ACCUITY

Harbors Division
Department of Transportation
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Financial Statements and Supplementary Information

June 30, 2022

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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Report of Independent Auditors

The Auditor
State of Hawaii

Opinion
We have audited the accompanying financial statements of the Harbors Division, Department of Transportation, State of Hawaii (the "Harbors Division"), an enterprise fund of the State of Hawaii, as of and for the year ended June 30, 2022, and the related notes to the financial statements, as listed in the index.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Harbors Division as of June 30, 2022, and the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Harbors Division, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter – Relationship to the State of Hawaii
As discussed in Note 1, the financial statements of the Harbors Division are intended to present the financial position, the changes in financial position and, where applicable, cash flows of only that portion of the business-type activities and proprietary fund type of the State of Hawaii that is attributable to the transactions of the Harbors Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2022, and the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of Matter – Change in Accounting Principle
As discussed in Note 2 to the financial statements, the Harbors Division adopted Governmental Accounting Standards Board Statement No. 87, *Leases*, as of July 1, 2021. Our opinion is not modified with respect to this matter.

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

Auditors' Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment, made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Harbors Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 15 be presented to supplement

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

Other Information

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

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2022, on our consideration of the Harbors Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Harbors Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Harbors Division's internal control over financial reporting and compliance.

accuity LLP

Honolulu, Hawaii
December 28, 2022

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The following Management's Discussion and Analysis ("MD&A") of the Harbors Division, Department of Transportation, State of Hawaii (the "Harbors Division"), an enterprise fund of the State of Hawaii, presents the reader with an introduction and overview of the Harbors Division's financial performance for the years ended June 30, 2022 and 2021. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The commercial harbors are owned by the State of Hawaii (the "State") and are operated as a single statewide system for management and financial purposes on behalf of the State by the Department of Transportation (the "Department") through the Harbors Division. This creates a monopoly system that provides essential commercial harbors/maritime facilities.

The statewide system of commercial harbors consists of ten harbors on six islands. The Harbor System includes the harbor waters, harbor lands and waterfront improvements, ports, docks, wharves, quays, bulkheads, landings, and other related facilities and properties belonging to or controlled by the State and under the management, jurisdiction and control of the Harbors Division. The system plays a vital role in Hawaii's economy as the ports serve as the primary means for goods to enter and exit the State. Hawaii imports approximately 80% of what it consumes, of which 99% passes through the State's commercial Harbor System.

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

Overview of the Financial Statements

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

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

Change in Accounting Principle

Effective July 1, 2021, the Harbors Division adopted the provisions of GASB Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset.

The adoption of GASB Statement No. 87 resulted in the recording of lease receivables and deferred inflows of resources related to leases at July 1, 2021, in accordance with the provisions of this Statement. Lease receivables and deferred inflows of resources related to leases of approximately $69,707,000 were reported at July 1, 2021. The adoption of Statement No. 87 did not result in a restatement of beginning net position.

Financial Highlights

- The Harbors Division's net position at June 30, 2022 and 2021 amounted to $1,247.9 million and $1,154.0 million, respectively. Net position increased by $93.9 million in fiscal year 2022, an increase of 8%.

- Fiscal year 2022 operating revenue was $201.6 million compared to fiscal year 2021 operating revenue of $182.1 million. As Hawaii's COVID-19 restrictions were eased and eventually nearly ceased during fiscal year 2022, the Harbors Division benefitted through volume increases in several of its tariffs. In addition, a 3% wharfage and pipeline toll tariff increase as well as an approximate 15% dockage and port entry tariff increase effective July 1, 2021 contributed to an overall increase in operating revenues.

- Service revenues for fiscal year 2022 increased $14.9 million or 9.7% as compared to fiscal year 2021. Wharfage revenues from cargo movements increased by $10.5 million from $143.5 million in fiscal year 2021 to $154.0 million in fiscal year 2022 primarily due to a combination of increased cargo volume and tariff rates.

- In fiscal year 2022, passenger ("pax") debark/embark revenue was $1.8 million, a significant increase over the doldrum of fiscal year 2021.

- Implementation of GASB Statement No. 87 resulted in 27 lessor leases being affected. Other leases, revocable permits, easements, rights-of-entry, and other types of rental instruments were excluded mainly due to the factors of being short-term (12-months or less) or immaterial (did not reach a valuation of $100,000 or more).

A summary of operations and changes in net position for the years ended June 30, 2022 and 2021 is shown below:

Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2022 and 2021
(in thousands)

	Year Ended June 30		2022–2021	
	2022	2021	Increase (Decrease)	% Change
Operating revenues	$ 201,640	$ 182,060	$ 19,580	10.8 %
Nonoperating revenues	4,479	1,678	2,801	166.9 %
Total revenues	206,119	183,738	22,381	12.2 %
Depreciation expense	38,399	40,217	(1,818)	(4.5)%
Other operating expenses	63,021	53,957	9,064	16.8 %
Nonoperating expenses	11,039	14,875	(3,836)	(25.8)%
Total expenses	112,459	109,049	3,410	3.1 %
Income before capital contributions	93,660	74,689	18,971	25.4 %
Capital contributions	243	6,165	(5,922)	(96.1)%
Change in net position	93,903	80,854	13,049	16.1 %
Net position, beginning of year	1,153,995	1,073,141	80,854	7.5 %
Net position, end of year	$ 1,247,898	$ 1,153,995	$ 93,903	8.1 %

Operating Revenues

Total operating revenues for fiscal year 2022 were $201.6 million compared to $182.1 million for fiscal year 2021, an increase of $19.5 million or 10.8%. Difference in year-over-year growth was partially due to a wharfage and pipeline toll tariff increase of 3% and dockage and port entry tariffs increases of approximately 15% effective July 1, 2021. In addition, the near elimination of COVID-19 restrictions has helped to increase the volume of several of our tariff and other fee categories. Most significant dollar amount tariff increases from fiscal year 2022 compared to fiscal year 2021 were seen in wharfage of $10.5 million or 7.3%, demurrage of $0.8 million or 57.0%, port entry charges of $0.4 million or 43.1%, mooring charges of $0.4 million or 70.9%, and pax debark/embark of $1.8 million, a significantly higher amount than fiscal year 2021. Overall service revenues for fiscal year 2022 were 83.5% of total operating revenues and increased from fiscal year 2021 by $14.9 million or 9.7%. Overall lease revenues for fiscal year 2022 were 16.1% of total operating revenues and increased from fiscal year 2021 by $5.3 million or 19.6%.

Hawaii's Safe Travel program ceased on March 25, 2022 along with certain statistics for COVID-19. According to the Department of Business, Economic Development and Tourism ("DBEDT") on March 23, 2022, Hawaii's one-dose vaccination rate was 86.9% compared to the overall United States rate (one dose) of 76.8%, and 77.7% fully vaccinated compared to the nation's 65.4% rate. The seven-day moving average for total daily passenger counts including visitor and resident arrivals in June 2022 was 32,130 compared to 29,435 during June 2021, a 9.2% increase. Unemployment rate was lowered by 2.4% from 6.5% in June 2021 to 4.1% in June of 2022.

During fiscal year 2022, as the COVID-19 restrictions began to ease and eventually become nearly non-existent, the flow of cargo through the Harbor System increased due to increased tourism, students returning to school, and businesses reopening, all of which increased demand for consumer goods to Hawaii and the flow of a majority of those goods through the Harbor System. For the majority of the year, the construction industry, an essential business, was not significantly affected by the emergency proclamations. DBEDT forecasted the construction industry to soften slightly from fiscal year 2021 but still remain relatively strong with ongoing public and private sector capital projects. Although during the latter part of the fiscal year 2022, interest rates began to creep up, most of the year saw consumer demand for new and re-construction projects, home remodeling supplies, home goods, and other goods that supported commerce through the Harbor System.

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 2022 and 2021 were $168.7 million and $153.9 million, respectively.

Service revenues for fiscal year 2022 increased $14.9 million or 9.7% as compared to fiscal year 2021. Wharfage revenues from cargo movements increased by $10.5 million from $143.5 million in fiscal year 2021 to $154.0 million in fiscal year 2022 primarily due to a combination of increased cargo volume and tariff rate increases.

The Centers for Disease Control's ("CDC") No Sail Order on March 14, 2020, that later was replaced with the Conditional Sail Order during October 2020, suspended further embarkation for all cruise ships, and remained in effect for the entire fiscal year 2021. With COVID-19 statistics in a downtrend during fiscal year 2022, the CDC, the State of Hawaii Department of Health ("DOH"), and the Harbors Division worked together with each cruise line to create port agreements. These port agreements which were originally developed to follow the CDC guidelines on COVID-19 and limited vessel occupancy percentages were subsequently relaxed to allow for an increased number of cruise ships with higher passenger counts to port. It is anticipated that cruise ship port calls will increase with the relaxation of requirements and restrictions, positively impacting the Harbors Division's revenue and the State's economy. In fiscal year 2022, pax debark/embark revenue was $1.8 million, a significant increase over the doldrum of fiscal year 2021. Effective July 1, 2018, a flat fee for embark and debark fee was implemented at $15.00 per passenger for Honolulu Harbor, Oahu; and $8.00 per passenger at Kalaeloa Barbers Point Harbor, Oahu; Hilo and Kawaihae Harbors, Hawaii; Kahului Harbor, Maui; Kaunakakai Harbor, Molokai; Kaumalapau

Harbor, Lanai; and Nawiliwili and Port Allen Harbors, Kauai. No increases to this tariff have been made since.

Lease Revenues
Lease revenues for fiscal year 2022 were $32.2 million, an increase of $5.3 million or 19.6% from fiscal year 2021 of $26.9 million.

Wharf space and land lease revenues in fiscal year 2022 experienced a number of lease re-openers and updated revocable permit rates which increased revenues to $16.8 million in fiscal year 2022 from $15.6 million in fiscal year 2021, an increase of $1.2 million or 7.7%. Other pipeline toll revenues for fiscal year 2022 were $7.3 million as compared to $5.2 million in fiscal year 2021, an increase of $2.1 million or 39.8%. The increase was mainly due to a varied increase of fuel type volumes, such as jet fuel, diesel and gasoline resulting from higher tourism and Hawaii residents needing to drive to work, and the 3% pipeline toll rate increase that took effect on July 1, 2021.

Storage revenue in fiscal year 2022 was $6.7 million as compared to $5.1 million in fiscal year 2021, an increase of $1.6 million or 32.8%. This increase was mainly due to the economic factor during COVID-19 in fiscal year 2021 and the tenant's inability to make stable payments during that time.

Automobile parking revenue for fiscal year 2022 was $1.1 million as compared to $0.9 million in fiscal year 2021, an increase of $0.2 million or 23.7%. As more workers returned to work in fiscal year 2022, they required parking for their vehicles which increased our automobile parking revenue.

Operating Expenses
Fiscal year 2022 operating expenses, excluding depreciation expense, amounted to $63.0 million as compared to fiscal year 2021 of $54.0 million. The increase in operating expenses, excluding depreciation expense, for fiscal year 2022 in comparison to fiscal year 2021 of $9.0 million or 16.8% was mainly due to an approximate $5.6 million increase in pension and other postemployment benefits ("OPEB") liabilities, as a result of the negative impact of lower than projected earnings in the overall down financial markets. This increase was slightly offset by a decrease in personnel cost from fiscal year 2021 to fiscal year 2022 by $0.8 million.

Operating expenses also increased partially due to the resumption of cruise ship operations in January 2022. Such event has led to an approximately $1.6 million increase in harbor administration, operations and maintenance expenditures, which includes maintenance and electricity. State Central Services Fees for fiscal year 2022 increased by approximately $1.4 million or 20.4% due to the increase of operating revenues.

With an anticipated increase in support in fiscal year 2022 from the Department of Transportation Administration Division, due to the relaxation of requirements and restrictions of COVID-19, their budget was increased to $2.4 million as compared to $1.2 million in fiscal year 2021 resulting in an increase of $1.2 million, or 95.9%.

A summary of the Harbors Division's net position at June 30, 2022 and 2021 is shown below:

Condensed Statements of Net Position
As of June 30, 2022 and 2021
(in thousands)

	As of June 30		2022–2021	
	2022	2021	Increase (Decrease)	% Change
Assets				
Current and other assets	$ 707,424	$ 641,050	$ 66,374	10.4 %
Capital assets, net	1,154,858	1,082,729	72,129	6.7 %
Total assets	1,862,282	1,723,779	138,503	8.0 %
Deferred outflows of resources	8,622	10,308	(1,686)	(16.4)%
Liabilities				
Current liabilities	58,090	62,507	(4,417)	(7.1)%
Long-term liabilities	465,627	514,664	(49,037)	(9.5)%
Total liabilities	523,717	577,171	(53,454)	(9.3)%
Deferred inflows of resources	99,289	2,921	96,368	3,299 %
Net position				
Net investment in capital assets	727,082	687,705	39,377	5.7 %
Restricted	398,638	355,683	42,955	12.1 %
Unrestricted	122,178	110,607	11,571	10.5 %
Total net position	$ 1,247,898	$ 1,153,995	$ 93,903	8.1 %

Deferred inflows of resources increased significantly due to the implementation of GASB Statement No. 87 for leases as Harbors Division reported $65.2 million in deferred inflows associated with its leasing arrangements.

Net Position

The largest portion of the Harbors Division's net position (58.3% and 59.6% at June 30, 2022 and 2021, respectively), net investment in capital assets, represents its investment in capital assets (e.g., land, wharves, buildings, improvements and equipment), less related indebtedness outstanding to acquire those capital assets. The Harbors Division uses these capital assets to provide services to its users of the Harbor System; consequently, these assets are not available for future spending. Although the Harbors Division's net investment in its capital assets is reported net of related debt, the resources required to repay this debt must be provided annually from operations, since it is unlikely the capital assets will be liquidated to pay for such liabilities.

The restricted portion of the Harbors Division's net position (31.9% and 30.8% at June 30, 2022 and 2021, respectively) represents bond reserve and other funds that are subject to external restrictions on how funds may be used.

The unrestricted portion of the Harbors Division's net position (9.8% and 9.6% at June 30, 2022 and 2021, respectively) may be used to meet any of the Harbors Division's ongoing operations or to fund capital improvement projects.

The change in net position is an indicator of whether the overall fiscal condition of the Harbors Division improved or worsened during the fiscal year. The change in net position may serve over time as a useful indicator of the Harbors Division's financial position. Net position or the amount of total assets and deferred outflows of resources that exceed liabilities and deferred inflows of resources amounted to $1,247.9 million at June 30, 2022, an increase in net position of $93.9 million or 8.1% from 2021.

Capital Assets and Debt Administration

Capital Assets
As of June 30, 2022 and 2021, the Harbors Division had $1,154.9 million and $1,082.7 million, respectively, invested in capital assets as shown below. There was a net increase (additions, deductions and depreciation) of $72.1 million or 6.7% in 2022 from the prior year.

Capital Assets
As of June 30, 2022 and 2021

	As of June 30		2022–2021	
	2022	2021	Increase (Decrease)	% Change
Land and land improvements	$ 649,952	$ 642,506	$ 7,446	1.2 %
Wharves	352,342	349,752	2,590	0.7 %
Other improvements	154,295	151,004	3,291	2.2 %
Buildings	148,537	141,593	6,944	4.9 %
Equipment	33,526	27,350	6,176	22.6 %
Total at cost	1,338,652	1,312,205	26,447	2.0 %
Less: Accumulated depreciation	(546,161)	(508,154)	(38,007)	7.5 %
	792,491	804,051	(11,560)	(1.4)%
Construction in progress	362,367	278,678	83,689	30.0 %
Total capital assets, net	$ 1,154,858	$ 1,082,729	$ 72,129	6.7 %

Depreciation expense amounted to $38.4 million and $40.2 million for the fiscal years 2022 and 2021, respectively, a decrease of $1.8 million or 4.5%.

Major capital asset additions to the Harbor System for the year ended June 30, 2022 included the following projects:

- $5.9 million Relocate Harbors Police to Former Fire Station, Pier 15, Honolulu Harbor, Oahu Island
- $1.4 million Pavement Repairs at Piers 51C, 51 & 53 Container Yard, Honolulu Harbor, Oahu Island
- $1.4 million Substructure Repairs at Pier 17, Honolulu Harbor, Oahu Island
- $1.4 million Repair Waterline at Piers 19–20, Honolulu Harbor, Oahu Island
- $1.4 million Accessway and Facility Improvements – Paving at various locations, Kawaihae Harbor, Hawaii Island
- $1.9 million Pier 3 Shed Demolition and Other Improvements, Nawiliwili Harbor, Kauai Island
- $550,000 Substructure Repairs at Kaunakakai Harbor, Molokai Island
- $630,000 Concrete Deck and Fender Repairs at Pier 2, Kawaihae Harbor, Hawaii Island
- $875,000 Replace Light Pole Repairs at Piers 51–52, Honolulu Harbor, Oahu Island
- $433,000 Provide Trench Drain Grates, Kalaeloa Barbers Point Harbor, Oahu Island
- $301,000 Repair Railings at Pier 10, Honolulu Harbor, Oahu Island
- $236,000 Repair Roll-Up Doors at Maintenance Shop, Nawiliwili Harbor, Kauai Island
- $391,000 Repair Roll-Up Door and Entrance at Pier 1 Shed, Kahului Harbor, Maui Island

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

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

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

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

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

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

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

Major capital asset additions to the Harbor System for the year ended June 30, 2021 included the following projects:

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

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

Indebtedness

Harbor 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, 2022 and 2021, outstanding Harbor System revenue bonds amounted to $349.5 million and $363.6 million, respectively.

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

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

Reimbursable general obligation bonds are general obligations of the State, but since the proceeds were used to finance the harbor and waterfront improvements, the Harbors Division is required to reimburse the State's general fund for the payment of principal and interest on such bonds. As of June 30, 2022 and 2021, outstanding reimbursable general obligation bonds amounted to $13.7 million and $16.2 million, respectively. There have been no issuances of reimbursable general obligation bonds to finance the harbor and waterfront improvements during fiscal years 2022 and 2021.

Additional information regarding the Harbors Division's indebtedness can be found in Notes 6, 7, 8 and 9 to the financial statements.

Credit Rating and Bond Insurance
All Harbor System revenue bonds issued since 1997 through June 30, 2010 have been issued with bond insurance. A new reserve policy replaced all previously issued surety bonds and the portion of the reserve requirement allocable to the Series B of 2010 Revenue Bonds. The surety policy was amended, effective August 2, 2013, to include the reserve requirement allocable to the Series A of 2013 Revenue Refunding Bonds. The 2020 Revenue Bonds are secured by a cash deposit of $13.9 million which, for the purposes of such subaccount, is equal to 50% of the maximum bond service for the 2020 Revenue Bonds for any future fiscal year.

As of June 30, 2022, the underlying ratings for Harbor System revenue bonds were as follows:

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

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

Bond Covenants

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

The Harbors Division coverage ratio as of June 30, 2022 was 5.71 under the 1997 Certificate as compared to the ratio of 5.20 as of June 30, 2021.

Request for Information

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statement of Net Position
June 30, 2022

Assets	
Current assets	
Cash and cash equivalents	$ 196,703,397
Trade receivable, less allowance for doubtful accounts of $6,391,417	18,179,502
Lease receivable, less provision for doubtful accounts of $226,530	4,198,454
Notes receivable, less allowance for doubtful accounts of $1,756,201	168,812
Interest receivable	457,250
Due from other State agencies	328,219
	220,035,634
Restricted assets	
Cash and cash equivalents – restricted for debt service payments and reserve requirements	40,686,592
Total current assets	260,722,226
Noncurrent assets	
Cash and cash equivalents – restricted for	
Capital improvement projects	370,275,077
Other	14,246,565
	384,521,642
Capital assets	
Nondepreciable assets	314,259,812
Depreciable assets, net	478,231,475
Construction in progress	362,367,070
Total capital assets, net	1,154,858,357
Lease receivable, less provision for doubtful accounts of $5,313,876	62,179,306
Total noncurrent assets	1,601,559,305
Total assets	1,862,281,531
Deferred Outflows of Resources	
Related to pension	5,735,277
Related to other postemployment benefits	1,867,314
Deferred charge on refunding, net	1,018,950
Total deferred outflows of resources	$ 8,621,541

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statement of Net Position
June 30, 2022

Liabilities	
Current liabilities (payable from current assets)	
Accounts payable	$ 4,962,296
Contracts payable, including retainages	4,015,322
Financed purchase obligation	1,263,929
Accrued interest payable – financed purchase obligation	460,021
Accrued workers' compensation	107,864
Accrued vacation	795,891
Due to other State agencies	3,069,232
	14,674,555
Current liabilities (payable from restricted assets)	
Contracts payable, including retainages	9,963,018
Revenue bonds payable, current maturities	24,187,835
General obligation bonds payable, current maturities	2,700,654
Accrued interest payable – revenue bonds	6,563,442
	43,414,949
Total current liabilities	58,089,504
Long-term liabilities	
Accrued workers' compensation	1,109,124
Net pension liability	19,195,552
Net other postretirement benefits liability	34,657,974
Long-term debt, less current maturities	
Revenue bonds payable, net	370,915,980
General obligation bonds payable	10,965,833
Financed purchase obligation	21,121,509
Accrued vacation	2,052,681
Security deposits	3,804,531
Other long-term liabilities	1,803,418
Total long-term liabilities	465,626,602
Total liabilities	523,716,106
Deferred Inflows of Resources	
Related to pension	31,071,781
Related to other postemployment benefits	3,031,677
Related to leases	65,185,549
Total deferred inflows of resources	99,289,007
Net Position	
Net investment in capital assets	727,081,722
Restricted – revenue bond requirements	40,686,592
Restricted – for capital improvement projects	357,951,904
Unrestricted	122,177,741
Total net position	$ 1,247,897,959

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended June 30, 2022

Operating revenues, net	
Services	$ 168,722,705
Leases	32,178,623
Others	738,329
	201,639,657
Operating expenses	
Depreciation	38,398,848
Personnel services	30,628,461
Harbor operations and maintenance	18,093,663
State of Hawaii surcharge for central service expenses	8,003,528
General administration	3,868,131
Department of Transportation general administration expenses	2,427,320
	101,419,951
Operating income	100,219,706
Nonoperating revenues (expenses)	
Interest expense	(10,992,744)
Interest income	2,530,649
Lease interest income	1,948,824
Loss on disposal of capital assets	(46,534)
	(6,559,805)
Income before capital contributions	93,659,901
Capital contributions	243,129
Change in net position	93,903,030
Net position	
Beginning of year	1,153,994,929
End of year	$ 1,247,897,959

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statement of Cash Flows
Year Ended June 30, 2022

Cash flows from operating activities	
Cash received from customers	$ 205,653,667
Cash paid to suppliers	(32,506,651)
Cash paid to employees	(21,055,750)
Net cash provided by operating activities	152,091,266
Cash flows from capital and related financing activities	
Capital contributions	243,129
Acquisition and construction of capital assets	(118,227,508)
Principal paid on bonds	(16,692,555)
Interest paid on bonds and financed purchase obligation	(15,682,263)
Principal paid on financed purchase obligation	(1,139,924)
Net cash used in capital and related financing activities	(151,499,121)
Cash flows provided by investing activities	
Interest received	2,209,300
Net increase in cash and cash equivalents	2,801,445
Cash and cash equivalents	
Beginning of year	619,110,186
End of year	$ 621,911,631

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statement of Cash Flows
Year Ended June 30, 2022

Reconciliation of operating income to net cash provided by operating activities	
Operating income	$ 100,219,706
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	38,398,848
Recovery of doubtful accounts	(39,189)
Amortization of the discount on the lease receivable	1,948,824
Changes in assets, deferred outflows, liabilities, and deferred inflows	
Trade receivable	3,165,781
Lease receivable	(66,377,760)
Other current assets	412
Deferred outflows of resources	1,444,912
Payables	4,625,281
Accrued workers' compensation	42,003
Accrued vacation	(155,695)
Due to other State agencies	(4,858,062)
Security deposits	497,155
Net pension liability	(21,667,644)
Net other postretirement benefits liability	(1,520,842)
Deferred inflows of resources	96,367,536
Net cash provided by operating activities	$ 152,091,266
Supplemental disclosure of noncash capital and related financing activities	
Amounts included in contracts payable for the acquisition of capital assets	$ 9,963,018
Amortization of bond premium, discount, and deferred charge on refunding	(3,589,918)

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

1. Financial Reporting Entity

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

The Harbors Division is part of the Department, which is part of the executive branch of the State. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Harbors Division's financial activities. The accompanying financial statements present only the activities of the Harbors Division and are not intended to present fairly the financial position of the State and the changes in its financial position and cash flows of its business-type activities.

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

2. Summary of Significant Accounting Policies

Basis of Presentation

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

Measurement Focus and Basis of Accounting

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

Cash and Cash Equivalents

Cash and cash equivalents include all cash and investments with original maturities of three months or less and amounts held in the State Treasury.

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

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

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

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

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

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

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

Risk Management
The Harbors Division is exposed to various risks for loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and workers' compensation. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, non-incremental estimates (based on projections of historical developments) of claims incurred but not reported, and non-incremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The Harbors Division believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed and, as settlements are made and reserves adjusted, the differences are reported in current operations.

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

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

	Useful Lives	Capitalization Threshold
Land improvements	10 – 100 years	$ 100,000
Wharves	10 – 100 years	100,000
Buildings	5 – 50 years	100,000
Other improvements	5 – 50 years	100,000
Equipment	5 – 20 years	5,000
Software	5 – 15 years	1,000,000

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.

Leases

Lessee

The Harbors Division has a policy to recognize a lease liability and a right-to-use lease asset ("lease asset") in the government-wide financial statements. The Harbors Division recognizes lease liabilities with an initial, individual value of $25,000 or more with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, the Harbors Division initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the Harbors Division has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how the Harbors Division determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Harbors Division uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Harbors Division generally uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease.

- Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Harbors Division is reasonably certain to exercise.

The Harbors Division monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right to use along with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position. The Harbors Division did not have any leases as lessee that exceeded the capitalization threshold as of June 30, 2022.

Lessor

The Harbors Division is a lessor for leases of special purpose facilities, office and commercial space, and land. The Harbors Division recognizes lease receivables and deferred inflows of resources in the financial statements for its leases that have an initial, individual value of $100,000 or more with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease receivable.

At the commencement of a lease, the Harbors Division initially measures the lease receivable at the present value of payments expected to be received during the lease term, reduced by management's estimate of uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments received.

Key estimates and judgments include how the Harbors Division determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The Harbors Division uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease.
- Lease receipts included in the measurement of the lease receivable are composed of fixed payments from the lessee, reduced by management's estimate of uncollectible amounts.

The Harbors Division monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

Unamortized Debt Premium

Debt premium is amortized using the effective interest rate method over the term of the related debt, and the unamortized balance is reflected as an addition to the related liabilities in the statement of net position. Amortization of debt premium is included in interest expense in the statement of revenues, expenses, and changes in net position.

Refunding of Debt
The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred charge on refunding amounted to approximately $1,018,950 at June 30, 2022, and is reported as a deferred outflows of resources in the statement of net position.

Deferred Outflows of Resources and Deferred Inflows of Resources
Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The Harbors Division defers recognition of the loss on debt refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the effective interest rate method.

The deferred outflows of resources and deferred inflows of resources related to pensions resulted from differences between expected and actual experiences on pension plan investments, changes in assumptions and changes in proportion on pension plan investments, which will be amortized over the estimated average remaining service life of the plan members. The deferred outflows of resources and deferred inflows of resources related to other postemployment benefits ("OPEB") resulted from differences between expected and actual experiences and changes in assumptions, which will be amortized over the estimated remaining service life of the plan members. The net difference between projected and actual earnings on plan investments for both pension and OPEB resulted in deferred outflows of resources which is amortized over five years. The Harbors Division's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the pension and OPEB plans will be recognized as a reduction of the net pension liability and net OPEB liability in the subsequent fiscal year.

The deferred inflows of resources related to leases are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

Accrued Vacation
The Harbors Division accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences. Vacation is earned at the rate of 168 hours per calendar year, depending on an employee's date of hire. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment.

Net Position
Net position is reported in three categories as follows:

- **Net investment in capital assets** – Represents the Harbors Division's investment in capital assets, less related indebtedness outstanding to acquire those capital assets.

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

- **Unrestricted** – May be used to meet any of the Harbors Division's ongoing operations or fund capital improvement projects.

Operating Revenues
Operating revenues are those that result from providing goods and services and are reported net of bad debt. The recovery of bad debts for the year ended June 30, 2022 was approximately $39,000. Operating revenues also exclude revenues related to capital and related financing activities, noncapital financing activities, and investing activities.

As of June 30, 2022, the Harbors Division has pledged its future operating revenues, net of certain operating expenses, to repay $349,450,000 in Harbor System revenue bonds. Proceeds from the bonds provided financing for the construction of new facilities and the improvement of existing facilities related to the State's commercial harbors. The bonds are payable solely from the Harbors Division's operating revenues and are payable through July 2040.

The total principal and interest remaining to be paid on the bonds is approximately $481,653,000 as of June 30, 2022. Principal and interest paid (as defined by the Harbor Revenue Bond debt service requirements under the 1997 Certificate) and total operating revenues, net of certain operating expenses, were approximately $28,350,000 and $139,072,000, respectively, for the year ended June 30, 2022.

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

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

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

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

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

Use of Estimates
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Implementation of New GASB Pronouncements

GASB Statement No. 87
During fiscal year 2022, the Harbors Division implemented GASB Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Implementation of this Statement had a significant effect on the Harbors Division's financial statements for the year ended June 30, 2022. Upon implementation on July 1, 2021, the Harbors Division recognized lease receivables and deferred inflows of resources as the lessor.

The adoption of GASB Statement No. 87 resulted in the recording of lease receivables and deferred inflows of resources related to leases at July 1, 2021, in accordance with the provisions of this Statement. Lease receivables and deferred inflows of resources related to leases of approximately $69,707,000 were reported at July 1, 2021. The adoption of Statement No. 87 did not result in a restatement of beginning net position. Refer to Note 5 for additional information regarding the lease receivables.

GASB Statement No. 92
During fiscal year 2022, the Harbors Division implemented GASB Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement did not have a material effect on the Harbors Division's financial statements.

Recently Issued Accounting Pronouncements

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

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

GASB Statement No. 99
The GASB issued Statement No. 99, *Omnibus*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately while other requirements are effective for fiscal years beginning after June 15, 2022 and June 15, 2023, respectively. The Harbors Division has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 100
The GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023. The Harbors Division has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 101
The GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023. The Harbors Division has not determined the effect this Statement will have on its financial statements.

3. Cash and Cash Equivalents

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

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

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

Cash and cash equivalents at June 30, 2022 consisted of the following:

Amounts held in State Treasury	$ 617,446,207
Petty cash and other	4,465,424
	$ 621,911,631

Such amounts are reflected in the statement of net position at June 30, 2022 as follows:

Current assets	
Unrestricted	$ 196,703,397
Restricted	
Revenue bond debt service payments	26,833,442
Revenue bond cash reserve requirements	13,853,150
Noncurrent assets	
Restricted	
Capital improvement projects	
Construction – special purpose funds	357,951,904
Construction – revenue bonds	12,323,173
Other bond reserve requirements and security deposits	14,246,565
	$ 621,911,631

4. Capital Assets

Capital asset activity for the year ended June 30, 2022 was as follows:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022
Nondepreciable assets				
Land and land improvements	$ 314,252,844	$ 6,968	$ -	$ 314,259,812
Depreciable assets				
Land improvements	328,253,094	7,439,495	-	335,692,589
Wharves	349,751,685	2,589,856	-	352,341,541
Other improvements	151,004,581	3,290,713	-	154,295,294
Buildings	141,593,185	6,943,605	-	148,536,790
Equipment and software	27,349,992	6,599,619	(423,833)	33,525,778
Total capital assets being depreciated	997,952,537	26,863,288	(423,833)	1,024,391,992
Less: Accumulated depreciation for				
Land improvements	152,796,099	12,991,126	-	165,787,225
Wharves	196,316,475	10,952,720	-	207,269,195
Other improvements	81,640,027	7,159,026	-	88,799,053
Buildings	60,104,969	4,588,377	-	64,693,346
Equipment and software	17,296,145	2,707,599	(392,046)	19,611,698
Total accumulated depreciation	508,153,715	38,398,848	(392,046)	546,160,517
Construction in progress	278,677,798	109,222,445	(25,533,173)	362,367,070
Total capital assets, net	$ 1,082,729,464	$ 97,693,853	$ (25,564,960)	$ 1,154,858,357

Depreciation expense amounted to $38,398,848 for the year ended June 30, 2022.

5. Lease Receivable

Major portions of the Harbors Division's property are leased to others. Such property includes special purpose facilities, office and commercial space, and land. Lease receivable consists of agreements with others for the right-to-use of the underlying assets at various locations owned by the Harbors Division. The terms of the arrangements range from 10 to 70 years. The calculated interest rates used vary depending on the length of the lease. For the year ended June 30, 2022, the Harbors Division recognized approximately $4,411,000 in lease revenue for variable payments not previously included in measurement of the lease receivable.

A summary of changes in lease receivable for the year ended June 30, 2022 is as follows:

Beginning Balance	Addition	Deletion	Ending Balance	Due within One Year	Due in More than One Year
$ 69,706,792	$ 1,049,667	$ (4,378,699)	$ 66,377,760	$ 4,198,454	$ 62,179,306

Lease receivables are due in the upcoming years as follows:

	Principal	Interest	Total
Years ending June 30,			
2023	$ 4,198,454	$ 1,835,739	$ 6,034,193
2024	4,170,446	1,720,337	5,890,783
2025	4,122,011	1,597,618	5,719,629
2026	4,482,207	1,475,642	5,957,849
2027	4,480,661	1,346,510	5,827,171
2028–2032	14,810,741	5,205,936	20,016,677
2033–2037	9,512,319	3,570,374	13,082,693
2038–2042	5,502,175	2,551,285	8,053,460
2043–2047	5,964,697	1,741,596	7,706,293
2048–2052	6,560,487	848,078	7,408,565
2053–2057	2,068,516	217,346	2,285,862
2058–2059	505,046	6,506	511,552
	$ 66,377,760	$ 22,116,967	$ 88,494,727

6. Long-Term Liabilities

The changes in long-term liabilities were as follows:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022	Current	Noncurrent
Accrued workers' compensation	$ 1,174,985	$ 149,867	$ 107,864	$ 1,216,988	$ 107,864	$ 1,109,124
Accrued vacation	3,004,267	1,442,709	1,598,404	2,848,572	795,891	2,052,681
Financed purchase obligation	23,525,362	-	1,139,924	22,385,438	1,263,929	21,121,509
Security deposits	3,307,376	1,079,035	581,880	3,804,531	-	3,804,531
Other long-term liabilities	1,803,418	-	-	1,803,418	-	1,803,418
Net pension liability	40,863,196	13,607,797	35,275,441	19,195,552	-	19,195,552
Net other postretirement benefits liability	36,178,816	719,066	2,239,908	34,657,974	-	34,657,974
General obligation bonds	16,239,042	-	2,572,555	13,666,487	2,700,654	10,965,833
Revenue bonds	363,570,000	-	14,120,000	349,450,000	20,270,000	329,180,000
Unamortized bond premium, net	49,485,146	-	3,831,331	45,653,815	3,917,835	41,735,980
Revenue bonds, net	413,055,146	-	17,951,331	395,103,815	24,187,835	370,915,980
	$ 539,151,608	$ 16,998,474	$ 61,467,307	$ 494,682,775	$ 29,056,173	$ 465,626,602

7. Revenue Bonds Payable

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

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

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

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

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

The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2022:

Year of Issue	Final Redemption Date	Interest Rate	Original Amount of Issue	Current: Principal Due July 1, 2022	Current: Principal Due January 1, 2023	Total Current	Noncurrent
2013	July 1, 2029	3.25%	$ 23,615,000	$ 5,290,000	$ -	$ 5,290,000	$ 7,995,000
2016	January 1, 2031	1.99 – 3.09%	105,525,000	2,725,000	5,570,000	8,295,000	67,280,000
2020	July 1, 2040	0.60 – 5.00%	266,550,000	6,685,000	-	6,685,000	253,905,000
			$ 395,690,000	$ 14,700,000	$ 5,570,000	20,270,000	329,180,000
				Unamortized premium, net		3,917,835	41,735,980
						$ 24,187,835	$ 370,915,980

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

Years ending June 30,	Principal	Interest	Total
2023	$ 20,270,000	$ 12,975,422	$ 33,245,422
2024	15,090,000	12,615,782	27,705,782
2025	15,510,000	12,196,126	27,706,126
2026	16,045,000	11,659,563	27,704,563
2027	16,620,000	11,082,952	27,702,952
2028–2032	93,770,000	44,753,368	138,523,368
2033–2037	115,250,000	23,272,400	138,522,400
2038–2041	56,895,000	3,646,900	60,541,900
	$ 349,450,000	$ 132,202,513	$ 481,652,513

The debt service requirements reflect the sum of the amounts to be paid in accordance with the repayment schedules of the bonds issued. Principal and interest payments are required to be funded in the twelve-month and six-month periods, respectively, preceding the date on which the payments are due. Accordingly, the debt service requirements include reserves of approximately $26,833,000 as of June 30, 2022 for principal payments of $14,700,000 and $5,570,000 due on July 1, 2022 and January 1, 2023, respectively, and for interest payments of approximately $6,563,000 due on July 1, 2022.

8. Harbor Revenue Bond Requirements

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

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

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

The Harbor Revenue Bond debt service requirements, including minimum sinking fund payments during the current fiscal year, computed in accordance with Section 6.03 of the 1997 Certificate totaled approximately $28,350,000. Net revenues of the Public Undertaking, as defined by the 1997 Certificate, approximated to $161,999,000 or 5.71 times the minimum net revenue requirement for the year ended June 30, 2022.

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, 2022.

(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, 2022.

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

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

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

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

a failure to immediately restore such reserve requirement shall not constitute an event of default if the reserve requirement is restored within the time period permitted by Section 11.01(c) (90 days following the required notice). Notwithstanding the provisions of Section 11.01(c), the Harbors Division shall not permit any surety bond, insurance policy, or letter of credit, which has been established in lieu of a deposit into the harbor revenue special fund for credit to the harbor debt service reserve account to terminate or expire prior to depositing to such fund for credit to such account the amount satisfied previously by the surety bond, insurance policy, or letter of credit.

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

9. General Obligation Bonds

In fiscal 2006, the State issued $350,000,000 of General Obligation bonds, Series DI, dated March 23, 2006; in fiscal 2007, the State issued $350,000,000 of General Obligation bonds, Series DJ, dated March 28, 2007; and in fiscal 2008, the State issued $375,000,000 of General Obligation bonds, Series DK, dated May 1, 2008. Interest rates on outstanding Series DI, Series DJ, and Series DK General Obligation bonds range from 4.00% to 5.00%.

Reimbursable general obligation bonds are general obligations of the State, but since the proceeds were used to finance the harbor and waterfront improvements, the Harbors Division is required to reimburse the State's general fund for the payment of principal and interest on such bonds. As of June 30, 2022, outstanding reimbursable general obligation bonds amounted to approximately $13,666,000.

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

Years ending June 30,	Principal	Interest	Total
2023	$ 2,700,654	$ 680,024	$ 3,380,678
2024	2,835,218	545,735	3,380,953
2025	2,976,657	404,299	3,380,956
2026	3,124,940	255,883	3,380,823
2027	1,135,535	100,183	1,235,718
2028–2029	893,483	43,869	937,352
	$ 13,666,487	$ 2,029,993	$ 15,696,480

10. Financed Purchase Obligation

The Harbors Division entered into a financed purchase agreement to fund the installation and acquisition of energy conservation measures at selected Harbors Division locations. Proceeds of approximately $26,246,000 were deposited into an acquisition fund held in trust by an acquisition fund custodian to provide for future payments as requested by the Harbors Division. The agreement also provided for the financing of interest expense through October 1, 2016 approximating $747,000, which was applied toward the principal of the financed purchase obligation. The financed purchase obligation amounted to approximately $22,385,000 at June 30, 2022. Annual payments commenced on October 1, 2017 and will continue through October 1, 2032 at an interest rate of 2.74%. Costs incurred for the installation and acquisition of energy conservation measures were capitalized to other improvements and approximated $28,952,000, net of related expense of $23,000, which includes additional capitalized interest of $1,983,000 for the period October 2, 2016 through June 30, 2019. Amortization of equipment acquired under the agreement is included with depreciation expense. There were no unused proceeds in the acquisition fund at June 30, 2022.

Future minimum commitments are as follows:

	Principal	Interest	Total
Years ending June 30,			
2023	$ 1,263,929	$ 613,361	$ 1,877,290
2024	1,396,064	578,729	1,974,793
2025	1,536,788	540,477	2,077,265
2026	1,686,588	498,369	2,184,957
2027	1,845,978	452,157	2,298,135
2028–2032	11,995,800	1,404,694	13,400,494
2033	2,660,291	72,892	2,733,183
	$ 22,385,438	$ 4,160,679	$ 26,546,117

11. Retirement Benefits

Pension Plan

Plan Description

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

Benefits Provided

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

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

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

Noncontributory Class

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

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

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

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

Contributory Class for Members Hired Prior to July 1, 2012

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

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

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

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

Contributory Class for Members Hired After June 30, 2012

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

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

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

Hybrid Class for Members Hired Prior to July 1, 2012

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

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

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

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

Hybrid Class for Members Hired After June 30, 2012

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

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

Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. Per Act 17, SLH 2017, employer contributions from the State and counties increased over four years beginning July 1, 2017. The contribution rate for fiscal year 2022 applicable to Harbors Division was 24%. Contributions to the pension plan from the Harbors Division approximated $3,440,000 for the year ended June 30, 2022.

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

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

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Harbors Division. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by GAAP pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's ACFR.

At June 30, 2022, the Harbors Division reported a liability of approximately $19,196,000 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2021 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Harbors Division's proportion of the net pension liability was based on a projection of the Harbors Division's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined.

At June 30, 2021 measurement date, the Harbors Division's proportionate share of the State's net pension liability was 0.28%, which was a decrease of 0.20% from its proportion measured as of June 30, 2020.

There were no changes in actuarial assumptions as of June 30, 2020 to June 30, 2021. There were no changes between the measurement date, June 30, 2021, and the reporting date, June 30, 2022, that are expected to have a significant effect on the Harbors Division's proportionate share of the State's net pension liability.

For the year ended June 30, 2022, the Harbors Division recognized pension expense of approximately $13,608,000. At June 30, 2022, the Harbors Division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	$ 2,294,874	$ -
Net difference between projected and actual earnings on pension plan investments	-	27,373,342
Changes of assumptions	-	3,323,982
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	374,457
Contributions subsequent to the measurement date	3,440,403	-
	$ 5,735,277	$ 31,071,781

At June 30, 2022, the $3,440,000 reported as deferred outflows of resources related to pensions resulting from the Harbors Division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2023.

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

Years ending June 30,	
2023	$ (6,110,290)
2024	(5,777,858)
2025	(6,934,187)
2026	(10,086,815)
2027	132,243
	$ (28,776,907)

Actuarial Assumptions

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

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

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

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

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

	Target Allocation	Long-Term Expected Real Rate of Return
Strategic allocation (risk-based classes)		
Broad growth	63.0 %	8.0 %
Diversifying strategies	37.0 %	5.1 %
Total investments	100.0 %	

Discount Rate

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

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Harbors Division's proportionate share of the net pension liability	$ 26,200,000	$ 19,196,000	$ 13,420,000

Pension Plan Fiduciary Net Position

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

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

Payables to the Pension Plan

The Harbors Division's employer contributions payable to the ERS by fiscal year-end was paid by June 30, 2022. Excess payments will be applied to amounts due in fiscal year 2023.

Required Supplementary Information and Disclosures

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

Postemployment Health Care and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state

and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at https://eutf.hawaii.gov/reports/. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Employees Covered by Benefit Terms

At July 1, 2021, the following number of plan members for the State was covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	38,534
Inactive plan members entitled to but not yet receiving benefits	7,539
Active plan members	49,700
Total plan members	95,773

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Harbors Division were approximately $1,518,000 for the year ended June 30, 2022. The Harbors Division is required to make all contributions for members.

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

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Harbors Division. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB to the various departments and agencies based upon a systematic methodology. Additional disclosures and required supplementary information stipulated by GAAP pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's ACFR.

At June 30, 2022, the Harbors Division reported a net OPEB liability of approximately $34,658,000. The net OPEB liability was measured as of July 1, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

At June 30, 2022, the Harbors Division's proportionate share of the State's net OPEB liability was 0.45%.

There were no changes between the measurement date, July 1, 2021, and the reporting date, June 30, 2022, that are expected to have a significant effect on the Harbors Division's proportionate share of the State's net OPEB liability.

For the year ended June 30, 2022, the Harbors Division recognized OPEB expense of approximately $719,000. At June 30, 2022, the Harbors Division reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,773,140
Changes in assumptions	349,556	169,351
Net differences between projected and actual earnings on OPEB plan investments	-	89,186
Contributions subsequent to the measurement date	1,517,758	-
	$ 1,867,314	$ 3,031,677

At June 30, 2022, the $1,518,000 reported as deferred outflows of resources related to OPEB resulting from the Harbors Division's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023.

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

Years ending June 30,	
2023	$ (626,738)
2024	(624,107)
2025	(608,271)
2026	(682,311)
2027	(140,309)
Thereafter	(385)
	$ (2,682,121)

Actuarial Assumptions

The total OPEB liability in the July 1, 2021 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 13, 2020, based on the experience study covering the five-year period ended June 30, 2018 as conducted for the ERS:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO*	Initial rate of 7.25% declining to a rate of 4.70% after 12 years
HMO*	Initial rate of 7.25% declining to a rate of 4.70% after 12 years
Contribution	Initial rate of 5.00% declining to a rate of 4.70% after 9 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drugs.

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private equity	12.50 %	10.19 %
U.S. microcap	6.00 %	7.62 %
U.S. equity	16.00 %	6.09 %
Non-U.S. equity	11.50 %	7.12 %
Global options	5.00 %	4.33 %
Core real estate	10.00 %	6.16 %
Private credit	8.00 %	5.83 %
TIPS	5.00 %	(0.07)%
Long treasuries	6.00 %	1.06 %
Alternative risk premia	5.00 %	1.46 %
Trend following	10.00 %	2.01 %
Reinsurance	5.00 %	4.44 %
Total investments	100.00 %	

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend Act 268 contributions for the year ending June 30, 2021, and instead limit their contribution amounts to the OPEB benefits due. This relief provision related to OPEB funding was extended to fiscal years 2022 and 2023 by Act 229, SLH 2021. The OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

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

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

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

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement date, July 1, 2021.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2021	$ 45,279,263	$ 9,100,446	$ 36,178,817
Service cost	302,099	-	302,099
Interest on the total OPEB liability	1,002,833	-	1,002,833
Difference between expected and actual experience	(425,642)	-	(425,642)
Employer contributions	-	1,574,831	(1,574,831)
Net investment income	-	825,551	(825,551)
Benefit payments	(458,276)	(458,276)	-
Administrative expense	-	(421)	421
Other	-	172	(172)
Net changes	421,014	1,941,857	(1,520,843)
Balance at June 30, 2022	$ 45,700,277	$ 11,042,303	$ 34,657,974

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Harbors Division's proportionate share of the net OPEB liability	$ 42,870,000	$ 34,658,000	$ 28,179,000

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

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Harbors Division's proportionate share of the net OPEB liability	$ 27,829,000	$ 34,658,000	$ 43,479,000

Payables to the OPEB Plan

The Harbors Division's employer contributions payable to the EUTF by fiscal year-end was paid by June 30, 2022.

Required Supplementary Information and Disclosures

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

Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, which is available to all State employees (excluding part-time, temporary and casual/seasonal), permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's nor the Harbors Division's financial statements.

12. Risk Management

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

The Harbors Division obtained coverage for certain strategic piers and wharves infrastructure to mitigate its exposure to natural disasters from hurricane, earthquake, and flood (including tsunami) events. The amount of insurance provided by this difference in conditions policy is $25,000,000 on an annual aggregate basis on a shared perils basis, subject to a $5,000,000 deductible per occurrence.

The State generally self-insures for its automobile no-fault and workers' compensation losses. A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2022, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. Accrued workers' compensation amounted to approximately $1,217,000 on June 30, 2022.

13. Ceded Lands

In 2006, the Legislature enacted Act 178, SLH 2006 ("Act 178"), to re-establish a mechanism for the Office of Hawaiian Affairs ("OHA") to receive a portion of the income and proceeds from the Ceded Lands, for native Hawaiians, under Article XII, Sections 4 and 6 of the Hawaii Constitution. Among other things, Act 178 directs state agencies that collect receipts from the Ceded Lands to annually transfer a total of $15,100,000 in four equal quarterly installments to OHA, and directs the Governor to issue an executive order to establish procedures for this purpose. The Governor issued Executive Order No. 06-06 on September 20, 2006.

The Harbors Division transferred $10,000,000 to the Budget & Finance Department in four quarterly installments pursuant to Governor Executive Order No. 06-06 during the year ended June 30, 2022. The transfers are included in harbor operations and maintenance costs in the accompanying statement of revenues, expenses, and changes in net position for the year ended June 30, 2022.

Pursuant to Governor Executive Order No. 22-04 executed on September 27, 2022, Act 178 was amended to direct state agencies that collect receipts from the Ceded Lands to annually transfer a total of $21,500,000 in four quarterly installments to OHA for the year ended June 30, 2023.

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 $8,004,000 for the year ended June 30, 2022.

The Harbors Division is assessed a percentage of the Department's general administration expenses. The assessments amounted to approximately $2,427,000 for the year ended June 30, 2022.

Act 200, SLH 2008 was enacted to authorize a statewide Harbors Modernization Plan ("HMP") to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the Harbor System and included appropriations for its upgrade. The Act authorizes the Department to issue Harbor System revenue bonds to finance the improvements. The cost of the HMP, originally estimated at $842 million, was revised to $618 million in 2008. Act 200 also designated the Aloha Tower Development Corporation ("ATDC") as the entity responsible for the management and implementation of the HMP under the Department's direction.

The State Legislature in its 2009 legislative session questioned ATDC's role and effectiveness and provided operational funding for only FY2010 of the FY2009–FY2011 biennium. In its 2010 legislative session, the Legislature did not restore operating funds to ATDC for FY2011, effectively terminating its operations on June 30, 2010. Contracts executed by ATDC for HMP projects were assigned to the Harbors Division, which assumed management and implementation responsibilities for the HMP. The modernization projects have been integrated into the administration's Harbors Modernization Program, a capital improvements program comprised of priority public works projects critical to create jobs and jumpstart the economy.

In the 2011 legislative session, Act 152, SLH 2011 was enacted to remove ATDC from the Department of Business, Economic Development and Tourism ("DBEDT") and place the agency under the Department of Transportation for administrative purposes, redefine the boundaries of the Aloha Tower complex, and repealed references to the HMP, effective July 1, 2011.

Act 152 provides that ATDC is headed by a three-member board comprised of the Directors of DBEDT, the Department, and the Deputy Director of the Harbors Division. The Director of DBEDT chairs the board and the Deputy Director of the Harbors Division serves as the acting Chief Executive Officer for ATDC. Act 152 also provided that the unencumbered and unexpended fund balance in the Aloha Tower Fund shall lapse to the credit of the Harbor Special Fund to be used for operating expenses for ATDC. DBEDT transferred the balance of approximately $2.8 million to the Harbor Special Fund pursuant to Act 152. The $2.8 million offset a portion of the $7.8 million balance owed by ATDC to the Harbors Division for losses in revenue, obligations which were operating expenses for ATDC.

15. Aloha Tower Development Corporation

ATDC is a state agency established under HRS Chapter 206J, primarily to redevelop the Aloha Tower complex. The complex originally encompassed Piers 5–23 of Honolulu Harbor, but its boundaries were redefined by Act 152, SLH 2011. In September 1993, the Harbors Division entered into a ground master lease and a capital improvements, maintenance, operations and security agreement with ATDC for certain portions of the Aloha Tower complex. ATDC is required annually to reimburse the Harbors Division for any losses in revenues during the term of the lease caused by any action of ATDC or the developer and to provide replacement facilities for maritime activities at no cost to the Harbors Division.

On January 18, 2006, an agreement amending the Aloha Tower Project Memorandum of Understanding and Aloha Tower Ground Lease was executed, effective as of June 30, 2005, and retroactive to July 1, 2004 (the "Amendment"). The Amendment required ATDC to pay $225,000 as a minimum annual base payment for losses in revenues owing in the fiscal year beginning July 1, 2004. From July 1, 2005, subject to the approval of the Deputy Director for the Harbors Division, the base payment of $225,000 was to be reduced by expenses incurred by ATDC for the Hawaii Harbors Project Office. The Amendment also required an equity participation payment to be made in an amount of 50% of the difference between the total revenues and total operating expenses of ATDC for a fiscal year (the equity payment), provided that if the equity payment exceeds two and one-half times the actual operating expenses of ATDC, these payments were to be applied to reduce the amount owed to the Harbors Division for losses in revenues by ATDC prior to July 1, 2004. The balance owed to the Harbors Division by ATDC under this Amendment as of June 30, 2022 was approximately $1,925,000, and is included in notes receivable, net of allowance for doubtful accounts, for approximately $1,756,000 as of June 30, 2022 in the accompanying statement of net position.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest of the Marketplace to a new operator, Hawaii Lifestyle Retail Properties ("HLRP"). HLRP is a limited liability company that consisted at that time of two legal entities, Lifestyle Retail Properties LLC ("LRP") and Hawaii Downtown Holdings LLC ("HDH"); HDH being solely owned by Hawaii Pacific University ("HPU"). After the transfer of the lease to HLRP in mid-2011, ATDC discussed various development proposals with HLRP culminating in a memorandum of understanding ("MOU") dated December 15, 2011. In the 2012 Hawaii Legislative Session, HPU received legislative support for the issuance of special purpose revenue bonds for improvements to their facilities. In mid-2012, a dispute arose among the owners of HLRP, which ultimately resulted in HDH buying out LRP's interest in HLRP and HDH taking control of the leasehold interest in late 2012. The terms of ATDC's MOU with HLRP, which were performance-based and had not been met, terminated on January 1, 2014. Since the resolution of the owners' dispute within HLRP, HLRP has been reformulating its plans for improvements to the Marketplace's leasehold property.

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

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

HPU/HLRP failed to pay the sum of $1,750,000 by December 31, 2021, even after repeated exchange of correspondence to HPU/HLRP to pay such amount in order for HPU/HLRP to have a guaranteed lease renewal when the current lease expires on September 28, 2058. Furthermore, with HPU/HLRP's decision not to pay the $1,750,000 by December 31, 2021, HPU/HLRP will have to pay $3,500,000 by September 28, 2058.

Per HRS 206J-11, ATDC has sole discretion with the Governor's approval to offer a lease to Aloha Tower Marketplace to interested parties after the current lease expires. If HPU/HLRP wants to agree on a lease renewal now, then HPU/HLRP must be ready to meaningfully address the outstanding $3,500,000 Pier Apron Repair debt that HPU/HLRP chose not to satisfy because HPU/HLRP did not make the previously negotiated $1,750,000 payment by December 31, 2021.

Because HPU/HLRP failed to pay the $1,750,000 lease extension option, HPU/HLRP likewise failed to satisfy the conditional release of the $3,500,000 debt owed by the holder of the Marketplace Lease since 2010. By not paying the $1,750,000, HPU/HLRP failed to satisfy the obligation to resolve the original $3,500,000 debt. The debt is not stale, because the payment obligation has not yet come due until the expiration of the current Marketplace Lease to make full payment. Over the years, ATDC has given the HPU/HLRP options to satisfy that debt without paying the full amount by encouraging early payments, including that $1,750,000 lease extension option, but HPU/HLRP chose not to pay. Since no payments have been received, the full $3,500,000 remains due and owing. The Harbors Division will continue to periodically remind HPU/HLRP of this obligation before September 28, 2058 to confirm the understanding that this debt will not be forgotten or forgiven.

16. Arbitrage

The Harbors Division is required to annually calculate rebates to the U.S. Treasury on the Revenue Bonds issued from 1986. In accordance with the requirements of Section 148 of Internal Revenue Code of 1986, as amended, rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. In the opinion of management, rebates payable as of June 30, 2022, if any, are not material to the financial statements. Accordingly, no rebates payable have been recorded in the accompanying financial statements.

17. Commitments and Contingencies

Construction and Other Contracts

The Harbors Division is committed under contracts awarded for construction and other services. These commitments amounted to approximately $333,219,000 at June 30, 2022.

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, a liability for sick leave is not recorded by the Harbors Division. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2022, accumulated sick leave was approximately $5,696,000.

Environmental Issues

Iwilei District Participating Parties
The Harbors Division is subject to laws and regulations under the Hawaii Environmental Response Law, Chapter 128D, HRS, as amended, for being identified by the State Department of Health ("HDOH") as a potentially responsible party for petroleum contamination in the Honolulu Harbor/Iwilei area. Pursuant thereto, the Harbors Division, together with other parties, entered into a voluntary agreement with the HDOH to share the responsibility for the investigation and potential remediation of petroleum contamination in the Iwilei District. This group of potentially responsible parties, known as the Iwilei District Participating Parties ("IDPP"), has conducted various investigations to determine potential contamination in the Iwilei area from 1997 to present, which investigations have determined the existence of petroleum contamination at various locations. The remediation alternative selected involves the management of the contamination in-place with limited extraction, plume monitoring, active institutional controls including education/awareness and outreach of landowners, potential developers and utility operators, and reimbursement of future incremental project costs attributable to the contamination. However, the project has not yet advanced to the stage where total costs to the IDPP can reasonably be estimated due to: (1) the extent of the environmental impact, (2) the undetermined allocation among the potentially responsible parties, and (3) the continued discussion with the regulatory authorities.

Although it is not possible to reasonably estimate the Harbors Division's cost liability until these items have been resolved, the Harbors Division, in accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, accrued only for the estimated cost of the studies and investigations allocated to the Harbors Division of approximately $1,681,000 as of June 30, 2022.

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

In July 2012, the USEPA and the U.S. Department of Justice ("USDOJ") provided a Compliance Measures draft for the Harbors Division's review and comment. The Compliance Measures draft is intended to be the Injunctive Relief portion of the comprehensive Consent Decree between the United States, HDOH, and the Department.

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

In November 2021, the Department sent out a request to exit this 2014 Consent Decree, together with a Terminal Report. The Order terminating the Consent Decree was filed and approved in February 2022. Moving forward, the Harbors Division should remain vigilant and continue to implement the procedures and measures in the updated Stormwater Management Plan to stay compliant with MS4 permits and other relevant regulatory requirements to prevent any potential backsliding that may result in further litigation.

The Harbors Division entered into an agreement with Weston Solutions, Inc., an international environmental consulting firm, to assist in negotiating the Compliance Measures for $900,000, which was paid as of June 30, 2017. In addition, the Harbors Division also entered into an agreement with EnviroServices and Training Center LLC ("ETC"), a Hawaii environmental consulting firm, to assist the Harbors Division in implementing the compliance measures and other environmentally related investigations at a cost of $1,000,000. Currently, the Harbors Division has entered into a second agreement with ETC to continue assisting the Harbors Division in implementing the Compliance Measures and other environmentally related investigations at a cost of $400,000, of which approximately $260,000 was paid as of June 30, 2022. In addition, the Harbors Division has entered into an agreement with Element Environmental to assist the Harbors Division in any environmentally related engineering investigations at a cost of $400,000, of which about $220,000 was paid as of June 30, 2022.

Litigation

The Harbors Division is subject to a number of lawsuits arising in the ordinary course of its operations. While the ultimate liabilities, if any, in the disposition of these matters are presently difficult to estimate, it is management's belief that the outcomes are not likely to have a material adverse effect on the Harbors Division's financial position. Accordingly, no provisions for any liabilities that might result have been made in the accompanying financial statements.

Supplementary Information

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Cash and Cash Equivalents of the Public Undertaking
June 30, 2022 **Schedule 1**

Unrestricted cash and cash equivalents	$ 196,703,397
Restricted cash and cash equivalents	
Construction – special purpose funds	357,951,904
Construction – revenue bonds	12,323,173
Revenue bond debt service payments	26,833,442
Cash reserve requirement for 2020 Series revenue bonds	13,853,150
Revenue bond harbors reserve and contingency account	10,897,658
Security deposits and other	3,348,907
	425,208,234
	$ 621,911,631
With Director of Finance, State of Hawaii	$ 617,446,207
Petty cash and other	4,465,424
	$ 621,911,631

See accompanying independent auditors' report.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Revenue Bonds of the Public Undertaking
June 30, 2022

Schedule 2

	Final Redemption Date	Interest Rate	Original Amount of Issue	Balance at June 30, 2022		
				Current	Noncurrent	Total
Issue of 2013	July 1, 2029	3.25%	$ 23,615,000	$ 5,290,000	$ 7,995,000	$ 13,285,000
Issue of 2016 Series A	January 1, 2024	1.99%	14,565,000	2,170,000	2,215,000	4,385,000
Issue of 2016 Series B	January 1 , 2031	2.46% – 2.89%	68,535,000	3,400,000	48,025,000	51,425,000
Issue of 2016 Series D	July 1, 2027	3.09%	22,425,000	2,725,000	17,040,000	19,765,000
Issue of 2020 Series A	July 1, 2037	4.00% – 5.00%	147,520,000	-	145,090,000	145,090,000
Issue of 2020 Series B	July 1, 2024	0.60% – 1.15%	15,685,000	6,685,000	5,470,000	12,155,000
Issue of 2020 Series C	July 1, 2040	4.00% – 5.00%	103,345,000	-	103,345,000	103,345,000
			$ 395,690,000	$ 20,270,000	$ 329,180,000	$ 349,450,000

See accompanying independent auditors' report.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Income from Operations Before Depreciation
Year Ended June 30, 2022

Schedule 3

		District									
		Oahu		Hawaii		Maui			Kauai		
	Statewide	Honolulu	Kalaeloa	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Nawiliwili	Port Allen	Total
Operating revenues, net											
Services											
Wharfage	$ -	$ 119,691,034	$ 6,295,419	$ 5,078,141	$ 7,122,983	$ 9,962,919	$ 417,728	$ 740,865	$ 4,727,753	$ -	$ 154,036,842
Dockage	-	5,755,534	1,397,525	344,747	97,959	369,085	22,855	11,005	277,240	3,637	8,279,587
Demurrage	-	1,666,275	-	97,869	173,331	143,833	-	-	123,378	-	2,204,686
Port entry	-	865,776	166,646	88,863	46,601	123,274	16,582	10,812	69,817	4,237	1,392,608
Mooring charges	-	75,733	-	8,942	40,178	21	1,898	-	-	734,107	860,879
Cleaning charges	-	104,858	-	-	-	-	-	-	147	-	105,005
Other services	-	14,873	10,695	5,655	105	117	125	-	875	14,435	46,880
Pax debark/embark	-	703,034	-	401,344	-	357,440	-	-	334,400	-	1,796,218
Total services	-	128,877,117	7,870,285	6,025,561	7,481,157	10,956,689	459,188	762,682	5,533,610	756,416	168,722,705
Leases											
Wharf space and land	-	11,803,483	3,462,330	97,657	436,484	266,918	34,049	6,274	328,597	402,188	16,837,980
Other pipeline	-	355,270	3,085,751	1,581,369	137,014	1,554,734	26,834	-	371,956	226,457	7,339,385
Storage	-	5,471,974	205,456	150,686	454,869	55,387	16,630	28,117	317,686	5,940	6,706,745
Automobile parking	-	870,262	7,682	67,470	11,495	86,046	622	-	72,146	10,150	1,125,873
Pipeline water	-	117,205	13,743	9,078	453	15,049	583	-	12,529	-	168,640
Total leases	-	18,618,194	6,774,962	1,906,260	1,040,315	1,978,134	78,718	34,391	1,102,914	644,735	32,178,623
Others											
Miscellaneous (1)	-	121,433	157,396	51,979	(14,923)	4,757	159	-	(5,521)	423,049	738,329
Total others	-	121,433	157,396	51,979	(14,923)	4,757	159	-	(5,521)	423,049	738,329
Total operating revenues	-	147,616,744	14,802,643	7,983,800	8,506,549	12,939,580	538,065	797,073	6,631,003	1,824,200	201,639,657
Operating expenses before depreciation expenses											
Personnel services	16,432,682	9,462,067	471,524	1,114,885	131,980	1,395,975	65,093	65,574	1,422,478	66,203	30,628,461
Harbor operations and maintenance	10,659,273	4,844,708	751,907	463,141	326,613	362,752	42,901	7,433	599,428	35,507	18,093,663
State of Hawaii surcharge for central service expenses	8,003,528	-	-	-	-	-	-	-	-	-	8,003,528
General administration	3,410,719	236,319	970	102,542	75,690	13,855	661	407	25,203	1,765	3,868,131
Department of Transportation general administration expenses	2,427,320	-	-	-	-	-	-	-	-	-	2,427,320
Subtotal	40,933,522	14,543,094	1,224,401	1,680,568	534,283	1,772,582	108,655	73,414	2,047,109	103,475	63,021,103
Allocation of statewide expenses (2)	(40,933,522)	29,966,690	3,004,986	1,620,738	1,726,858	2,626,778	109,229	161,808	1,346,116	370,319	-
Total operating expenses before depreciation expense	-	44,509,784	4,229,387	3,301,306	2,261,141	4,399,360	217,884	235,222	3,393,225	473,794	63,021,103
Income from operations before depreciation expense	$ -	$ 103,106,960	$ 10,573,256	$ 4,682,494	$ 6,245,408	$ 8,540,220	$ 320,181	$ 561,851	$ 3,237,778	$ 1,350,406	$ 138,618,554

(1) Negative revenues are reported when the increase in estimated uncollectible amounts exceed the current year operating revenues.
(2) Statewide expenses are allocated to the Harbors Division based upon their respective current year operating revenues to total current year operating revenues for all Harbors.

See accompanying independent auditors' report.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Harbor Revenue Bonds 1997 Certificate –
Minimum Net Revenue Requirement of the Public Undertaking
Year Ended June 30, 2022 **Schedule 4**

Net revenues, as defined by the 1997 Certificate	
Operating income before depreciation expense	$ 138,618,554
Add	
Interest income	4,479,473
State of Hawaii surcharge for central service expenses	8,003,528
Cash available in the harbor reserve and contingency account	10,897,658
	$ 161,999,213
Harbor revenue bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments	$ 28,349,585
Ratio of net revenues to harbor revenue bond debt service requirements	5.71

See accompanying independent auditors' report.

ACCUITY

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

The Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the statement of net position of the Harbors Division, Department of Transportation, State of Hawaii (the "Harbors Division") as of and for the year ended June 30, 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Harbors Division's basic financial statements, and have issued our report thereon dated December 28, 2022.

Internal Control Over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

accuity LLP

Honolulu, Hawaii
December 28, 2022