and Analysis of the Harbors Division, Department of Transportation, State of Hawaii (the Harbors Division), an enterprise fund of the State of Hawaii, presents the reader with an introduction and overview of the Harbors Division's financial performance for the fiscal years ended June 30, 2010 and 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, State of Hawaii (DOT), is authorized to impose and collect rates and charges for the use of the harbors system and its properties to generate revenues to fund operating expenses. The Capital Improvements Program (CIP) is also funded by the Harbors Division's revenues and proceeds from the issuance of harbors system revenue bonds.

Using the Financial Statements

The Harbors Division is accounted for as a proprietary fund and utilizes the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The proprietary fund includes the enterprise fund type, which is used to account for the acquisition, operation, and maintenance of government facilities and services that are entirely or predominantly supported by user charges.

The Harbors Division's financial report includes three financial statements; the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the statements of cash flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board.

Harbors Division
Department of Transportation
State of Hawaii
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Management's Discussion and Analysis (continued)

June 30, 2010 and 2009

Financial Highlights

- The Harbors Division's net assets at June 30, 2010 and 2009 amounted to $627.0 million and $608.3 million, respectively. Net assets increased by $18.8 million in fiscal year 2010, an increase of 3.1%. Net assets decreased by $28.7 million in fiscal year 2009, a decrease of 4.5%.
- Operating income amounted to $18.1 million in fiscal year 2010, an increase of $11.7 million or 181.0% as compared to 2009. Operating income amounted to $6.5 million in fiscal year 2009, a decrease of $9.2 million or 58.8% as compared to 2008.

A summary of operations and changes in net assets for the fiscal years ended June 30, 2010, 2009 and 2008 follows:

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

	Year Ended June 30			2010 – 2009		2009 – 2008	
	2010	2009	(1) 2008	Increase (decrease)	% Change	Increase (decrease)	% Change
Operating revenues	$ 73,339	$ 74,612	$ 85,447	$ (1,273)	(1.7)%	$ (10,835)	(12.7)%
Nonoperating revenues	816	6,284	13,812	(5,468)	(87.0)	(7,528)	(54.5)
Total revenues	74,155	80,896	99,259	(6,741)	(8.3)	(18,363)	(18.5)
Depreciation	16,068	17,929	17,227	(1,861)	(10.4)	702	4.1
Other operating expenses	39,123	50,224	52,552	(11,101)	(22.1)	(2,328)	(4.4)
Nonoperating expenses	13,100	12,581	13,564	519	4.1	(983)	(7.3)
Total expenses	68,291	80,734	83,343	(12,443)	(15.4)	(2,609)	(3.1)
Net increase (decrease) in the fair value of amounts held in State Treasury	9,052	(7,714)	(5,823)	16,766	217.3	(1,891)	32.5
Income (loss) before capital contributions, extraordinary loss, and transfers	14,916	(7,552)	10,093	22,468	297.5	(17,645)	(174.8)
Capital contributions	3,865	22,714	3,616	(18,849)	(83.0)	19,098	528.2
Extraordinary loss	–	(41,354)	–	41,354	100.0	(41,354)	(100.0)
Transfer of capital assets	–	(2,524)	–	2,524	100.0	(2,524)	(100.0)
Increase (decrease) in net assets	$ 18,781	$ (28,716)	$ 13,709	$ 47,497	165.4%	$ (42,425)	(309.5)%

(1) As previously restated.

Operating Revenues

Total operating revenues for fiscal year 2010 were $73.3 million compared to $74.6 million for fiscal year 2009. Operating revenues consist primarily of service revenues and rental revenues, which accounted for 65.4% and 32.5%, respectively, in fiscal year 2010, and 64.7% and 32.6%, respectively, in fiscal year 2009, of the Harbors Division's total operating revenues.

Service Revenues

Service revenues are directly related to cargo and ship operations. Service revenues include wharfage, passenger fees, and other ship related fees. Service revenues in fiscal years 2010 and 2009 were $48.0 million and $48.3 million, respectively.

Service revenues for fiscal year 2010 decreased $344,000 or 0.7% as compared to fiscal year 2009. Wharfage revenue from cargo movements increased by $293,000, from $37.5 million in fiscal year 2009 to $37.8 million in fiscal year 2010 due primarily to the increase in tariff rates that took effect on March 1, 2010. Mooring fees decreased by $414,000, from $1.1 million in fiscal year 2009 to $640,000 in fiscal year 2010. The Harbors earned no mooring fees from Kewalo Basin during fiscal year 2010 as the management of that facility was transferred to the Hawaii Community Development Authority (HCDA) effective March 1, 2009. In addition, dockage fees decreased by $185,000, from $4.9 million in fiscal year 2009 to $4.7 million in fiscal year 2010.

Service revenues for fiscal year 2009 decreased $9.5 million or 16.4% as compared to fiscal year 2008. Wharfage revenue decreased by $5.5 million or 12.9%, from $43.0 million in fiscal year 2008 to $37.5 million in fiscal year 2009, due primarily to a 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 fiscal year 2009 as compared to fiscal year 2008. The Hawaii Superferry, Inc. commenced operations during the second quarter of fiscal year 2008, and ceased operations on March 19, 2009. In addition, passenger fees decreased by $1.8 million, from $4.5 million in fiscal year 2008 to $2.7 million in fiscal year 2009, and dockage fees decreased by $1.2 million, from $6.1 million in fiscal year 2008 to $4.9 million in fiscal year 2009.

During fiscal 2010, approximately 1.13 million passengers (inbound and outbound) passed through the harbors as compared to 1.15 million passengers in fiscal year 2009 and 2.00 million passengers in fiscal year 2008.

Passenger fee revenue decreased by $68,000 or 2.6%, from $2.7 million in fiscal year 2009 to $2.6 million in 2010, due primarily to a decrease of approximately 43,400 passengers aboard foreign flagged vessels that made port calls to Hawaii harbors facilities, partially offset by an increase in passengers in transit of approximately 25,000 in fiscal year 2010.

Passenger fee revenue decreased by $1.8 million or 41.0%, from $4.5 million in fiscal year 2008 to $2.7 million in 2009, 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.

During fiscal years 2010 and 2009, passengers on U.S. flagged vessels taking a continuous trip whose point of origin and termination is a State of Hawaii (the 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 for fiscal year 2010 decreased by approximately 1% and revenues decreased by 2.6%. Approximately 26% of the fiscal year 2010 passengers were in-transit. Fiscal year 2009 passenger counts decreased by 45% and revenues decreased by 41.0%. Approximately 30% of the fiscal year 2009 passengers were in-transit.

Rental Revenues

Rental revenues in fiscal years 2010 and 2009 were $23.9 million and $24.3 million, respectively. The decrease in rental revenue of $476,000 or .2% from fiscal year 2009 to fiscal year 2010 was due primarily to the decrease of approximately $578,000 in land rents and parking fees resulting from the cancellation of several land leases during the year, a decrease of land rents of approximately $288,000 due to the transfer of leases and permits as of March 1, 2009 to the Hawaii Community Development Authority for parcels located at Kewalo Basin, which were partially offset by an increase in storage fees of approximately $302,000, and an increase in rental fees of approximately $116,000 for the use of State pipeline facilities to deliver petroleum products such as diesel, gasoline and jet fuel.

Rental revenues decreased by $929,000 or 3.7% from $25.3 million in fiscal year 2008 to $24.3 million in fiscal year 2009 due primarily to a decrease of $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 $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 $400,000 in rental revenues from parcels located at the former Kapalama Military

Reservation, a decrease of $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 $280,000 earned at Kalaeloa Barbers Point Harbor.

Operating Expenses

Operating expenses, excluding depreciation, for fiscal years 2010 and 2009 amounted to $39.1 million, and $50.2 million, respectively. The decrease in operating expenses from fiscal year 2010 to fiscal year 2009 of $11.1 million or 22.1% was due primarily to decreases in harbor maintenance expenses of approximately $7.4 million, decreases in harbor operations expenses of approximately $1.5 million, decreases in personal services costs of approximately $1.1 million, and decreases in fireboat operations expense of approximately $664,000.

Operating expenses, excluding depreciation, decreased by of $2.4 million or 4.4% from $52.6 million in fiscal year 2008 to $50.2 million in fiscal year 2009 due primarily to decreases in harbor operations expenses of $1.3 million, decreases in harbor maintenance expenses 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 $884,000 and an increase in fireboat operations of $897,000.

Harbor maintenance expenses for fiscal year 2010 decreased by $7.4 million as compared to fiscal year 2009 due primarily to decreases in special maintenance costs of $6.8 million. Most of the special maintenance project expenditures for fiscal year 2010 extended the service life of the related harbor assets and were capitalized. In fiscal year 2009, the special maintenance expenditures incurred were charged to operations. Harbor maintenance expenses decreased by $605,000 in fiscal year 2009 as compared to fiscal year 2008. The cost of special maintenance projects undertaken in fiscal year 2009 decreased in comparison to fiscal year 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 operations expenses for fiscal year 2010 decreased by $1.5 million as compared to fiscal year 2009 due primarily to a decrease in various operating expenses of $851,000, including a $562,000 decrease in electricity expense. In addition, harbor security expenses decreased by $701,000 and ceded land assessments decreased by $174,000, which resulted from decreased revenues earned from the land parcels designated as ceded lands. In fiscal year 2009, harbor operations expenses decreased by $1.3 million as compared to fiscal year 2008 due primarily to a decrease in ceded land assessments of $858,000, which resulted from decreased revenues earned from decreased cargo volume. In addition, electricity expense decreased by $100,000, and write-offs of project costs, which could not be capitalized, decreased by $393,000 as compared to fiscal year 2008.

Fireboat operations expenses for fiscal year 2010 decreased by $664,000 as compared to fiscal year 2009 primarily because no vessel dry-dock expenditures were incurred during fiscal year 2010. In fiscal year 2009, fireboat operations expenses increased by $897,000 as compared to fiscal year 2008 because of maintenance expenditures required for vessel dry-dock.

Personal services costs for fiscal year 2010 decreased by approximately $1.1 million as compared to fiscal year 2009 due primarily to a decrease in salaries and wages of $1.4 million, resulting from the implementation of furlough plans for executive branch employees during the second quarter of fiscal year 2010 and the deferral of filling vacant positions. This was partially offset by an increase in workers compensation expense of $332,000 attributable to an increase in the amount of claims in fiscal year 2010. In fiscal year 2009, personnel services costs increased by $884,000 as compared to fiscal year 2008 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.

Central services costs for fiscal year 2010 decreased by $217,000 as compared to fiscal year 2009 due to lowered earnings from interest-bearing investments against which the 5% State assessment was applied. In fiscal year 2009, central services costs decreased by $912,000 as compared to fiscal year 2008 due primarily to lower cash collections from customers and lower earnings from interest-bearing investments against which the 5% State assessment was applied.

General administration expenses for fiscal year 2010 decreased by $310,000 as compared to fiscal year 2009. In fiscal year 2009, general administration expenses decreased by $1.2 million as compared to fiscal year 2008 due primarily to two non-recurring expenditures made only in fiscal year 2008, which included $600,000 contributed to fund a joint study with the Hawaii Tourism Authority regarding the impact of the cruise ship industry in Hawaii and $500,000 provided to the Department of Agriculture to fund improvements to its Invicta system.

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Management's Discussion and Analysis (continued)

June 30, 2010 and 2009

A summary of the Harbors Division's net assets at June 30, 2010, 2009, and 2008 are shown below:

Table 2
Condensed Statements of Net Assets
(In Thousands)

	As of June 30			2010 – 2009		2009 – 2008	
	2010	2009	(1) 2008	Increase (decrease)	% Change	Increase (decrease)	% Change
Current and other assets	$ 246,966	$ 240,743	$ 257,274	$ 6,223	2.6%	$ (16,531)	(6.4)%
Capital assets	677,813	674,352	694,905	3,461	0.5	(20,553)	(3.0)
Total assets	924,779	915,095	952,179	9,684	1.1	(37,084)	(3.9)
Long-term liabilities	261,475	271,708	281,347	(10,233)	(3.8)	(9,639)	(3.4)
Current liabilities	36,268	35,132	33,861	1,136	3.2	1,271	3.8
Total liabilities	297,743	306,840	315,208	(9,097)	(3.0)	(8,368)	(2.7)
Net assets:							
Invested in capital assets, net of related debt	508,047	493,877	499,915	14,170	2.9	(6,038)	(1.2)
Restricted	70,279	69,905	66,359	374	0.5	3,546	5.3
Unrestricted	48,710	44,473	70,697	4,237	9.5	(26,224)	37.1
	$ 627,036	$ 608,255	$ 636,971	$ 18,781	3.1%	$ (28,716)	(4.5)%

(1) As previously restated

The largest portion of the Harbors Division's net assets (81.0% and 81.2% at June 30, 2010 and 2009, respectively) represents its investment in capital assets (e.g., land, wharves, buildings, improvements, and equipment), less related indebtedness outstanding to acquire those capital assets. The Harbors Division uses these capital assets to provide services to its users of the harbors system; consequently, these assets are not available for future spending. Although the Harbors Division's investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets themselves will be liquidated to pay for such liabilities.

The restricted portion of the Harbors Division's net assets (11.2% and 11.5% at June 30, 2010 and 2009, respectively) represents bond reserve funds that are subject to external restrictions on how they may be used.

The unrestricted portion of the Harbors Division's net assets (7.8% and 7.3% at June 30, 2010 and 2009, respectively, may be used to meet any of the Harbors Division's ongoing operations or to fund capital improvement projects.

The change in net assets is an indicator of whether the overall fiscal condition of the Harbors Division improved or worsened during the fiscal year. The change in net assets may serve over time as a useful indicator of the Harbor Division's financial position. Net assets or the amount of total assets that exceeds liabilities amounted to $627.0 million at June 30, 2010, an increase in net assets of $18.8 million or 3.1% from 2009. Net assets at June 30, 2009 amounted to $608.3 million, a decrease in net assets of $28.7 million from 2008.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2010 and 2009, the Harbors Division had $677.8 million and $674.4 million, respectively invested in capital assets as shown in Table 3. There was a net increase (additions, deductions and depreciation) of $3.4 million in 2010 from the prior year, and a net decrease in 2009 of $20.6 million from 2008.

Table 3
Capital Assets
(In Thousands)

	As of June 30			2010 – 2009		2009 – 2008	
	2010	**2009**	**2008**	**Increase (decrease)**	**% Change**	**Increase (decrease)**	**% Change**
Land and land improvements	$ 450,945	$ 419,081	$ 388,729	$ 31,864	7.6%	$ 30,352	7.8%
Wharves	258,679	226,323	231,161	32,356	14.3	(4,838)	(2.1)
Other improvements	68,900	68,122	68,054	778	1.1	68	0.1
Buildings	87,491	84,324	83,361	3,167	3.8	963	1.2
Equipment	16,026	14,865	47,509	1,161	7.8	(32,644)	(68.7)
Total at cost	882,041	812,715	818,814	69,326	8.5	(6,099)	(0.7)
Less accumulated depreciation	(226,979)	(210,917)	(194,580)	16,062	7.6	16,337	8.4
Subtotal	655,062	601,798	624,234	53,264	8.9	(22,436)	(3.6)
Construction in progress	22,751	72,554	70,671	(49,803)	(68.6)	1,883	2.7
Total capital assets, net	$ 677,813	$ 674,352	$ 694,905	$ 3,461	0.5%	$ (20,553)	(3.0)%

Major capital asset additions to the statewide harbors system for the fiscal year ended June 30, 2010, included the following:

- $27.6 million Reconstruction of Piers 52 & 53 Sand Island Container Yard, Honolulu Harbor, Oahu
- $24.6 million Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu
- $6.9 million Segmented Pier 3 Improvements, Nawiliwili Harbor, Kauai
- $3.8 million Construction of Miscellaneous Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- $3.3 million Container Yard Improvements and Shed Demolition for Pier 2A, Kawaihae Harbor, Hawaii
- $1.9 million Pier 1 Makai Comfort Station and Waterline Improvements, Kahului Harbor, Maui
- $826,000 Statewide Maritime Workers Identification and Credentialing System

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

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

- $1.1 million Construction Management and Inspections of Improvements for Pier 2 Cruise Terminal, Honolulu Harbor, Oahu
- $1.5 million Structural Repairs Phase 1 at Piers 9, 10 and 11, Honolulu Harbor, Oahu

- $982,000 Various Statewide Harbor Security Improvements

- $900,000 Statewide Planning and Development of State Commercial Harbors System

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

- $37.0 million Design and Construction of Pier 4 Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

- $29.9 million Construction of Improvements at Piers 12 to 15, Piers 23 to 28, Pier 35 and at the Former Kapalama Military Reservation, Oahu under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

- $24.8 million Construction of Building Improvements of Pier 35 at the Former Kapalama Military Reservation, Oahu under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

- $24.2 million Construction of Pier 29 Container Yard, Honolulu Harbor, Oahu

- $15.4 million Land Acquisition and Design of Improvements at Kahului Harbor, Maui Oahu under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

- $9.3 million Construction and Design of Pier 2 Terminal, Kawaihae Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

- $8.6 million Design and Construction of Road Improvements for Pier 4 Inter-Island Cargo Terminal Facility at Hilo Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

- $6.2 million Reconstruction of Pier 2 Fendering System, Nawiliwili Harbor, Kauai

- $5.0 million Construction of Building Improvements of Pier 35 at the Former Kapalama Military Reservation, Oahu under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

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

- 3.1 million Reconstruction and Improvement of Hana Harbor, Maui

- $1.7 million Access and Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu

- $1.2 million Repair Piles and Domestic Waterline at Piers 24 to 26 at Honolulu Harbor, Oahu

- $1.1 million Perimeter Fencing Improvements at Honolulu and Kalaeloa Barbers Point Harbors, Oahu

- $.5 million Design for Pier 4 Fencing and Gate Kawaihae Harbor, Hawaii Oahu under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

- $.4 million Development Plan of Kawaihae Harbor, Hawaii under the Harbors Modernization Program, which has been renamed to "New Day Work Projects"

The Container Yard Improvements and Shed Demolition for Pier 2A located at Kawaihae Harbor, Hawaii was funded by the U.S. Department of Transportation Maritime Administration (MARAD) in its administration of the Hawaii Port Infrastructure Expansion Program (Program). This Program provides the Harbors Division access to Federal funding and expertise for the development of harbor infrastructure improvements at Hawaii's commercial harbors. This capital improvement project amounting to $3.3 million was completed and contributed to the Harbors Division during fiscal year 2010.

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 $21.1 million was contributed to the Harbors Division during fiscal year 2009.

The Harbors Division recorded an extraordinary loss of $41.4 million in fiscal year 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.

The Harbors Division is committed under contracts awarded for capital improvement projects totaling approximately $45.9 million as of June 30, 2010.

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

Indebtedness

Harbors System Revenue Bonds and Reimbursable General Obligation Bonds

Harbor system revenue bonds have been issued pursuant to the *Certificate of the Director of Transportation Providing for the Issuance of 1997 State of Hawaii Harbor Revenue Bonds* (the 1997 Certificate) and are collateralized by a charge and lien on the Harbors Division's revenues. The proceeds from these bonds are used for harbor and waterfront improvements. As of June 30, 2010 and 2009, outstanding harbor system revenue bonds amounted to $232.3 million and $242.7 million, respectively. There have been no issuances of harbor system revenue bonds during fiscal years 2010 and 2009.

The Harbors Division issued $164.3 million Series A of 2010 Revenue Bonds and $37.1 million of Series B of 2010 Revenue Bonds in November 2010. The Series B of 2010 Revenue Bonds partially refunded outstanding Series A of 2000 bonds.

Reimbursable general obligation bonds are general obligations of the State, but since the proceeds were used to finance the harbor and waterfront improvements, the Harbor Division is required to reimburse the State's general fund for the payment of principal and interest on such bonds. As of June 30, 2010 and 2009, outstanding reimbursable general obligation bonds amounted to $37.4 million and $38.3 million, respectively. There have been no issuances of reimbursable general obligation bonds to finance the harbor and waterfront improvements during fiscal years 2010 and 2009.

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

Credit Rating and Bond Insurance

All harbor system revenue bonds issued since 1997 through June 30, 2010 have been issued with bond insurance. As of June 30, 2010, 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.

Bond Covenants

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

The Harbors Division coverage ratio as of June 30, 2010 was 2.07 under the 1997 Certificate as compared to the ratio of 1.82 as of June 30, 2009.

Request for Information

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

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

Statements of Net Assets

June 30, 2010 and 2009

Assets	**2010**	**2009**
Current assets:		
Cash and cash equivalents *(Note 3)*	$ 82,808,160	$ 103,425,902
Receivables, less allowance for doubtful accounts of $6,136,600 in 2010 and $4,266,600 in 2009	5,804,843	5,655,973
Notes receivable, less allowance for doubtful accounts of $7,787,200 in 2010 and $7,808,200 in 2009 *(Note 15)*	–	15,285
Interest receivable	1,891,687	3,534,983
Due from the Federal Government	464,730	23,046
Due from other State agencies	282,361	922,364
Other receivables	12,104	51,809
Materials and supplies, at cost	245,753	241,233
Prepaid insurance and others	24,083	24,083
	91,533,721	113,894,678
Restricted assets:		
Cash and cash equivalents *(Note 3)*	17,174,218	16,860,143
Total current assets	108,707,939	130,754,821
Noncurrent assets:		
Cash and cash equivalents−restricted *(Note 3)*	134,863,167	107,118,856
Capital assets *(Notes 4, 9, and 16):*		
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	200,850,978	168,987,231
Wharves	258,678,542	226,322,765
Other improvements	68,899,753	68,122,375
Buildings	87,490,695	84,323,969
Equipment	16,026,385	14,864,800
	631,946,353	562,621,140
Less accumulated depreciation	(226,978,454)	(210,916,535)
	404,967,899	351,704,605
Construction in progress	22,751,287	72,553,821
Total capital assets, net	677,812,903	674,352,143
Unamortized bond issue costs	2,705,111	2,869,267
Other assets	690,490	–
Total noncurrent assets	816,071,671	784,340,266
Total assets	$ 924,779,610	$ 915,095,087

Liabilities	**2010**	**2009**
Current liabilities (payable from current assets):		
Accounts payable	$ 7,150,241	$ 7,828,649
Accrued workers' compensation *(Notes 5 and 12)*	166,477	92,650
Contracts payable, including retainages	2,370,698	1,551,136
Accrued vacation *(Note 5)*	516,901	600,586
Due to Department of Budget and Finance	3,967,594	3,160,273
	14,171,911	13,233,294
Current liabilities (payable from restricted assets):		
Contracts payable, including retainages	1,398,746	1,547,433
Revenue bonds payable, current maturities *(Notes 5, 6, and 7)*	10,855,715	10,333,564
General obligation bonds payable, current maturities (*Notes 5 and 8*)	1,140,760	966,555
Accrued interest payable	6,179,218	6,420,143
Security deposits	2,521,509	2,630,966
	22,095,948	21,898,661
Total current liabilities	36,267,859	35,131,955
Long-term liabilities:		
Accrued workers' compensation *(Notes 5 and 12)*	504,574	314,301
Other postretirement benefits payable *(Notes 5 and 11)*	4,718,518	3,114,591
Long-term debt, less current maturities:		
General obligation bonds payable *(Notes 5 and 8)*	36,221,269	37,362,029
Revenue bonds payable, net *(Notes 5, 6, and 7)*	218,293,792	229,147,713
Accrued vacation *(Note 5)*	1,737,356	1,769,735
Total long-term liabilities	261,475,509	271,708,369
Total liabilities	297,743,368	306,840,324
Net assets		
Invested in capital assets, net of related debt	508,047,212	493,877,330
Restricted−revenue bond requirements	10,897,658	10,897,658
Restricted−for capital projects	59,381,611	59,006,464
Unrestricted	48,709,761	44,473,311
Total net assets	627,036,242	608,254,763
Total liabilities and net assets	$ 924,779,610	$ 915,095,087

See accompanying notes to financial statements.

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

Statements of Revenues, Expenses, and Changes in Net Assets

Years Ended June 30, 2010 and 2009

	2010	2009
Operating revenues, net:		
Services	$ 47,950,672	$ 48,294,865
Rentals *(Note 10)*	23,858,138	24,334,183
Others	1,529,796	1,982,629
	73,338,606	74,611,677
Operating expenses:		
Depreciation *(Note 4)*	16,067,655	17,928,900
Personnel services *(Note 11)*	14,925,590	16,072,301
Harbor operations *(Note 13)*	12,804,681	14,306,147
Maintenance *(Note 19)*	3,492,797	10,865,686
Fireboat operations *(Note 14)*	2,173,961	2,837,488
General administration	1,869,099	2,179,452
State of Hawaii, surcharge for central service expenses *(Note 14)*	2,193,021	2,409,835
Department of Transportation, general administration expenses *(Note 14)*	1,664,048	1,552,911
	55,190,852	68,152,720
Operating income	18,147,754	6,458,957
Nonoperating revenues (expenses):		
Interest income *(Note 3):*		
Deposits in investment pool	816,301	6,284,379
Net increase(decrease) in the fair value of amounts held in State Treasury *(Note 3)*	9,051,709	(7,714,016)
Interest expense:		
Bonds *(Notes 6, 8, and 9)*	(12,722,463)	(12,317,662)
Amortization of bond discount, premium, issue costs, and loss on refunding	(272,386)	(263,785)
Loss on disposal of capital assets	(104,625)	–
	(3,231,464)	(14,011,084)
Income(loss) before capital contributions, extaordinary loss and transfers	14,916,290	(7,552,127)
Capital contributions *(Note 4)*	3,865,189	22,713,587
Extraordinary loss on impairment of capital assets *(Note 4)*	–	(41,354,232)
Transfer of capital assets to other State agency *(Note 16)*	–	(2,523,637)
Increase(decrease) in net assets	18,781,479	(28,716,409)
Net assets as of beginning of year	608,254,763	636,971,172
Net assets as of end of year	$ 627,036,242	$ 608,254,763

See accompanying notes to financial statements.

Harbors Division

Department of Transportation

State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 73,337,020	$ 74,734,472
Cash paid to suppliers	(23,832,161)	(34,423,673)
Cash paid to employees	(13,437,727)	(14,276,732)
Net cash provided by operating activities	36,067,132	26,034,067
Cash flows from capital and related financing activities:		
Government grants received in aid of construction	461,331	1,299,909
Acquisition and construction of capital assets	(14,558,705)	(16,852,188)
Principal paid on bonds	(11,406,555)	(10,806,214)
Interest paid on bonds	(14,633,865)	(15,150,510)
Borrowings from general obligation bonds *(Note 9)*	–	1,401,861
Net cash used in capital and related financing activities	(40,137,794)	(40,107,142)
Cash flows from investing activities:		
Interest received	2,459,597	4,192,876
Change in fair value of investments of pooled cash balances	9,051,709	(7,714,016)
Net cash provided by (used in) investing activities	11,511,306	(3,521,140)
Net increase (decrease) in cash and cash equivalents	7,440,644	(17,594,215)
Cash and cash equivalents at beginning of fiscal year	227,404,901	244,999,116
Cash and cash equivalents at end of fiscal year	$ 234,845,545	$ 227,404,901

(Continued on following page)

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

Statements of Cash Flows

Years Ended June 30, 2010 and 2009

	2010	2009
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 18,147,754	$ 6,458,957
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	16,067,655	17,928,900
Provision for doubtful accounts	1,849,033	1,521,976
Changes in assets and liabilities:		
Receivables	(1,744,594)	(1,213,519)
Materials and supplies	(4,520)	3
Other assets	(690,490)	–
Payables	(7,533)	(213,826)
Accrued workers' compensation	264,100	(58,331)
Accrued vacation	(116,064)	131,844
Other postretirement benefits payable	1,603,927	1,663,725
Security deposits	(109,457)	(185,662)
Due to Department of Budget and Finance	807,321	–
Net cash provided by operating activities	$ 36,067,132	$ 26,034,067
Supplemental disclosure of noncash capital and related financial activities:		
Amortization of bond discount, premium, issue costs, and loss on refunding	$ (272,386)	$ (263,785)
Capital contributions	$ 3,865,189	$ 22,713,587

See accompanying notes to financial statements.

1. Financial Reporting Entity

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

The Harbors Division is part of the DOT, which is part of the executive branch of the State. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Harbors Division's financial activities. The accompanying financial statements present only the activities of the Harbors Division and are not intended to present fairly the financial position of the State and the results of its operations and cash flows of its business–type activities in conformity with accounting principles generally accepted in the United States of America.

The "Certificate of the Director of Transportation Providing for the Issuance of 1997 State of Hawaii Harbor Revenue Bonds," dated March 1, 1997 (1997 Certificate), defines the "Undertaking" as all of the harbor and waterfront improvements and other properties under the jurisdiction, control, and management of the Harbors Division, except those principally used for recreation and the landing of fish.

2. Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

The accounting policies of the Harbors Division conform to accounting principles generally accepted in the United States of America 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.

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 amounts held in State Treasury.

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.

Capital Assets and Depreciation

Capital assets are stated at cost. Depreciation of capital assets is computed using the straight-line method over the estimated useful lives of the assets. Disposals of assets are recorded by removing the cost and related accumulated depreciation from the accounts with the resulting gain or loss reflected in nonoperating revenues or expenses.

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

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

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

Bond Issue Costs

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

Unamortized Debt Premium (Discount)

Debt premium (discount) is amortized using the effective interest rate method over the term of the related debt, and the unamortized balance is reflected as an offset against the related long-term liabilities in the statements of net assets. See Note 6.

Refunding of Debt

The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount is reported as a deduction from or an addition to the new debt liability. See Note 6.

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, 2010 and 2009 was approximately $1,849,000 and $1,522,000, respectively. Operating revenues also excludes revenues related to capital and related financing activities, noncapital financing activities, and investing activities.

The Harbors Division has pledged its future operating revenues, net of certain operating expenses, to repay $232,285,000 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 $358,480,000. Principal and interest paid and total operating revenues, net of certain operating expenses, were approximately $23,167,000 and $34,827,000, respectively, for the year ended June 30, 2010, and approximately $24,290,000 and $33,368,000, respectively, for the year ended June 30, 2009.

Operating Expenses

All expenses related to operating the Harbors Division are reported as operating expenses. Interest income, interest expense, financing costs, and loss on disposal of capital assets are reported as nonoperating revenues and expenses.

When an expense is incurred for which unrestricted and restricted resources are available to pay the expense, it is the Harbors Division's policy to apply the expense to unrestricted resources first, then to restricted resources.

Capital Contributions

The Harbors Division receives federal grants restricted for capital asset acquisition and facility development. Grants are considered earned as the related allowable expenditures are incurred, and are reported in the statements of revenues, expenses, and changes in net assets, after nonoperating revenues and expenses as capital contributions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Cash and Cash Equivalents

Cash and cash equivalents at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Amounts held in State Treasury	$234,827,686	$ 225,419,401
Petty cash and other	17,859	1,985,500
	$234,845,545	$ 227,404,901

Such amounts are reflected in the statements of net assets at June 30, 2010 and 2009 as follows:

	2010	2009
Current assets:		
Unrestricted	$ 82,808,160	$ 103,425,902
Restricted	17,174,218	16,860,143
Noncurrent assets:		
Restricted	134,863,167	107,118,856
	$ 234,845,545	$ 227,404,901

Amounts Held in State Treasury

The State maintains an investment pool that is used by various state departments and agencies, including the Harbors Division. The amount reported as amounts held in State Treasury reflects the Harbors Division's relative position in the State's investment pool. For demand or checking accounts and time certificates of deposits, the State requires that the depository banks pledge collateral based on the daily available bank balances. The use of daily available bank balances to determine collateral requirements results in the available balances being under-collateralized at times during the fiscal year. All securities pledged as collateral are held either by the State Treasury or by the State's fiscal agents in the name of the State.

The State Director of Finance (the Director) is responsible for the safekeeping of all monies paid into the State Treasury. The Director pools and invests any monies of the State, which, in the Director's judgment, are in excess of amounts necessary for meeting the specific requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, auction rate securities maintaining a Triple-A rating, repurchase agreements, commercial paper, banker's acceptances, and money market funds.

At June 30, 2010 and 2009, the amounts reported as amounts held in State Treasury reflects the Harbors Division's relative position in the State's investment pool and amounted to $234,827,686 and $225,395,095, respectively. A portion of the State's investment pool is invested in auction rate securities collateralized by student loans guaranteed by the federal government. During fiscal 2010 and 2009, the Harbors Division's allocated share of the adjustments to increase (decrease) the carrying value of the State's auction rate securities to their fair value at June 30, 2010 and 2009 amounted to $9,051,709 and ($7,714,016), respectively, which are reflected as net increase (decrease) in the fair value of amounts held in State Treasury in the accompanying statement of revenues, expenses, and changes in net assets.

Interest Rate Risk

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

Credit Risk

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

Custodial Risk

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

Concentration of Credit Risk

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

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

The Harbors Division's share of the State's investment pool, as summarized in the table below, was 25% at June 30, 2009 (amounts in thousands):

		Maturity (in years)		
	Fair value	**Less than 1**	**1 – 5**	**>5**
Investments – Primary Government:				
Student loan auction rate securities	$ 509,467	$ —	$ —	$ 509,467
Certificates of deposit	32,869	31,883	986	—
U.S. government securities	262,951	—	205,102	57,849
Repurchase agreements	16,434	8,217	8,217	—
	$ 821,721	$ 40,100	$ 214,305	$ 567,316
Investments – Fiduciary Funds:				
Student loan auction rate securities	$ 58,599	$ —	$ —	$ 58,599
Certificates of deposit	3,781	3,667	114	—
U.S. government securities	30,244	—	23,590	6,654
Repurchase agreements	1,890	945	945	—
	$ 94,514	$ 4,612	$ 24,649	$ 65,253

Information relating to the State's investment pool at June 30, 2010 will be included in the comprehensive annual financial report of the State when issued.

4. Capital Assets

Capital asset activity for the years ended June 30, 2010 and 2009 were as follows:

	Balance July 1 2009	Additions	Deductions	Balance June 30 2010
Nondepreciable assets:				
Land and improvements	$ 250,093,717	$ –	$ –	$ 250,093,717
Depreciable assets:				
Land improvements	168,987,231	31,967,590	(103,843)	200,850,978
Wharves	226,322,765	32,355,777	–	258,678,542
Other improvements	68,122,375	777,378	–	68,899,753
Buildings	84,323,969	3,166,726	–	87,490,695
Equipment	14,864,800	1,161,585	–	16,026,385
Total at cost	812,714,857	69,429,056	(103,843)	882,040,070
Less accumulated depreciation for:				
Land improvements	45,110,111	4,994,356	–	50,104,467
Wharves	96,612,720	6,615,756	–	103,228,476
Other improvements	31,020,448	1,770,828	–	32,791,276
Buildings	26,708,353	2,086,587	–	28,794,940
Equipment	11,464,903	600,128	(5,736)	12,059,295
Total accumulated depreciation	210,916,535	16,067,655	(5,736)	226,978,454
Construction in progress	72,553,821	16,424,271	(66,226,805)	22,751,287
Total capital assets, net	$ 674,352,143	$ 69,785,672	$ (66,324,912)	$ 677,812,903

	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, net	$ 694,904,677	$ 36,807,003	$ (57,359,537)	$ 674,352,143

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 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. The Harbors Division recorded an impairment loss of approximately $41,354,000 for fiscal year 2009 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 was reported as an extraordinary loss for fiscal 2009 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. This impairment loss was 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, 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 accompanying statements of revenues, expenses, and changes in net assets.

5. Long-Term Liabilities

The changes in long-term liabilities were as follows:

	Balance July 1 2009	Additions	Deductions	Balance June 30 2010	Current	Noncurrent
Accrued workers' compensation	$ 406,951	$ 295,448	$ 31,348	$ 671,051	$ 166,477	$ 504,574
Accrued vacation	2,370,321	845,478	961,542	2,254,257	516,901	1,737,356
Other postretirement benefits payable	3,114,591	2,243,154	639,227	4,718,518	–	4,718,518
General obligation bonds	38,328,584	–	966,555	37,362,029	1,140,760	36,221,269
Revenue bonds	242,725,000	–	10,440,000	232,285,000	10,995,000	221,290,000
Less:						
Unamortized discount	(84,063)	–	(7,380)	(76,683)	(6,846)	(69,837)
Unamortized premium	2,508,669	–	337,954	2,170,715	306,365	1,864,350
Unamortized deferred loss on refunding	(5,668,329)	–	(438,804)	(5,229,525)	(438,804)	(4,790,721)
Revenue bonds, net	239,481,277	–	10,331,770	229,149,507	10,855,715	218,293,792
	$ 283,701,724	$ 3,384,080	$ 12,930,442	$ 274,155,362	$ 12,679,853	$ 261,475,509

	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. 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.

The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2010:

				Current			
Year of Issue	**Final Redemption Date**	**Interest Rates**	**Original Amount of Issue**	**Principal Due July 1 2010**	**Principal Due January 1 2011**	**Total Current**	**Noncurrent**
2000	July 1, 2029	4.50–6.00%	$ 79,405,000	$ 2,785,000	$ –	$ 2,785,000	$ 53,600,000
2002	July 1, 2019	3.00–5.50%	24,420,000	555,000	–	555,000	10,585,000
2004	January 1, 2024	2.50–6.00%	52,030,000	–	3,770,000	3,770,000	23,365,000
2006	January 1, 2031	4.00–5.25%	96,570,000	–	2,415,000	2,415,000	85,590,000
2007	July 1, 2027	4.25–5.50%	51,645,000	1,470,000	–	1,470,000	48,150,000
			$304,070,000	$ 4,810,000	$ 6,185,000	10,995,000	221,290,000
Less:							
Unamortized discount						(6,846)	(69,837)
Unamortized premium						306,365	1,864,350
Unamortized deferred loss on refunding						(438,804)	(4,790,721)
						$ 10,855,715	$218,293,792

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

Fiscal Year Ending June 30	Principal	Interest	Total
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	10,460,000	9,844,849	20,304,849
2016-2020	61,550,000	40,042,241	101,592,241
2021-2025	62,780,000	22,413,089	85,193,089
2026-2030	46,360,000	8,078,444	54,438,444
2031	6,670,000	333,500	7,003,500
	$ 232,285,000	$ 126,194,512	$ 358,479,512

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 $10,995,000 as of June 30, 2010, for principal payments due on July 1, 2010 and January 1, 2011.

7. Harbor Revenue Bond Requirements

1997 Certificate – Minimum Net Revenue Requirement

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

(1) Together with funds legally available, therefore including any amounts on deposit in the harbor reserve and contingency account; an aggregate sum equal to at least 1.25 times the total amount of: (i) the interest payments for such 12 months on all the 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 $23,226,418. Net revenues of the Public Undertaking, as defined by the 1997 Certificate amounted to $48,122,389 or 2.07 times the minimum net revenue requirement for the fiscal year ended June 30, 2010, and $42,148,788 or 1.82 times the minimum net revenue requirement for the fiscal year ended June 30, 2009.

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, 2010 and 2009.

(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, 2010 and 2009.

(3) Harbor Debt Service Reserve Account

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

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

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

Prior to the use of a surety bond, insurance policy, or letter of credit pursuant to the provisions of this paragraph (other than any such use at the time of issuance of the 1997 Series Revenue Bonds), DOT shall receive written confirmation from the rating agency that the rating on the Revenue Bonds outstanding as then in effect shall not be reduced as a result of such use. If a disbursement is made pursuant to a surety bond, an insurance policy, or a letter of credit provided pursuant to this paragraph, the Harbors Division shall be obligated either: (a) to reinstate the maximum limits of such surety bond, insurance policy, or letter of credit or (b) to credit to the harbor debt service reserve account, funds in the amount of the disbursement made under such surety bond, insurance policy, or letter of credit, or a combination of such alternatives, as shall provide that the amount credited to the harbor debt service reserve account allocable to a series of Revenue Bonds equals that portion of the reserve requirement allocable to such series; provided, however, a failure to immediately restore such reserve requirement shall not constitute an event of default if the reserve requirement is restored within the time period permitted by Section 11.01(c) (90 days following the required notice). Notwithstanding the provisions of Section 11.01(c), the Harbors Division shall not permit any surety bond, insurance policy, or letter of credit which has been established in lieu of a deposit into the harbor revenue special fund for credit to the harbor debt service reserve account to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the surety bond, insurance policy, or letter of credit.

(4) Harbor Reserve and Contingency Account

Monies on credit to the harbor reserve and contingency account may be used to make up any deficiency with respect to any series of Revenue Bonds in the harbor interest account, the harbor principal account and the harbor debt service reserve account. To the extent not used to make up any such deficiencies, monies on credit to the harbor reserve and contingency account may be used for any other purpose within the jurisdiction, powers, duties, and functions of the Harbors Division.

8. General Obligation Bonds

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

Approximately $38,329,000 of the Series DI, Series DJ, and Series DK General Obligation bond proceeds were used for harbor improvements to support the operations of the HSF.

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

Fiscal Year Ending June 30	Principal	Interest	Total
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	1,844,233	1,536,820	3,381,053
2016-2020	10,641,792	6,261,891	16,903,683
2021-2025	13,535,986	3,368,003	16,903,989
2026-2028	5,153,959	399,934	5,553,893
	$ 37,362,029	$ 18,483,005	$ 55,845,034

9. Interest Cost

Total combined interest cost incurred related to Revenue and General Obligation Bonds for the fiscal years ended June 30, 2010 and 2009 amounted to approximately $14,379,000 and $14,914,000, respectively. Of this amount, approximately $1,657,000 and $2,596,000 was capitalized during fiscal years ended June 30, 2010 and 2009, respectively, as part of the construction cost of harbor facilities.

10. Leasing Operations

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

The following is a schedule of approximate future minimum lease rentals on noncancelable operating leases as of June 30, 2010.

Fiscal Year Ending June 30	Amount
2011	$ 8,467,077
2012	8,279,674
2013	7,980,618
2014	7,824,561
2015	6,460,058
2016–2020	23,316,890
2021–2025	21,094,309
2026–2030	17,388,962
2031–2035	12,456,603
2036–2040	6,952,275
2041–2045	4,287,978
2046–2050	2,702,545
2051–2055	2,685,005
2056–2060	1,459,674
	$ 131,356,229

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.

11. Retirement Benefits

Employees' Retirement System

All eligible employees of the State, which includes the Harbors Division, are required by Chapter 88, Hawaii Revised Statutes (HRS), to become members of the Employees' Retirement System of the State of Hawaii (the ERS), a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits. The ERS is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report (CAFR) that is available to the public. That report may be obtained by writing to the ERS at 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, 2010, 2009, and 2008 were approximately $1,462,000, $1,590,000, and $1,386,000, respectively. The contribution rate for each of the fiscal years ended June 30, 2010, 2009, and 2008 was 15.00%, 15.00%, and 13.75%, respectively. The Harbors Division contributed 100% of its required contribution for each of those years.

Post Retirement Healthcare and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain healthcare and life insurance benefits to 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 (the EUTF). The EUTF is the state agency that provides eligible employees and retirees of the State, including the Harbors Division, and their eligible dependents, with certain health and life insurance benefits at a cost affordable to both the State and participants beginning July 1, 2003. The EUTF administers post retirement healthcare benefits under an agent multiple-employer defined benefit plan.

The EUTF is administratively attached to the Department of Budget and Finance in the executive branch of the State. The EUTF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

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

Funding Policy

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

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

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

For active employees, the employer's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

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

Annual OPEB Cost

Measurement of the actuarial valuation and the ARC is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Harbors Division. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. The table below summarizes the components of the annual OPEB cost that have been allocated to the Harbors Division by the State.

	June 30, 2010	June 30, 2009
Annual required contribution	$ 2,243,000	$ 2,603,000
Contributions made	(639,000)	(939,000)
Increase in net OPEB obligation	1,604,000	1,664,000
Net OPEB obligation, beginning of the year	3,115,000	1,451,000
Net OPEB obligation, end of the year	$ 4,719,000	$ 3,115,000
Actual contribution made as a percentage of ARC	28.5%	36.1%

Contributions are financed on a pay-as-you-go basis and the Harbors Division's contributions for the fiscal years ended June 30, 2010, 2009, and 2008 were approximately $639,000, $939,000, and $866,000, respectively, which represents 28.5%, 36.1%, and 37.4%, respectively, of annual covered payroll.

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.

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

12. Risk Management

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

For the policy years ended December 31, 2010 and 2009, 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 \$100,000,000 and \$175,000,000 for policy years 2010 and 2009, respectively. The terrorism loss limit per occurrence is \$50,000,000 for policy years 2010 and 2009. 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 2010 and 2009.

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

13. Ceded Lands

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

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, 2010 and 2009 are approximately $6,080,000 and $6,254,000, respectively, of OHA ceded land expenses.

14. Transactions with Other Government Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the Harbors Division, after deducting any amounts pledged, charged, or encumbered for the payment of bonds and interest during the fiscal year. The assessments amounted to approximately $2,193,000 and $2,410,000 for the fiscal years ended June 30, 2010 and 2009, respectively.

The Harbors Division is assessed a percentage of DOT's general administration expenses. The assessments amounted to approximately $1,664,000 and $1,553,000 for the fiscal years ended June 30, 2010 and 2009, respectively.

The Harbors Division incurred costs of approximately $2,174,000 and $2,837,000 for fireboat operation services provided by the City and County of Honolulu during the fiscal years ended June 30, 2010 and 2009, 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 (HMP) to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbors System and included appropriations for its upgrade. The Act authorizes the DOT to issue harbor revenue bonds to finance the improvements. The cost of the Harbors Modernization Plan, originally estimated at $842 million, was revised to $618 million in 2008. Act 200 also designated the ATDC as the entity responsible for the management and implementation of the HMP under the direction of the DOT.

The State Legislature in its 2009 legislative session questioned ATDC's role and effectiveness and provided operational funding for only FY2010 of the FY2010-2011 biennium. In its 2010 legislative session, the Legislature did not restore operating funds to ATDC for FY2011, effectively terminating its operations on June 30, 2010. Contracts executed by ATDC for HMP projects were assigned to the Harbors Division, which assumed management and implementation responsibilities for the HMP.

15. Aloha Tower Complex Development

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

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

The developer later went into bankruptcy. The subsequent operator of the Marketplace assumed the obligations of the sublease and the Operations Agreement in March 1998. This replacement operator has also gone through a bankruptcy proceeding and there is a new operator who has assumed the same obligations. Although the Marketplace construction was substantially completed, several items on a Harbors Division construction punch list have yet to be completed and were pursued with the new operator. Many of the items were completed by the Harbors Division and the actual cost to complete the punchlist items were in dispute. A settlement has been reached with the new operator to satisfy the punchlist obligations which have a total value of $3.5 million, depending upon when actual payments are made by the operator within a six-year timeframe.

On January 18, 2006, an Agreement amending the Aloha Tower Project Memorandum of Understanding and Aloha Tower Ground Lease was executed, effective as of June 30, 2005, and retroactive to July 1, 2004 (the Amendment). The Amendment required ATDC to pay $225,000 as a minimum annual base payment for losses in revenues owing in the fiscal year beginning July 1, 2004. From July 1, 2005, subject to the approval of the Deputy Director for the Harbors Division, the base payment of $225,000 was to be reduced by expenses incurred by ATDC for the Hawaii Harbors Project Office. The Amendment also required an equity participation payment to be made in an amount of 50% of the difference between the total revenues and total operating expenses of ATDC for a fiscal year (the equity payment), provided that if the equity payment exceeds two and one-half times the actual operating expenses of ATDC for such fiscal year, ATDC must make a supplemental payment equal to 75% of the difference between the equity payment and the product of two and one-half times the actual operating expenses of ATDC. These payments were to be applied to reduce the amount owed to the Harbors Division for losses in revenues by ATDC prior to July 1, 2004. The balance owed to the Harbors Division by ATDC as of June 30, 2010 and 2009 was approximately $7,771,000 and is included in notes receivable, net of an allowance for doubtful accounts for the entire amount in the accompanying statements of net assets.

16. 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.

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 to other State agency in the accompanying statements of revenues, expenses, and changes in net assets.

17. 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.

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. 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.

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.

18. 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, 2010 and 2009, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

19. 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 $50,549,000 and $50,572,000 at June 30, 2010 and 2009, 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, 2010 and 2009 were approximately $5,396,000 and $6,428,000, respectively.

Deferred Compensation Plan

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

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

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.

20. Subsequent Events

The Harbors Division issued $164,300,000 million Series A of 2010 Revenue Bonds and $37,100,000 million Series B of 2010 Revenue Bonds in November 2010. The Series B of 2010 Revenue Bonds partially refunded outstanding Series A of 2000 bonds.

The Harbors Division has evaluated subsequent events from the statements of net assets date through August 4, 2011, the date at which the financial statements were available to be issued, and determined that there are no other items to disclose.

SUPPLEMENTAL INFORMATION

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

Cash and Cash Equivalents of the Public Undertaking

June 30, 2010

Unrestricted cash and cash equivalents	$ 82,808,160
Restricted cash and cash equivalents:	
For construction–special purpose funds	61,273,995
For construction–revenue bonds	59,381,611
For revenue bond debt service payments	17,174,218
For security deposits	2,521,509
For risk management	788,394
For revenue bond harbors reserve and contingency account	10,897,658
	152,037,385
	$ 234,845,545

With Director of Finance, State of Hawaii	$ 234,827,686
Funds Delegated to Other State Agency, ATDC	2,359
On hand	15,500
Total	$ 234,845,545

See accompanying independent auditors' report.

Schedule 2

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

Construction in Progress of the Public Undertaking

Year Ended June 30, 2010

Project	Balance July 1 2009	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 2010
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	982,078	8,243	–	6,267	–	996,588
Maritime Workers Identification Credentialing System	769,856	27,445	–	28,342	825,643	–
Security Surveillance System for Neighbor Island Passenger Terminals: Kahului Harbor, Maui; Hilo Harbor, Hawaii; Nawiliwili Harbor, Kauai	–	159	–	–	159	–
Installation of Septic System at Harbor Agent’s Office, Kalaeloa B.P. Harbor and Installation of Lift Station and Force Main at Port Allen Harbor	–	111	–	–	111	–
Inter-Island Ferry System	–	10,500	91,666	–	102,166	–
Inter-Island Ferry System Site Improvements, Honolulu Harbor, Kahului Harbor and Nawiliwili Harbor	–	22,798	22,385	–	45,183	–
Subtotal carried forward	1,814,973	69,256	114,051	34,609	973,262	1,059,627

Harbors Division
Department of Transportation
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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

Project	Balance July 1 2009	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2010
Subtotal brought forward	$ 1,814,973	$ 69,256	$ 114,051	$ 34,609	$ 973,262	$ 1,059,627
Statewide (continued):						
Statewide Petroleum Facilities Development Plan	–	247	–	–	247	–
Environmental Engineering Service for Special Maintenance Program	1,125	–	–	–	–	1,125
Planning and Development of State Commercial Harbors	803,320	80,421	–	15,462	–	899,203
Consulting Engineer's Report of the Public Undertaking	44,431	47,815	–	–	–	92,246
Site Surveying Services for CIP Projects Statewide	4,538	–	–	–	–	4,538
State Commercial Harbor Plan and Development Projects	136,107	715,222	–	24,914	–	876,243
Statewide Cruise Ship Industry Study	6,106	–	–	–	–	6,106
Inter-Island Ferry Environmental Services and Planning Project	195,351	6,517	–	2,525	–	204,393
GIS for the State of Hawaii DOT Harbors Division	17,079	11,537	–	–	–	28,616
Construction Management for Harbors Projects	–	172	–	–	–	172
Honolulu Harbor:						
POL Study, Piers 19-35, Honolulu Harbor	–	67,958	–	–	67,958	–
Reconstruction of Piers 52 and 53 Sand Island Container Yard, Honolulu Harbor, Oahu	27,292,264	1,613	–	333,138	27,627,015	–
Subtotal carried forward	30,315,294	1,000,758	114,051	410,648	28,668,482	3,172,269

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

Project	Balance July 1 2009	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2010
Subtotal brought forward	$ 30,315,294	$ 1,000,758	$ 114,051	$ 410,648	$ 28,668,482	$ 3,172,269
Honolulu Harbor (continued):						
Phase 1: Construction of Pier 2 Cruise Terminal; Honolulu Harbor, Oahu	–	31,949	–	–	31,949	–
Reconstruction of Pier 51B Container Yard, Honolulu Harbor, Oahu	23,677,398	2,587	–	876,442	24,556,427	–
Planning Services for the Development of the New Kapalama Container Terminal, Honolulu	674,713	83,615	–	34,668	–	792,996
Crash Barrier Gates for Container Terminal in Honolulu Harbor	–	489	–	–	489	–
Phase 1 Environmental Assessment of the Former Kapalama Military Reservation Area, Honolulu	99,684	–	–	–	–	99,684
Substructure Repairs at Pier 2, Honolulu Harbor	–	487	–	–	487	–
Installation of Radiation Portal Monitoring System at Fort Armstrong, Honolulu	–	44	–	–	44	–
Methane Mitigation Piers 36-38, Lease Parcels 3, 4, 5, 6 and 8 Domestic Commercial Fishing Village, Honolulu Harbor	232,248	498,704	–	22,130	–	753,082
Site Monitoring Domestic Commercial Fishing Village	–	14,549	–	–	–	14,549
Construction of Miscellaneous Improvements for Pier 2 Cruise Terminal, Honolulu Harbor	3,723,933	19,850	–	60,650	3,804,433	–
Subtotal carried forward	58,723,270	1,653,032	114,051	1,404,538	57,062,311	4,832,580

Schedule 2

Harbors Division
Department of Transportation
State of Hawaii
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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

Project	Balance July 1 2009	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 2010
Subtotal brought forward	$ 58,723,270	$ 1,653,032	$ 114,051	$ 1,404,538	$ 57,062,311	$ 4,832,580
Honolulu Harbor (continued):						
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
Replacement of Pier 11 Roadway Security Barriers, Honolulu Harbor, Oahu	30,251	202,028	–	3,875	236,154	–
Condominium Property Regime, Piers 30-38	139,571	9,467	–	–	–	149,038
Historic Documentation for the Development of the New Kapalama Container Terminal	134,255	–	–	–	–	134,255
General Engineering Services for the Development of the New Kapalama Container Terminal, Honolulu	138,303	24,259	–	7,465	–	170,027
Barge Terminal Improvements at Piers 39 and 40	365,956	–	–	–	–	365,956
Construction of Pier 29 Container Yard	633,544	652,181	–	44,788	–	1,330,513
Port of Honolulu Passenger/Cargo Ship Facilities						–
Improvements for Enhanced Harbor Security	7,102	867,321	–	11,722	–	886,145
Coordination for Inter-Island Ferry Lay Berth	35,754	–	–	–	–	35,754
Demolition of Structures at Former Kapalama Military Reservation HMP Project	–	39,627	–	287	–	39,914
Subtotal carried forward	61,563,922	3,447,915	114,051	1,472,675	57,298,465	9,300,098

Schedule 2

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

Project	Balance July 1 2009	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2010
Subtotal brought forward	$ 61,563,922	$ 3,447,915	$ 114,051	$ 1,472,675	$ 57,298,465	$ 9,300,098
Honolulu Harbor (continued):						
Development Plan to Relocate Harbors Tenants of the Former Kapalama Military Reservation	–	300,000	–	3,501	–	303,501
Installation of Additional Cruise Ship Bollards at Pier 2, Honolulu Harbor	969	40,488	–	40	–	41,497
Soil Gas Management Study, Domestic Commercial Fishing Village, Honolulu, Harbor	–	14,429	–	380	–	14,809
Pier 2 Passenger Terminal Enhancements, Honolulu Harbor	–	10,292	–	–	–	10,292
Pier 39 Shed Demolition and Yard Lighting Improvements, HMP Project, Honolulu Harbor	–	2,677	829,841	10,098	–	842,616
Design Specifications for Relocation of UHSOEST Marine Center from Piers 44-45 to Pier 35, HMP Project, Honolulu Harbor	–	–	132,934	525	–	133,459
Construction of Improvements at Piers 12 and 15, HMP Project, Honolulu Harbor	–	–	17,743	34	–	17,777
Air Conditioning Repairs @ Honolulu Harbor Administration Building, SM Project to CIP	772,620	22,232	–	–	–	794,852
Subsidence Repairs and Finger Pier Demolition Pier 21, Honolulu Harbor SM Project to CIP	–	827,317	–	–	–	827,317
Subtotal carried forward	62,337,511	4,665,350	1,094,569	1,487,253	57,298,465	12,286,218

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

		Additions by Source of Funds				
Project	Balance July 1 2009	Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2010
Subtotal brought forward	$ 62,337,511	$ 4,665,350	$ 1,094,569	$ 1,487,253	$ 57,298,465	$ 12,286,218
Honolulu Harbor (continued):						
Pavement Repairs at Matson Terminals Container Yard, Honolulu Harbor SM Project to CIP	–	696,784	–	–	–	696,784
Maintenance Dredging at Piers 52 and 53, Honolulu Harbor SM Project to CIP	–	743,760	–	–	–	743,760
Pavement Repairs at Former Kapalama Military Reservation Area, Honolulu SM Project to CIP	–	103,865	–	–	–	103,865
Structural Repairs at Piers 9 through 11, Honolulu Harbor SM Project to CIP	–	111,863	–	–	–	111,863
Pavement Repairs at Piers 39 and 40, Honolulu Harbor SM Project to CIP	–	194,310	–	–	–	194,310
Repairs to Waterline at Piers 13 and 14, Honolulu Harbor SM Project to CIP	–	137,806	–	–	–	137,806
Repairs to Vent Line and Air Conditioning at Aloha Tower, Honolulu Harbor SM Project to CIP	–	119,897	–	–	–	119,897
Repairs to Bulkhead at Pier 27, Honolulu Harbor SM Project to CIP	–	250,051	–	–	–	250,051
Structural Repairs at Warehouse #6, Honolulu Harbor SM Project to CIP	–	141,602	–	–	–	141,602
Subtotal carried forward	62,337,511	7,165,288	1,094,569	1,487,253	57,298,465	14,786,156

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

Project	Balance July 1 2009	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2010
Subtotal brought forward	$ 62,337,511	$ 7,165,288	$ 1,094,569	$ 1,487,253	$ 57,298,465	$ 14,786,156
Honolulu Harbor (continued):						
Pavement Repairs at Horizon Lines Container Yard, Honolulu Harbor SM Project to CIP	–	206,098	–	–	–	206,098
Substructure Repairs at Pier 9, Honolulu Harbor SM Project to CIP	–	839,250	–	–	–	839,250
Kalaeloa Barbers Point Harbor:						
Kalaeloa Barbers Point Modifications	–	1,044	–	–	1,044	–
Installation of Septic System at Harbor Agent's Office, Kalaeloa B.P. Harbor	–	511	–	–	511	–
Perimeter Fencing Improvements at Honolulu and Kalaeloa Barbers Point Harbor, Oahu	43,721	17,318	–	1,312	–	62,351
Access and Electrical Improvements, Kalaeloa Barbers Point Harbor, Oahu	185,111	140,391	–	9,283	–	334,785
Testing and Disposal of Dredged Spoils Stockpiled at Pier 7, Kalaeloa Barbers Point Harbor, Oahu	–	30,402	–	56	30,458	–
Embankment Repairs Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	–	161,951	–	–	–	161,951
Repair Fender System Pier P-1, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	–	161,539	–	–	–	161,539
Subtotal carried forward	62,566,343	8,723,792	1,094,569	1,497,904	57,330,478	16,552,130

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

Project	Balance July 1 2009	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2010
Subtotal brought forward	$ 62,566,343	$ 8,723,792	$ 1,094,569	$ 1,497,904	$ 57,330,478	$ 16,552,130
Kalaeloa Barbers Point Harbor (continued):						
Repair Bullrails at Pier 7, Kalaeloa Barbers Point Harbor, Oahu SM Project to CIP	–	127,506	–	–	–	127,506
Kewalo Basin:						
Demolition and Cleaning of the Former GRG Enterprise Site	(1,995)	–	–	–	–	(1,995)
Kahului Harbor:						
Demolition of Wharf Street Shed, Kahului Harbor, Maui	–	17,195	–	–	17,195	–
Demolition of the Pier 2 Shed and Miscellaneous Site Work at Inter-Island Barge Terminal, Kahului Harbor, Maui	–	111	–	–	111	–
Pier 1 Makai Comfort Station and Waterline Improvements, Kahului Harbor, Maui	155,793	1,673,450	–	37,473	1,866,716	–
Port of Kahului Passenger/Cargo Ship Facilities Improvements for Enhanced Harbor Security	–	3,367	–	–	–	3,367
Blue Earth EIS, Maui	268	–	–	–	–	268
Kahului Harbor Reconnaissance Study	30	–	–	–	–	30
Subtotal carried forward	62,720,439	10,545,421	1,094,569	1,535,377	59,214,500	16,681,306

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

Project	Balance July 1 2009	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 2010
Subtotal brought forward	$ 62,720,439	$ 10,545,421	$ 1,094,569	$ 1,535,377	$ 59,214,500	$ 16,681,306
Kahului Harbor (continued):						
Pavement Repairs Pier 1 Container Yard, Kahului Harbor, Maui SMP Project to CIP	–	250,846	–	–	–	250,846
Repaint Light Poles, Piers 2 and 3, Kahului Harbor, Maui SMP Project to CIP	–	90,733	–	–	–	90,733
Pavement Repairs Perimeter Road Kahului Harbor, Maui SMP Project to CIP	–	188,146	–	–	–	188,146
Hana Harbor:						
Hana Harbor Reconnaissance Study	30	–	–	–	–	30
Development Plan for Renovation and Pier Expansion Hana Harbor, Maui, HMP Project	–	–	138,886	650	–	139,536
Kaumalapau Harbor:						
Repair Fender System, Kaumalapau Harbor, Lanai SMP Project to CIP	–	–	120,423	–	–	120,423
Kaunakakai Harbor:						
Ferry System Improvements at Kaunakakai Harbor, Molokai Maui	132,681	28,939	–	–	–	161,620
Subtotal carried forward	62,853,150	11,104,085	1,353,878	1,536,027	59,214,500	17,632,640

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

Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

Project	Balance July 1 2009	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2010
Subtotal brought forward	$ 62,853,150	$ 11,104,085	$ 1,353,878	$ 1,536,027	$ 59,214,500	$ 17,632,640
Kaunakakai Harbor (continued):						
Substructure Repairs Phase 5 at Kaunakakai Harbor, Molokai SMP Project to CIP	–	161,650	–	–	–	161,650
Hilo Harbor:						
Pier 1 Shed Modifications, Hilo Harbor, Hawaii	–	4,168	–	–	4,168	–
Construction of Inter-Island Cargo Terminal						–
Facility at Hilo Harbor, Hawaii	1,697,903	79,538	–	82,713	–	1,860,154
Design for Pier 1 Shed Roofing and Siding Improvements, Hilo Harbor, Hawaii	4,911	20,144	–	–	–	25,055
Additional Fencing at Pier 1 and Radio Bay Access Road, Hilo Harbor, Hawaii	–	14,542	–	–	–	14,542
Traffic Pattern Modifications at Hilo Harbor, Hawaii	–	11,288	–	–	–	11,288
Design for Pier 4 Inter-Island Cargo Terminal HMP Project Hilo Harbor, Hawaii	–	–	69,580	763	–	70,343
Pier 4 Inter-Island Cargo Terminal, Improvements to Kumau Street Entrance HMP Project Hilo Harbor, Hawaii	–	–	44,720	98	–	44,818
Subtotal carried forward	64,555,964	11,395,415	1,468,178	1,619,601	59,218,668	19,820,490

Harbors Division
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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

Project	Balance July 1 2009	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2010
Subtotal brought forward	$ 64,555,964	$ 11,395,415	$ 1,468,178	$ 1,619,601	$ 59,218,668	$ 19,820,490
Hilo Harbor (continued):						
Substructure Repairs at Piers 2 and 3, Hilo Harbor Hawaii SMP Project to CIP	–	251,965	–	–	–	251,965
Installation of Fencing at Pier 1 Hilo Harbor, Hawaii SMP Project to CIP	–	115,978	–	–	–	115,978
Repave Apron at Pier 1 Hilo Harbor, Hawaii SMP Project to CIP	–	108,753	–	–	–	108,753
Kawaihae Harbor:						
Kawaihae Harbor Modifications Feasibility Study	574,068	158	–	–	–	574,226
Bathymetric and Underwater Survey at Pier 1 Kawaihae Harbor, Hawaii	28,949	–	–	–	–	28,949
Pier 2A shed demolition and container yard improvement, Kawaihae Harbor, Hawaii	35,894	24,273	–	–	60,167	–
Design Engineering Pier 2 Terminal Improvements HMP Project Kawaihae Harbor, Hawaii	–	–	48,593	320	–	48,913
Substructure Repairs at Pier 2A Kawaihae Harbor, Hawaii SMP Project to CIP	–	619,983	–	–	–	619,983
Pavement Repairs Pier 2 Kawaihae Harbor, Hawaii SMP Project to CIP	–	124,657	–	–	–	124,657
Subtotal carried forward	65,194,875	12,641,182	1,516,771	1,619,921	59,278,835	21,693,914

Schedule 2

Harbors Division
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Construction in Progress of the Public Undertaking (continued)

Year Ended June 30, 2010

Project	Balance July 1 2009	Additions by Source of Funds: Harbor Special Fund	Harbor Revenue/GO Bonds	Capitalized Interest	Transfer Out	Balance June 30 2010
Subtotal brought forward	$ 65,194,875	$ 12,641,182	$ 1,516,771	$ 1,619,921	$ 59,278,835	$ 21,693,914
Nawiliwili Harbor:						
Segmented Pier 3 improvements	6,875,100	–	37,967	34,903	6,947,970	–
Nawiliwili Harbor Channel Modification Project	263,108	123	–	–	–	263,231
Kauai Commercial Harbors 2025 Master Plan Environmental Impact Statement	198,496	–	–	–	–	198,496
Reconstruction of Pier 2 Fendering System, Nawiliwili Harbor, Kauai	22,242	92,033	–	2,659	–	116,934
Pavement Repairs at Jetty Road, Nawilwili Harbor, Kauai SMP Project to CIP	–	148,247	–	–	–	148,247
Repairs to Waterline at Pier 2, Nawilwili Harbor, Kauai SMP Project to CIP	–	136,953	–	–	–	136,953
Port Allen Harbor:						
Repairs to Roof at Pier Shed, Port Allen Harbor, Kauai SMP Project to CIP	–	193,512	–	–	–	193,512
Total	$ 72,553,821	$ 13,212,050	$ 1,554,738	$ 1,657,483	$ 66,226,805	$ 22,751,287

Harbors Division
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Revenue Bonds of the Public Undertaking

Year Ended June 30, 2010

	Final Redemption Date	Interest Rate	Original Amount of Issue	Balance at June 30, 2010 Current	Noncurrent	Total
Issue of 2000	July 1, 2029	4.50-6.00%	$ 79,405,000	$ 2,785,000	$ 53,600,000	$ 56,385,000
Issue of 2002	July 1, 2019	3.00-5.50%	24,420,000	555,000	10,585,000	11,140,000
Issue of 2004	January 1, 2024	2.50-6.00%	52,030,000	3,770,000	23,365,000	27,135,000
Issue of 2006	January 1, 2031	4.00-5.25%	96,570,000	2,415,000	85,590,000	88,005,000
Issue of 2007	July 1, 2027	4.25-5.50%	51,645,000	1,470,000	48,150,000	49,620,000
			$ 304,070,000	$ 10,995,000	$ 221,290,000	$ 232,285,000

See accompanying independent auditors' report.

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Schedule 4

Income from Operations Before Depreciation

Year Ended June 30, 2010

		District										
		Oahu		Hawaii		Maui				Kauai		
	Statewide	Honolulu	Kalaeloa	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Hana	Nawiliwili	Port Allen	Total
Operating revenues, net												
Services:												
Wharfage	$ -	$ 29,235,158	$ 1,574,674	$ 1,260,286	$ 1,471,586	$ 2,793,253	$ 161,537	$ 19,224	$ -	$ 1,271,995	$ -	$ 37,787,713
Pax debark/embark	-	1,066,700	-	671,425	-	269,731	-	-	-	586,753	303	2,594,912
Dockage	-	3,110,497	521,920	243,432	40,509	392,563	39,638	1,721	-	363,719	4,463	4,718,462
Demurrage	-	560,257	189,494	43,440	34,150	53,093	-	-	-	15,796	-	896,230
Port entry	-	665,045	97,899	78,346	31,779	78,811	10,173	1,746	-	58,427	2,929	1,025,155
Mooring charges	-	313,705	-	16,959	-	898	2,085	-	-	-	306,990	640,637
Cleaning charges	-	176,706	2,706	-	-	-	-	-	-	1,671	-	181,083
Other services	-	77,176	127	7,143	12,169	1,945	-	-	-	2,097	5,823	106,480
Total services	-	35,205,244	2,386,820	2,321,031	1,590,193	3,590,294	213,433	22,691	-	2,300,458	320,508	47,950,672
Rentals:												
Wharf space and land	-	14,766,251	1,229,530	102,492	254,131	412,264	14,308	300	-	365,976	177,185	17,322,437
Storage	-	2,351,086	84,690	(21,230)	65,966	444,922	2,113	-	-	339,155	18,359	3,285,061
Automobile parking	-	885,222	-	86,000	8,059	106,836	-	-	-	50,455	12,152	1,148,724
Pipeline water	-	59,786	4,008	30,841	21	35,765	-	-	-	40,024	-	170,445
Other pipeline	-	422,150	579,325	352,945	16,266	386,261	8,675	3,722	-	61,733	100,394	1,931,471
Total rentals	-	18,484,495	1,897,553	551,048	344,443	1,386,048	25,096	4,022	-	857,343	308,090	23,858,138
Others:												
Sale of utilities	-	611,790	111,901	49,347	156	79,310	-	-	-	41,262	3,772	897,538
Miscellaneous	-	515,675	3,878	4,348	851	87,421	14,559	215	-	2,306	3,005	632,258
Total others	-	1,127,465	115,779	53,695	1,007	166,731	14,559	215	-	43,568	6,777	1,529,796
Total operating revenues	-	54,817,204	4,400,152	2,925,774	1,935,643	5,143,073	253,088	26,928	-	3,201,369	635,375	73,338,606
Operating expenses before depreciation:												
Personnel services	6,439,100	5,844,272	155,441	578,711	106,441	940,157	38,166	-	-	768,736	54,566	14,925,590
Harbor operations	6,083,266	4,276,547	569,640	423,422	473,334	361,539	11,638	-	-	576,252	29,043	12,804,681
Maintenance	616,847	1,665,607	66,591	283,505	403,752	191,454	48,154	73,672	1,164	142,252	(201)	3,492,797
Fireboat operations	-	2,173,961	-	-	-	-	-	-	-	-	-	2,173,961
General administration	1,768,642	7,112	554	13,708	4,127	52,252	200	-	-	20,417	2,087	1,869,099
State of Hawaii, surcharge for central service expenses	2,193,021	-	-	-	-	-	-	-	-	-	-	2,193,021
Department of Transportation, general administration expenses	1,664,048	-	-	-	-	-	-	-	-	-	-	1,664,048
Subtotal	18,764,924	13,967,499	792,226	1,299,346	987,654	1,545,402	98,158	73,672	1,164	1,507,657	85,495	39,123,197
Allocation of statewide expenses (1)	(18,764,924)	14,025,910	1,125,853	748,609	495,267	1,315,942	64,757	6,890	-	819,124	162,572	-
Total operating expenses before depreciation	-	27,993,409	1,918,079	2,047,955	1,482,921	2,861,344	162,915	80,562	1,164	2,326,781	248,067	39,123,197
Income (loss) from operations before depreciation	$ -	$ 26,823,795	$ 2,482,073	$ 877,819	$ 452,722	$ 2,281,729	$ 90,173	$ (53,634)	$ (1,164)	$ 874,588	$ 387,308	$ 34,215,409

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

See accompanying independent auditors' report.

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

Year Ended June 30, 2010

Net revenues, as defined by the 1997 Certificate:	
Operating income before depreciation	$ 34,215,409
Add:	
Interest income	816,301
State of Hawaii, surcharge for central service expenses	2,193,021
Cash available in the harbor reserve and contingency account	10,897,658
	$ 48,122,389
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments	$ 23,226,418
Ratio of net revenues to harbor revenue bond debt service requirements	2.07

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Accounts Receivable Aging

June 30, 2010

	Total	Current	30 Days	60 Days	90 Days
Accounts receivable	$ 11,941,418	$ 6,059,065	$ 288,918	$ 485,860	$ 5,107,575