Harbors Division
Department of Transportation
State of Hawaii

(An Enterprise Fund of the State of Hawaii)

Financial Statements and Supplementary Information

June 30, 2024 and 2023

Submitted by
The Auditor
State of Hawaii

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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 years ended June 30, 2024 and 2023, 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, 2024 and 2023, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits 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 audits. 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, 2024 and 2023, and the changes in its financial position or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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.

999 Bishop Street
Suite 2300
Honolulu, HI 96813
OFFICE 808.531.3400
FAX 808.531.3433
accuityllp.com

Auditors' Responsibilities for the Audits 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 audits.

- 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 audits 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

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 14 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 11, 2024, 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 11, 2024

ACCUITY

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, 2024 and 2023. 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 85% of what it consumes, of which 91% passes through the State's commercial Harbor System as presented in the Honolulu Harbor 2050 Master Plan.

The Harbors Division is self-sustaining. The Department is authorized by the Hawaii Revised Statutes ("HRS") Chapter 266, 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 Improvement Program ("CIP") is designed to enhance system efficiency, capacity and resiliency, 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. The Harbors Division is registered at www.grants.gov and has a Unique Entity Identifier ("UEI") number to apply for, compete, and be eligible for federal grant awards.

Overview of the Financial Statements

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

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

Financial Highlights

- The Harbors Division's net position at June 30, 2024 and 2023 amounted to $1,482.2 million and $1,359.3 million, respectively. Net position increased by $122.9 million in fiscal year 2024, an increase of 9.0%.

- Fiscal year 2024 operating revenues were $222.9 million compared to fiscal year 2023 operating revenues of $215.1 million, an increase of $7.7 million or 3.6%. Effective July 1, 2023, a 5.2% wharfage and pipeline toll tariff increase contributed to an overall increase in operating revenues in fiscal year 2024.

- Service revenues for fiscal year 2024 increased $6.8 million or 3.8%, as compared to fiscal year 2023. Wharfage revenues from cargo movements increased by $4.2 million or 2.7%, from $157.5 million in fiscal year 2023 to $161.7 million in fiscal year 2024, primarily due to increased tariff rates.

- In fiscal year 2024, passenger ("pax") debark/embark revenue was $10.1 million, an increase of $2.0 million or 24.7% over fiscal year 2023. Pax revenue has now surpassed pre-pandemic highs of fiscal year 2019, which amounted to approximately $9.0 million.

A summary of operations and changes in net position for the years ended June 30, 2024, 2023, and 2022 is shown below:

Condensed Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024, 2023 and 2022
(in thousands)

	Year Ended June 30			2024–2023		2023–2022	
	2024	2023	2022	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Operating revenues	$ 222,891	$ 215,147	$ 201,640	$ 7,744	3.6 %	$ 13,507	6.7 %
Nonoperating revenues	21,633	14,299	4,479	7,334	51.3 %	9,820	219.2 %
Total revenues	244,524	229,446	206,119	15,078	6.6 %	23,327	11.3 %
Depreciation expense	37,684	38,172	38,399	(488)	(1.3)%	(227)	(0.6)%
Other operating expenses	67,907	68,459	63,021	(552)	(0.8)%	5,438	8.6 %
Nonoperating expenses	17,452	11,441	11,039	6,011	52.5 %	402	3.6 %
Total expenses	123,043	118,072	112,459	4,971	4.2 %	5,613	5.0 %
Income before capital contributions	121,481	111,374	93,660	10,107	9.1 %	17,714	18.9 %
Capital contributions	1,449	29	243	1,420	4,896.6 %	(214)	(88.1)%
Change in net position	122,930	111,403	93,903	11,527	10.3 %	17,500	18.6 %
Net position, beginning of year	1,359,301	1,247,898	1,153,995	111,403	8.9 %	93,903	8.1 %
Net position, end of year	$ 1,482,231	$ 1,359,301	$ 1,247,898	$ 122,930	9.0 %	$ 111,403	8.9 %

Operating Revenues

Pursuant to Hawaii Administrative Rule, 19-44-73, wharfage and pipeline tariff fees increased effective July 1, 2023 applying the January 2023 Honolulu Consumer Price Index of 5.2%.

Total operating revenues for fiscal year 2024 were $222.9 million compared to $215.1 million for fiscal year 2023, an increase of $7.8 million or 3.6%, and offsetting less loaded containers and transshipments movements through its port. Post-COVID-19 pandemic, pent-up passenger demand for cruises has bolstered the cruise industry with the Harbors Division recognizing $10.1 million in pax debark/embark revenues in fiscal year 2024. The difference in year-over-year revenue growth was mainly the result of the lower twenty-foot equivalent unit ("TEU") volume and a small reduction in other pipeline toll fees of $0.6 million or 6.5% that may be attributed to the lower amount of eastbound travelers to Hawaii due to the strong dollar to yen with visitor levels that remain less than the 2019 levels, and the impact of the Lahaina Town fire on tourism.

Effective July 1, 2022, wharfage and pipeline toll tariff fees increased 6% and dockage and port entry tariffs increased approximately 15% effective July 1, 2021. Removal of travel restrictions and the end of the Hawaii's Safe Travel Program in March 2022 welcomed visitors, and the demand for goods and energy with the Harbors Division recording an increase in cargo volumes and pipeline fees in support of the tourism industry. Total operating revenues for fiscal year 2023 were $215.1 million compared to $201.6 million for fiscal year 2022, an increase of $13.5 million or 6.7%. The difference in year-over-year revenue growth was a result of the wharfage and pipeline toll tariff increase and the increase in cargo volume with a full year of post-pandemic recovery. Pax debark/embark revenue was $8.1 million or an increase of $6.3 million or 350.0%, compared to fiscal year 2022 revenue of $1.8 million. Wharfage fees increased $3.5 million or 2.3%, and other pipeline revenue increased 20.3% or $1.5 million compared to fiscal year 2022. Wharf space and land increased $1.5 million or 8.7%, and other revenue increased by $1.7 million or 236.6%. An increase in overall harbor and vessel activity raised revenue for potable water charges by $0.2 million or 128.3%, but reduced storage fees by $1.2 million or 18.1%.

The unemployment rate subsequently lowered by 0.4% from 3.3% in June 2023 to 2.9% in June 2024, which continued the lowered trend by 0.8% in June 2022 to 3.3% in June 2023.

During fiscal year 2023, cargo volumes increased through the Harbor System led by tourism related demand for goods and demand for jet fuel. Students returned to in-class school learning and school lunches. Businesses reopened contributing to the increased demand for consumer goods to Hawaii.

DBEDT building permit statistics for June 2024 showed fair growth in the construction industry from fiscal year 2023 and remains comparatively strong with increased private sector capital projects. Overall calendar year-to-date building permit values as of June 2024 amounted to $2,254.7 million compared with $1,736.6 million in 2023, an increase of $518.1 million or 29.8%. As commercial building permits have reduced, residential and addition & alteration permits have more than made up for the decline as goods that support commerce flow through the Harbor System. Demand for goods and material by the construction industry have remained steady throughout time as an essential business and was not materially affected by the pandemic period.

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 2024 and 2023 were $185.2 million and $178.4 million, respectively. Service revenues in fiscal years 2023 and 2022 were $178.4 million and $168.7 million, respectively.

Service revenues for fiscal year 2024 increased by $7.4 million with decreased dockage fees of $0.6 million compared to fiscal year 2023, a net of $6.8 million or a 3.8% increase compared to fiscal year 2023. Wharfage revenues from cargo movements increased by $4.2 million or 2.7%, from $157.5 million in fiscal year 2023 to $161.7 million in fiscal year 2024, primarily due to the tariff rate increase. Service revenues for fiscal year 2023 increased $9.7 million or 5.7%, as compared to fiscal year 2022.

Service revenues for fiscal year 2023 increased by $10.3 million with decreased mooring fees of $0.6 million compared to fiscal year 2022, a net of $9.7 million or a 5.7% increase compared to fiscal year 2022. Wharfage revenues from cargo movements increased by $3.5 million or 2.3%, from $154.0 million in fiscal year 2022 to $157.5 million in fiscal year 2023, primarily due to a combination of increased cargo volume and tariff rate increases.

Lease Revenues
Lease revenues for fiscal year 2024 were $35.3 million, an increase of $1.0 million or 2.9%, from fiscal year 2023 of $34.3 million. For fiscal year 2023, lease revenues were $34.3 million, an increase of $2.1 million or 6.5%, from fiscal year 2022 of $32.2 million.

Wharf space and land lease revenues in fiscal year 2024 experienced a few lease re-openers and updated revocable permit rates, which increased revenues to $19.2 million in fiscal year 2024 from $18.3 million in fiscal year 2023, an increase of $0.9 million or 4.9%. Wharf space and land lease revenues in fiscal year 2023 increased revenues to $18.3 million from $16.8 million in fiscal year 2022, an increase of $1.5 million or 8.9%. Other pipeline toll revenues for fiscal year 2024 were $8.3 million, as compared to $8.8 million in fiscal year 2023, a decrease of $0.5 million. The decrease in pipeline toll revenues is attributed to demand for various fuel type volumes, such as jet fuel, gasoline, and miscellaneous oil. Other pipeline toll revenues for fiscal year 2023 were $8.8 million, as compared to $7.3 million in fiscal year 2022, an increase of $1.5 million or 20.5%, supported by a 6% pipeline toll rate increase that took effect on July 1, 2022. The increase in pipeline toll revenues was attributed to demand for various fuel type volumes, such as jet fuel, diesel and gasoline due to tourism and the re-opening of public spaces and venues.

Storage revenue in fiscal year 2024 was $6.1 million, as compared to $5.5 million in fiscal year 2023, an increase of $0.6 million or 10.9%. Storage revenue in fiscal year 2023 was $5.5 million, as compared to $6.7 million in fiscal year 2022, a decrease of $1.2 million or 17.9%. This decrease was mainly due to less idle equipment being stored on our facilities during fiscal year 2023, as compared to fiscal year 2022 during the pandemic. As the economy returns to pre-pandemic conditions, cargo flow improved with increased use of shipping equipment and less need for storage.

Automobile parking revenue includes ground transportation permit fees. For fiscal year 2024, revenues were stable at approximately $1.2 million, as compared to $1.3 million in fiscal year 2023, a decrease of $0.1 million or 7.7%. For fiscal year 2023, revenues were $1.3 million, as compared to $1.1 million in fiscal year 2022, an increase of $0.2 million or 18.2%.

Operating Expenses
Fiscal year 2024 operating expenses, excluding depreciation expense, amounted to $67.9 million as compared to fiscal year 2023 of $68.5 million. The decrease in operating expenses, excluding depreciation expense, for fiscal year 2024 in comparison to fiscal year 2023, was $0.6 million or 0.8%.

Fiscal year 2023 operating expenses, excluding depreciation expense, amounted to $68.5 million as compared to fiscal year 2022 of $63.0 million. The increase in operating expenses, excluding depreciation expense, for fiscal year 2023 in comparison to fiscal year 2022, was $5.4 million or 8.6%. With the passage of Act 226 ("Act 226") Session Laws of Hawaii ("SLH") 2022, the State of Hawaii increased payments to the Office of Hawaiian Affairs ("OHA") for ceded lands from $15.1 million to $21.5 million (fiscal year 2023). The Harbors Division's pro rata portion for each fiscal year beginning with fiscal year 2023 increased from $10 million to almost $15 million. For accounting purposes, Harbors payments to OHA is considered an expense. However, Harbors received consent from the 2020 bondholders to reduce OHA payments from harbors gross revenue as net revenue. From net revenue, the ratio of 1.25 excess revenue over debt payments is calculated. Additional information regarding the Harbors Division's ceded lands can be found in Note 13 to the financial statements.

In accordance with HRS §36-27, the Harbors Division is assessed a 5% State Central Services Fee. For fiscal year 2024, its share of the State Central Services Fees was $8.2 million. For fiscal year 2023, its share of the State Central Services Fees was $9.2 million.

The Department of Transportation Administration Division's fee for fiscal year 2024 was $2.4 million in overhead costs as compared to $1.8 million for fiscal year 2023, an increase of $0.6 million or approximately 33.3%. Fiscal year 2023 fee was $1.8 million as compared to $2.4 million in fiscal year 2022, a decrease of $0.6 million or approximately 25%.

A summary of the Harbors Division's net position at June 30, 2024, 2023 and 2022 is shown below:

Condensed Statements of Net Position
As of June 30, 2024, 2023 and 2022
(in thousands)

	As of June 30			2024–2023		2023–2022	
	2024	2023	2022	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Assets							
Current and other assets	$ 787,373	$ 732,042	$ 707,424	$ 55,331	7.6 %	$ 24,618	3.5 %
Capital assets, net	1,278,337	1,226,834	1,154,858	51,503	4.2 %	71,976	6.2 %
Total assets	2,065,710	1,958,876	1,862,282	106,834	5.5 %	96,594	5.2 %
Deferred outflows of resources	6,870	5,226	5,222	1,644	31.5 %	4	0.1 %
Liabilities							
Current liabilities	67,899	63,895	58,090	4,004	6.3 %	5,805	10.0 %
Long-term liabilities	439,914	460,984	465,627	(21,070)	(4.6)%	(4,643)	(1.0)%
Total liabilities	507,813	524,879	523,717	(17,066)	(3.3)%	1,162	0.2 %
Deferred inflows of resources	82,536	79,922	95,889	2,614	3.3 %	(15,967)	(16.7)%
Net position							
Net investment in capital assets	885,717	810,148	727,082	75,569	9.3 %	83,066	11.4 %
Restricted	426,447	399,411	398,638	27,036	6.8 %	773	0.2 %
Unrestricted	170,067	149,742	122,178	20,325	13.6 %	27,564	22.6 %
Total net position	$ 1,482,231	$ 1,359,301	$ 1,247,898	$ 122,930	9.0 %	$ 111,403	8.9 %

Deferred inflows of resources increased significantly in fiscal year 2022 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. At June 30, 2024, 2023 and 2022, the Harbors Division reported $65.5 million, $59.8 million and $65.2 million, respectively, in deferred inflows, associated with its leasing arrangements.

Net Position

The largest portion of the Harbors Division's net position (59.8%, 59.6% and 58.3% at June 30, 2024, 2023 and 2022, 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 (28.8%, 29.4% and 31.9% at June 30, 2024, 2023 and 2022, 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 (11.4%, 11.0% and 9.8% at June 30, 2024, 2023 and 2022, respectively) may be used to meet any of the Harbors Division's ongoing operations or to fund capital improvement projects and up to legislative appropriation limits and other policy restrictions.

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 $1,482.2 million at June 30, 2024, an increase in net position of $122.9 million or 9.0% from fiscal year 2023. Net position amounted to $1,359.3 million at June 30, 2023, an increase in net position of $111.4 million or 8.9% from fiscal year 2022.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2024 and 2023, the Harbors Division had $1,278.3 million and $1,226.8 million, respectively, invested in capital assets as shown below. There was a net increase (additions, deductions and depreciation) of $51.5 million or 4.2% in fiscal year 2024 from the prior year. As of June 30, 2023 and 2022, the Harbors Division had $1,226.8 million and $1,154.9 million, respectively, invested in capital assets as shown below. There was a net increase (additions, deductions and depreciation) of $72.0 million or 6.2% in 2023 from the prior year.

Capital Assets
As of June 30, 2024, 2023 and 2022
(in thousands)

	As of June 30			2024–2023		2023–2022	
	2024	2023	2022	Increase (Decrease)	% Change	Increase (Decrease)	% Change
Land and land improvements	$ 660,051	$ 651,910	$ 649,952	$ 8,141	1.2 %	$ 1,958	0.3 %
Wharves	360,689	357,199	352,342	3,490	1.0 %	4,857	1.4 %
Other improvements	173,647	156,074	154,295	17,573	11.3 %	1,779	1.2 %
Buildings	156,347	150,258	148,537	6,089	4.1 %	1,721	1.2 %
Equipment and software	35,389	34,454	33,526	935	2.7 %	928	2.8 %
Total at cost	1,386,123	1,349,895	1,338,652	36,228	2.7 %	11,243	0.8 %
Less: Accumulated depreciation	(621,903)	(584,219)	(546,161)	(37,684)	6.5 %	(38,058)	7.0 %
	764,220	765,676	792,491	(1,456)	(0.2)%	(26,815)	(3.4)%
Construction in progress	514,117	461,158	362,367	52,959	11.5 %	98,791	27.3 %
Total capital assets, net	$ 1,278,337	$ 1,226,834	$ 1,154,858	$ 51,503	4.2 %	$ 71,976	6.2 %

Depreciation expense amounted to $37.7 million and $38.2 million for the fiscal years 2024 and 2023, respectively, a decrease of $0.5 million or 1.3%. For fiscal years 2023 and 2022, depreciation expense amounted to $38.2 million and $38.4 million, respectively, a decrease of $0.2 million or 0.6%.

Major capital asset additions to the Harbor System for the year ended June 30, 2024 included the following projects:

- $16.1 million Utilities Improvements at Piers 24-28, Honolulu Harbor, Oahu Island
- $5.2 million Replace All ACM Panels of Shed, Port Allen Harbor, Kauai Island
- $2.3 million Substructure and Waterline Repairs at Pier 2, Honolulu Harbor, Oahu Island
- $1.7 million Pavement Repairs at Various Locations, Honolulu Harbor, Oahu Island
- $1.5 million Substructure Repairs at Pier 36, Phase 2, Honolulu Harbor, Oahu Island
- $1.0 million Fender and Substructure Repairs at Pier 9, Honolulu Harbor, Oahu Island
- $809,000 Pavement Repairs at Various Container Yards, Honolulu Harbor, Oahu Island
- $734,000 Repair Waterline at Pier 29, Honolulu Harbor, Oahu Island
- $666,000 Substructure and Structural Repairs at Pier 3, Kahului Harbor, Maui Island
- $655,000 Demolition of Wood Wharf and Electrical Repairs at Pier 18, Honolulu Harbor, Oahu Island
- $590,000 Trench Repairs at Pier 5, Kalaeloa Barbers Point Harbor, Oahu Island
- $570,000 Repairs at Kaunakakai Harbor, Molokai 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 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 building a new overseas container yard of approximately 66 acres of pavement, installation of new infrastructure (water, sewer and electrical), fencing, retaining walls, lighting, pavement markings, and signage. Phase 1 was substantially complete as of December 2020. Although Phase 1 is substantially complete, there are various portions of the Phase 1 project pending coordination to complete the civil and structural construction with Phase 2.

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 1,701 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. KCT Phase 2 project will address sea level rise by increasing the pier height more than two feet and will match the Phase 1 elevated backlands in construction. The project construction is moving forward and is still slated for completion by or before July 31, 2025. Phase 1 and Phase 2 of the KCT 2 project will systematize cargo transfers between KCT as the new overseas terminal and Piers 39-40, the Inter-Island Terminal. The inter-terminal transfers will significantly reduce the weekly number of semi-trailers drayed over two miles from the Sand Island Terminal to the Inter-Island Terminal. Traffic congestion will be reduced. Design and permitting to construct a hardened roadway connection between the new overseas container terminal and the Inter-Island terminal has started. The connection will improve efficiency in the transfer of cargo to the neighbor island ports.

- $4.3 million Demolition of Water Tower and Other Related Water System Improvements, Hilo Harbor, Hawaii Island
- $3.1 million Demolition Quonset Hut, Hilo Harbor, Hawaii Island
- $2.6 million Relocation of Maui District Maintenance Facility, Kahului Harbor, Maui Island
- $1.2 million Pier 2 Drainage, Kawaihae Harbor, Hawaii island
- $1.0 million Infrastructure Improvements at Pier 3 Facility, Nawiliwili Harbor, Kauai Island

Major capital asset additions to the Harbor System for the year ended June 30, 2023 included the following projects:

- $1.1 million Substructure and Fender repairs at Pier 27, Honolulu Harbor, Oahu Island
- $1.5 million Substructure and Waterline repairs at Pier 8, Honolulu Harbor, Oahu Island
- $1.4 million Substructure and Fender repairs at Pier 1, Hilo Harbor, Hawaii Island
- $384,000 Substructure repairs at Kaunakakai Harbor, Molokai Island
- $236,000 Concrete and Expansion Joint repairs at Kawaihae Harbor, Hawaii Island
- $174,000 Concrete Deck repairs at Pier 2, Kawaihae Harbor, Hawaii Island
- $367,000 Roof and Downspout repairs at Pier 10 shed, Honolulu Harbor, Oahu Island
- $588,000 Roof repair at Pier 1 shed, Kahului Harbor, Maui Island
- $420,000 Restroom at Maintenance Shop repair, Hilo Harbor, Hawaii Island

- $435,000 Emergency Generator Fuel Tank replacement at Pier 2 terminal, Honolulu Harbor, Oahu Island
- $302,000 Sewer Lift Station repairs at Pier 3, Nawiliwili Harbor, Kauai Island

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

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" dated March 1, 1997 (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, 2024, 2023 and 2022, outstanding Harbor System revenue bonds amounted to $314.1 million, $329.2 million and $349.5 million, respectively.

The Harbors Division executed a contract with BofA Securities, Inc. on November 19, 2020 to underwrite a total of $266,550,000 of 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, 2024, 2023 and 2022, outstanding reimbursable general obligation bonds amounted to $8.1 million, $11.0 million and $13.7 million, respectively. There have been no issuances of reimbursable general obligation bonds to finance the harbor and waterfront improvements during fiscal years 2024, 2023 and 2022.

Additional information regarding the Harbors Division's indebtedness can be found in Notes 6, 7, 8, 9 and 10 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, 2024, 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, 2024 was 6.97 under the 1997 Certificate, as compared to the ratio of 5.66 as of June 30, 2023 and 5.71 as of June 30, 2022.

Federal Grant

During November 2023, the U.S. Department of Transportation Maritime Administration awarded an approximate $23.5 million Port Infrastructure Development Program grant to Harbors Division for improvements to the Port of Kawaihae that will enhance operational efficiency and help reduce highway traffic congestion. The execution of the grant agreements continues to make progress.

Temporary Hazard Pay

The Hawaii Government Employees Association and the State settled on a hazard pay agreement for unionized workers affected by the COVID-19 pandemic. The settlement covers white collar state employees who worked in-person from March 4, 2020 through March 25, 2022. Employees who were physically at work 420 days or more during the period March 4, 2020 through March 25, 2022 were entitled to $20,000, and employees who worked less than 420 days day in-person during that period and also worked from home were eligible to receive $10,000. Both tiers would be paid in two installments, October 5, 2024 and March 5, 2025.

Request for Information

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Assets		
Current assets		
Cash and cash equivalents	$ 225,635,676	$ 226,628,840
Trade receivable, less allowance for doubtful accounts of $5,943,251 and $5,276,607 in 2024 and 2023, respectively	38,796,324	20,064,673
Lease receivable, less provision for doubtful accounts of $280,183 and $252,083 in 2024 and 2023, respectively	4,856,736	4,183,151
Interest receivable	2,079,164	1,978,123
Due from other State agencies	1,010,488	1,087,255
	272,378,388	253,942,042
Restricted assets		
Cash and cash equivalents – restricted for debt service payments and reserve requirements	35,553,343	35,291,719
Total current assets	307,931,731	289,233,761
Noncurrent assets		
Cash and cash equivalents – restricted for		
Capital improvement projects	396,754,101	369,979,968
Other	18,370,138	14,676,278
	415,124,239	384,656,246
Capital assets		
Nondepreciable assets	314,915,039	314,259,812
Depreciable assets, net	449,304,922	451,416,444
Construction-in-progress	514,117,022	461,158,211
Total capital assets, net	1,278,336,983	1,226,834,467
Lease receivable, less provision for doubtful accounts of $4,781,619 and $5,061,793 in 2024 and 2023, respectively	64,317,256	58,151,890
Total noncurrent assets	1,757,778,478	1,669,642,603
Total assets	2,065,710,209	1,958,876,364
Deferred Outflows of Resources		
Related to pension	1,738,393	1,697,213
Related to other postemployment benefits	4,529,720	2,742,332
Deferred charge on refunding, net	601,940	786,790
Total deferred outflows of resources	$ 6,870,053	$ 5,226,335

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statements of Net Position
June 30, 2024 and 2023

	2024	2023
Liabilities		
Current liabilities (payable from current assets)		
Accounts payable	$ 5,106,673	$ 5,280,039
Contracts payable, including retainages	4,203,114	2,011,157
Financed purchase obligation	1,536,788	1,396,064
Accrued interest payable – financed purchase obligation	405,358	434,047
Accrued workers' compensation	162,613	99,050
Accrued vacation	921,169	848,759
Due to other State agencies	5,195,283	5,214,946
Other current liabilities	2,310,000	-
	19,840,998	15,284,062
Current liabilities (payable from restricted assets)		
Contracts payable, including retainages	19,406,405	20,330,582
Revenue bonds payable, current maturities	19,484,492	19,096,293
General obligation bonds payable, current maturities	2,976,657	2,835,218
Accrued interest payable – revenue bonds	6,190,193	6,348,569
	48,057,747	48,610,662
Total current liabilities	67,898,745	63,894,724
Long-term liabilities		
Accrued workers' compensation	2,146,613	1,424,078
Net pension liability	41,789,075	39,326,492
Net other postretirement benefits liability	32,216,318	32,442,488
Long-term debt, less current maturities		
Revenue bonds payable, net	332,335,196	351,819,688
General obligation bonds payable	5,153,959	8,130,615
Financed purchase obligation	18,188,658	19,725,446
Accrued vacation	2,064,793	1,943,212
Security deposits	4,215,486	4,369,316
Other long-term liabilities	1,803,418	1,803,418
Total long-term liabilities	439,913,516	460,984,753
Total liabilities	507,812,261	524,879,477
Deferred Inflows of Resources		
Related to pension	12,206,699	14,523,509
Related to other postemployment benefits	4,822,952	5,555,228
Related to leases	65,506,813	59,843,222
Total deferred inflows of resources	82,536,464	79,921,959
Net Position		
Net investment in capital assets	885,717,145	810,147,740
Restricted – revenue bond requirements	35,553,343	35,291,719
Restricted – for capital improvement projects	390,893,713	364,119,580
Unrestricted	170,067,336	149,742,224
Total net position	$ 1,482,231,537	$ 1,359,301,263

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2024 and 2023

	2024	2023
Operating revenues, net		
Services	$ 185,177,418	$ 178,400,143
Leases	35,281,314	34,261,597
Others	2,432,049	2,485,062
	222,890,781	215,146,802
Operating expenses		
Depreciation	37,683,706	38,172,316
Personnel services	24,506,160	28,284,364
Harbor operations and maintenance	28,148,997	25,169,013
State of Hawaii surcharge for central service expenses	8,226,340	9,185,512
General administration	4,598,370	4,050,415
Department of Transportation general administration expenses	2,427,064	1,769,754
	105,590,637	106,631,374
Operating income	117,300,144	108,515,428
Nonoperating revenues (expenses), net		
Interest expense	(9,685,966)	(11,223,608)
Interest income	19,590,062	12,458,944
Lease interest income	2,043,140	1,840,572
Loss on disposal of capital assets	(7,765,969)	(217,370)
	4,181,267	2,858,538
Income before capital contributions	121,481,411	111,373,966
Capital contributions	1,448,863	29,338
Change in net position	122,930,274	111,403,304
Net position		
Beginning of year	1,359,301,263	1,247,897,959
End of year	$ 1,482,231,537	$ 1,359,301,263

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities		
Cash received from customers	$ 204,873,079	$ 214,536,192
Cash paid to suppliers	(41,348,534)	(40,259,496)
Cash paid to employees	(23,794,035)	(21,158,130)
Net cash provided by operating activities	139,730,510	153,118,566
Cash flows from capital and related financing activities		
Capital contributions	1,448,863	29,338
Acquisition and construction of capital assets	(97,876,369)	(99,998,231)
Principal paid on bonds	(17,925,218)	(22,970,654)
Interest paid on bonds and financed purchase obligation	(13,734,290)	(15,187,988)
Principal paid on financed purchase obligation	(1,396,064)	(1,263,928)
Net cash used in capital and related financing activities	(129,483,078)	(139,391,463)
Cash flows provided by investing activities		
Interest received	19,489,021	10,938,071
Net increase in cash and cash equivalents	29,736,453	24,665,174
Cash and cash equivalents		
Beginning of year	646,576,805	621,911,631
End of year	$ 676,313,258	$ 646,576,805

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

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Statements of Cash Flows
Years Ended June 30, 2024 and 2023

	2024	2023
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 117,300,144	$ 108,515,428
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	37,683,706	38,172,316
Provision for (recovery of) doubtful accounts	666,644	(1,114,810)
Amortization of the discount on the lease receivable	2,043,140	1,840,572
Changes in operating assets, deferred outflows, liabilities, and deferred inflows		
Trade receivable	(19,321,528)	(1,360,585)
Lease receivable	(6,838,951)	4,042,719
Deferred outflows of resources	(1,828,568)	(236,342)
Payables	2,018,591	(1,686,422)
Other current liabilities	2,310,000	-
Accrued workers' compensation	786,098	306,140
Accrued vacation	193,991	(56,601)
Due to other State agencies	20,155	2,183,572
Security deposits	(153,830)	564,785
Net pension liability	2,462,583	20,130,940
Net other postretirement benefits liability	(226,170)	(2,215,486)
Deferred inflows of resources	2,614,505	(15,967,660)
Net cash provided by operating activities	$ 139,730,510	$ 153,118,566
Supplemental disclosure of noncash capital and related financing activities		
Amounts included in contracts payable for the acquisition of capital assets	$ 19,406,405	$ 20,330,582
Amortization of bond premium, discount, and deferred charge on refunding	(3,821,442)	(3,685,677)

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" or "DOT"). Effective July 1, 1961, all functions and powers to administer, control and supervise all State of Hawaii (the "State") harbors and water navigational facilities were assigned to the 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 Harbors Division'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 operations 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:

	Estimated 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 and its proprietary fund financial statements. The Harbors Division recognizes lease liabilities with an initial, individual value of $100,000 or more for land and building leases and $25,000 or more for equipment and others, 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 statements of net position. The Harbors Division did not have any leases as lessee that exceeded the capitalization threshold at June 30, 2024 and 2023.

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.

Subscription-Based Information Technology Arrangements ("SBITA")

The Harbors Division has a policy to recognize a subscription liability and a right-to-use subscription asset ("subscription asset") in the financial statements. The Harbors Division recognizes subscription liabilities with an initial, individual value of $500,000 or more with a subscription term greater than one year. Variable payments based on future performance of the Harbors Division or, usage of the underlying IT asset, or number of user seats are not included in the measurement of the subscription liability, rather, those variable payments are recognized as outflows of resources (expenses) in the period the obligation for those payments is incurred.

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

Subscription assets are recorded at the amount of the initial measurement of the subscription liabilities, plus any payments made to the SBITA vendor before the commencement of the subscription term and capitalizable initial implementation cost, less any incentives received from the SBITA vendor at or before the commencement of the subscription term.

Costs associated with a SBITA, other than the subscription payments, are accounted for as follows:

- **Preliminary project stage** – Outlays are expensed as incurred.

- **Initial implementation stage** – Outlays are capitalized as an addition to the subscription asset.

- **Operation and additional implementation stage** – Outlays are expensed as incurred unless they meet specific capitalization criteria.

Subscription assets are reported in capital assets and subscription liabilities are reported with long-term liabilities on the statements of net position.

Subscription assets are amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT asset, unless the subscription contains a purchase option that the State has determined is reasonably certain of being exercised. In this case, the subscription asset is amortized over the useful life of the underlying IT asset.

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

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

- The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the State is reasonably certain to exercise.

- The Harbors Division monitors changes in circumstances that would require a remeasurement of its subscription liability.

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 statements of net position. Amortization of debt premium is included in interest expense in the statements 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 $602,000 and $787,000 at June 30, 2024 and 2023, respectively, and is reported as a deferred outflows of resources in the statements of net position.

Deferred Outflows of Resources and Deferred Inflows of Resources
Deferred outflows (inflows) of resources represent a consumption of (benefit to) net assets 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 inflows of resources and deferred outflows of resources, respectively, which are 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 provision for and recovery of bad debts for the years ended June 30, 2024 and 2023 was approximately $667,000 and $1,115,000, respectively. Operating revenues also exclude revenues related to capital and related financing activities, noncapital financing activities, and investing activities.

The Harbors Division has pledged its future operating revenues, net of certain operating expenses, for fiscal year 2024, to repay $314,090,000 and, for fiscal year 2023, $329,180,000 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 $420,701,000 and $448,407,000 as of June 30, 2024 and 2023, respectively. 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 $27,706,000 and $152,343,000, respectively, for the year ended June 30, 2024 and approximately $33,245,000 and $153,742,000, respectively, for the year ended June 30, 2023.

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

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

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

Pension

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

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.

Newly Issued Accounting Pronouncements

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 were effective immediately while other requirements are effective for fiscal years beginning after June 15, 2022 and June 15, 2023, respectively. The requirements of this Statement did not have a material effect on the Harbors Division's 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 were effective for the Harbors Division's fiscal year ended June 2024 but did not have a material effect on the Harbors Division's 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.

GASB Statement No. 102
The GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of the Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2024. The Harbors Division has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 103
The GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. The Harbors Division has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 104
The GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The primary objective of this Statement is to improve users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. 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, 2024 and 2023 consisted of the following:

	2024	2023
Amounts held in State Treasury	$ 673,627,239	$ 644,195,408
Petty cash and other	2,686,019	2,381,397
	$ 676,313,258	$ 646,576,805

Such amounts are reflected in the statements of net position at June 30, 2024 and 2023 as follows:

	2024	2023
Current assets		
Unrestricted	$ 225,635,676	$ 226,628,840
Restricted		
Revenue bond debt service payments	21,700,193	21,438,569
Revenue bond cash reserve requirements	13,853,150	13,853,150
Noncurrent assets		
Restricted		
Capital improvement projects		
Construction – special purpose funds	390,893,713	364,119,580
Construction – revenue bonds	5,860,388	5,860,388
Other bond reserve requirements and security deposits	18,370,138	14,676,278
	$ 676,313,258	$ 646,576,805

4. Capital Assets

Capital asset activity for the years ended June 30, 2024 and 2023 was as follows:

	Balance July 1, 2023	Additions	Deductions	Balance June 30, 2024
Nondepreciable assets				
Land and land improvements	$ 314,259,812	$ 655,227	$ -	$ 314,915,039
Depreciable assets				
Land improvements	337,650,503	7,485,834	-	345,136,337
Wharves	357,199,499	3,489,038	-	360,688,537
Other improvements	156,073,759	17,573,138	-	173,646,897
Buildings	150,257,812	6,096,922	(8,091)	156,346,643
Equipment and software	34,453,963	935,343	-	35,389,306
Total capital assets being depreciated	1,035,635,536	35,580,275	(8,091)	1,071,207,720
Less: Accumulated depreciation for				
Land improvements	177,882,851	11,833,162	-	189,716,013
Wharves	218,216,144	10,697,764	-	228,913,908
Other improvements	96,299,576	7,432,448	-	103,732,024
Buildings	69,286,085	4,735,460	-	74,021,545
Equipment and software	22,534,436	2,984,872		25,519,308
Total accumulated depreciation	584,219,092	37,683,706	-	621,902,798
Construction in progress	461,158,211	96,302,585	(43,343,774)	514,117,022
Total capital assets, net	$1,226,834,467	$ 94,854,381	$ (43,351,865)	$1,278,336,983

	Balance July 1, 2022	Additions	Deductions	Balance June 30, 2023
Nondepreciable assets				
Land and land improvements	$ 314,259,812	$ -	$ -	$ 314,259,812
Depreciable assets				
Land improvements	335,692,589	1,957,914	-	337,650,503
Wharves	352,341,541	4,857,958	-	357,199,499
Other improvements	154,295,294	1,778,465	-	156,073,759
Buildings	148,536,790	1,721,022	-	150,257,812
Equipment and software	33,525,778	1,041,926	(113,741)	34,453,963
Total capital assets being depreciated	1,024,391,992	11,357,285	(113,741)	1,035,635,536
Less: Accumulated depreciation for				
Land improvements	165,787,225	12,095,626	-	177,882,851
Wharves	207,269,195	10,946,949	-	218,216,144
Other improvements	88,799,053	7,500,523	-	96,299,576
Buildings	64,693,346	4,592,739	-	69,286,085
Equipment and software	19,611,698	3,036,479	(113,741)	22,534,436
Total accumulated depreciation	546,160,517	38,172,316	(113,741)	584,219,092
Construction in progress	362,367,070	109,393,954	(10,602,813)	461,158,211
Total capital assets, net	$1,154,858,357	$ 82,578,923	$ (10,602,813)	$1,226,834,467

Depreciation expense amounted to $37,683,706 and $38,172,316 for the years ended June 30, 2024 and 2023, respectively.

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 years ended June 30, 2024 and 2023, the Harbors Division recognized approximately $4,763,000 and $4,387,000, respectively, in lease revenue for variable payments not previously included in measurement of the lease receivable.

A summary of changes in lease receivable for the years ended June 30, 2024 and 2023 is as follows:

	Balance July 1, 2023	Addition	Deletion	Balance June 30, 2024	Due Within One Year	Due in More than One Year
June 30, 2024	$ 62,335,041	$ 11,633,328	$ (4,794,377)	$ 69,173,992	$ 4,856,736	$ 64,317,256

	Balance July 1, 2022	Addition	Deletion	Balance June 30, 2023	Due Within One Year	Due in More than One Year
June 30, 2023	$ 66,377,760	$ 161,926	$ (4,204,645)	$ 62,335,041	$ 4,183,151	$ 58,151,890

Lease receivables are due in the upcoming years as follows:

	Principal	Interest	Total
Years ending June 30,			
2025	$ 4,856,736	$ 2,102,405	$ 6,959,141
2026	5,282,555	2,101,534	7,384,089
2027	5,400,169	1,840,703	7,240,872
2028	5,545,050	1,667,394	7,212,444
2029	4,191,084	1,491,844	5,682,928
2030–2034	16,888,222	5,515,134	22,403,356
2035–2039	8,761,252	3,287,182	12,048,434
2040–2044	5,481,384	2,265,756	7,747,140
2045–2049	6,146,322	1,421,240	7,567,562
2050–2054	4,840,055	542,804	5,382,859
2055–2059	1,781,163	114,264	1,895,427
	$ 69,173,992	$ 22,350,260	$ 91,524,252

6. Long-Term Liabilities

The changes in long-term liabilities for the years ended June 30, 2024 and 2023 were as follows:

	Balance July 1, 2023	Additions	Deductions	Balance June 30, 2024	Current	Noncurrent
Accrued workers' compensation	$ 1,523,128	$ 948,711	$ 162,613	$ 2,309,226	$ 162,613	$ 2,146,613
Accrued vacation	2,791,971	1,766,043	1,572,052	2,985,962	921,169	2,064,793
Financed purchase obligation	21,121,510	-	1,396,064	19,725,446	1,536,788	18,188,658
Security deposits	4,369,316	701,369	855,199	4,215,486	-	4,215,486
Other long-term liabilities	1,803,418	-	-	1,803,418	-	1,803,418
Net pension liability	39,326,492	5,844,701	3,382,118	41,789,075	-	41,789,075
Net other postretirement benefits liability	32,442,488	1,348,264	1,574,434	32,216,318	-	32,216,318
General obligation bonds	10,965,833	-	2,835,217	8,130,616	2,976,657	5,153,959
Revenue bonds	329,180,000	-	15,090,000	314,090,000	15,510,000	298,580,000
Unamortized bond premium, net	41,735,981	-	4,006,293	37,729,688	3,974,492	33,755,196
Revenue bonds, net	370,915,981	-	19,096,293	351,819,688	19,484,492	332,335,196
	$ 485,260,137	$ 10,609,088	$ 30,873,990	$ 464,995,235	$ 25,081,719	$ 439,913,516

	Balance July 1, 2022	Additions	Deductions	Balance June 30, 2023	Current	Noncurrent
Accrued workers' compensation	$ 1,216,988	$ 405,190	$ 99,050	$ 1,523,128	$ 99,050	$ 1,424,078
Accrued vacation	2,848,572	1,450,690	1,507,291	2,791,971	848,759	1,943,212
Financed purchase obligation	22,385,438	-	1,263,928	21,121,510	1,396,064	19,725,446
Security deposits	3,804,531	1,459,859	895,074	4,369,316	-	4,369,316
Other long-term liabilities	1,803,418	-	-	1,803,418	-	1,803,418
Net pension liability	19,195,552	23,571,343	3,440,403	39,326,492	-	39,326,492
Net other postretirement benefits liability	34,657,974	1,128,408	3,343,894	32,442,488	-	32,442,488
General obligation bonds	13,666,487	-	2,700,654	10,965,833	2,835,218	8,130,615
Revenue bonds	349,450,000	-	20,270,000	329,180,000	15,090,000	314,090,000
Unamortized bond premium, net	45,653,815	-	3,917,834	41,735,981	4,006,293	37,729,688
Revenue bonds, net	395,103,815	-	24,187,834	370,915,981	19,096,293	351,819,688
	$ 494,682,775	$ 28,015,490	$ 37,438,128	$ 485,260,137	$ 24,275,384	$ 460,984,753

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.

The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2024:

Year of Issue	Final Redemption Date	Interest Rate	Original Amount of Issue	Current: Principal Due July 1, 2024	Current: Principal Due January 1, 2025	Total Current	Noncurrent
2013	July 1, 2029	3.25%	$ 23,615,000	$ 1,065,000	$ -	$ 1,065,000	$ 5,895,000
2016	January 1, 2031	2.46 – 3.09%	90,960,000	3,400,000	5,725,000	9,125,000	48,605,000
2020	July 1, 2040	0.60 – 5.00%	266,550,000	5,320,000	-	5,320,000	244,080,000
			$ 381,125,000	$ 9,785,000	$ 5,725,000	15,510,000	298,580,000
				Unamortized premium, net		3,974,492	33,755,196
						$ 19,484,492	$ 332,335,196

The following is a summary of the Revenue Bonds issued and outstanding at June 30, 2023:

Year of Issue	Final Redemption Date	Interest Rate	Original Amount of Issue	Current: Principal Due July 1, 2023	Current: Principal Due January 1, 2024	Total Current	Noncurrent
2013	July 1, 2029	3.25%	$ 23,615,000	$ 1,035,000	$ -	$ 1,035,000	$ 6,960,000
2016	January 1, 2031	1.99 – 3.09%	105,525,000	2,865,000	6,685,000	9,550,000	57,730,000
2020	July 1, 2040	0.60 – 5.00%	266,550,000	4,505,000	-	4,505,000	249,400,000
			$ 395,690,000	$ 8,405,000	$ 6,685,000	15,090,000	314,090,000
				Unamortized premium, net		4,006,293	37,729,688
						$ 19,096,293	$ 351,819,688

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

	Principal	Interest	Total
Years ending June 30,			
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	17,245,000	10,457,769	27,702,769
2029	17,935,000	9,770,049	27,705,049
2030-2034	101,945,000	36,580,250	138,525,250
2035-2039	107,745,000	14,014,500	121,759,500
2040-2041	21,045,000	850,100	21,895,100
	$ 314,090,000	$ 106,611,309	$ 420,701,309

The debt service requirements reflect the sum of the amounts to be paid in accordance with the repayment schedules of the bonds issued. Principal and interest payments are required to be funded in the twelve-month and six-month periods, respectively, preceding the date on which the payments are due. Accordingly, the debt service requirements include reserves of approximately $21,700,000 as of June 30, 2024 for principal payments of $9,785,000 and $5,725,000 due on July 1, 2024 and January 1, 2025, respectively, and for interest payments of approximately $6,190,000 due on July 1, 2024.

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 $27,706,000. Net revenues of the Public Undertaking, as defined by the 1997 Certificate, approximated to $193,100,000 or 6.97 times the minimum net revenue requirement for the year ended June 30, 2024 and $188,124,000 or 5.66 times the minimum net revenue requirement for the year ended June 30, 2023.

Harbor Revenue 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, 2024 and 2023.

(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, 2024 and 2023.

(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, 2024 and 2023, outstanding reimbursable general obligation bonds amounted to approximately $8,131,000 and $10,966,000, respectively.

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

	Principal	Interest	Total
Years ending June 30,			
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	893,484	43,869	937,353
	$ 8,130,616	$ 804,234	$ 8,934,850

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 $19,725,000 and $21,122,000 at June 30, 2024 and 2023, respectively. 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 included 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, 2024 and 2023.

Future minimum commitments are as follows:

	Principal	Interest	Total
Years ending June 30,			
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	2,015,497	401,577	2,417,074
2029	2,195,713	346,352	2,542,065
2030–2033	10,444,882	729,657	11,174,539
	$ 19,725,446	$ 2,968,589	$ 22,694,035

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 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. The contribution rate for fiscal years 2024 and 2023 applicable to Harbors Division was 24%. Contributions to the pension plan from the Harbors Division approximated $3,459,000 and $3,382,000 for the years ended June 30, 2024 and 2023, respectively.

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. Contributory members hired after June 30, 2012 are required to contribute 9.8% 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, 2024 and 2023, the Harbors Division reported liabilities of approximately $41,789,000 and $39,326,000, respectively, for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2023 and 2022 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 the June 30, 2023 and 2022 measurement date, the Harbors Division's proportionate share of the State's net pension liability was 0.53%.

There were no changes in actuarial assumptions as of June 30, 2022 to June 30, 2023. There were no changes between the measurement date, June 30, 2023, and the reporting date, June 30, 2024, that are expected to have a significant effect on the proportionate share of the net pension liability.

The following changes were made to the actuarial assumptions as of June 30, 2021 to June 30, 2022:

- The administrative expenses assumption was increased from 0.35% to 0.40%.

- The general wage inflation assumption represents the average increase in wages in the general economy and is used to index salaries for each cohort of new entrants in projections. The general productivity component of the general wage inflation assumption for general employees decreased from 1.00% to 0.50%, and now yields a nominal assumption of 3.00%.

- The assumed salary increase schedules increased for all employees. These schedules included an ultimate component for general wage inflation that may add on additional increases for individual merit (which would include promotions) and then an additional component for step rates based on service. The schedules of assumed salary increase, that are the same, for general employees increased to 4.66% from 4.41%.

- Retiree mortality was updated to the 2022 Public Retirees of Hawaii mortality tables. The rates are projected on a fully generational basis by the long-term rates of scale UMP from the year 2022 and with multiplier and setbacks based on plan and group experience.

For the years ended June 30, 2024 and 2023, the Harbors Division recognized pension expense of approximately $105,000 and $11,003,000, respectively. At June 30, 2024 and 2023, 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
2024		
Difference between actual and expected experience	$ 1,194,118	$ 2,056,818
Net difference between projected and actual earnings on pension plan investments	-	8,453,357
Changes of assumptions	(3,513,826)	1,720,471
Changes in proportion and differences between employer contributions and proportionate share of contributions	598,961	(23,947)
Contributions subsequent to the measurement date	3,459,140	-
	$ 1,738,393	$ 12,206,699
2023		
Difference between actual and expected experience	$ 1,087,844	$ 2,195,588
Net difference between projected and actual earnings on pension plan investments	-	10,503,563
Changes of assumptions	(3,472,141)	1,835,715
Changes in proportion and differences between employer contributions and proportionate share of contributions	699,393	(11,357)
Contributions subsequent to the measurement date	3,382,117	-
	$ 1,697,213	$ 14,523,509

At June 30, 2024 and 2023, respectively, approximately $3,459,000 and $3,382,000 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 subsequent fiscal year.

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,	
2025	$ 3,763,201
2026	15,747,761
2027	(23,110,424)
2028	(10,004,246)
2029	(323,738)
	$ (13,927,446)

Actuarial Assumptions

The total pension liability in the June 30, 2023 and 2022 actuarial valuations was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on August 8, 2022, based on the 2021 Experience Study for the five-year period from July 1, 2016 through June 30, 2021:

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 2022 Public Retirees of Hawaii mortality table with 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 plus inflation) by the target asset allocation percentage. The rate of returns based on ERS's investment consultant as of June 30, 2023 and 2022 is summarized in the following tables:

June 30, 2023

Strategic allocation (risk-based classes)	Target Allocation	Long-Term Expected Geometric Rate of Return
Broad growth		
Private equity	13.5 %	10.0%
Global equity	20.0 %	7.9%
Low volatile equity	4.0 %	7.1%
Global options	4.0 %	5.8%
Credit	6.0 %	8.0%
Core real estate	6.0 %	6.0%
Non-core real estate	4.5 %	7.9%
Timber/agriculture/infrastructure	5.0 %	7.2%
Diversifying strategies		
TIPS	2.0 %	3.2%
Global macro	4.0 %	6.0%
Reinsurance	4.0 %	7.0%
Alternative risk premia	8.0 %	5.0%
Long treasuries	5.0 %	3.8%
Intermediate government	4.0 %	3.2%
Systematic trend following	10.0 %	4.7%
Total investments	100.0 %	

June 30, 2022

Strategic allocation (risk-based classes)	Target Allocation	Long-Term Expected Geometric Rate of Return
Broad growth		
Private equity	13.5 %	11.0%
Global equity	20.0 %	8.5%
Low volatile equity	4.0 %	7.8%
Global options	4.0 %	6.4%
Credit	6.0 %	7.7%
Core real estate	6.0 %	6.4%
Non-core real estate	4.5 %	9.5%
Timber/agriculture/infrastructure	5.0 %	8.3%
Diversifying strategies		
TIPS	2.0 %	3.3%
Global macro	4.0 %	5.4%
Reinsurance	4.0 %	6.4%
Alternative risk premia	8.0 %	5.4%
Long treasuries	5.0 %	3.8%
Intermediate government	4.0 %	3.2%
Systematic trend following	10.0 %	6.2%
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%)
2024			
Harbors Division's proportionate share of the net pension liability	$ 55,634,000	$ 41,789,000	$ 30,323,000
2023			
Harbors Division's proportionate share of the net pension liability	$ 52,738,000	$ 39,326,000	$ 28,224,000

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, 2024 and 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, 2023, the following number of plan members for the State was covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	40,136
Inactive plan members entitled to but not yet receiving benefits	7,520
Active plan members	48,709
Total plan members	96,365

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 $3,270,000 and $1,574,000 for the years ended June 30, 2024 and 2023, respectively. The Harbors Division is required to make all contributions for members.

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

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

At June 30, 2024 and 2023, the Harbors Division reported a net OPEB liability of approximately $32,216,000 and $32,442,000, respectively. The net OPEB liability was measured as of July 1, 2023 and 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates.

At June 30, 2024 and 2023, the Harbors Division's proportionate share of the State's net OPEB liability was 0.48% and 0.47%, respectively, which was an increase of 0.01% from its proportion measured as of June 30, 2022.

There were no changes between the measurement dates, July 1, 2023 and 2022, and the reporting dates, June 30, 2024 and 2023, respectively, that are expected to have a significant effect on the Harbors Division's proportionate share of the State's net OPEB liability.

For the years ended June 30, 2024 and 2023, the Harbors Division recognized OPEB credit and expense of approximately $2,746,000 and $1,007,000, respectively. At June 30, 2024 and 2023, 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
2024		
Differences between expected and actual experience	$ -	$ 4,129,227
Changes in assumptions	203,605	693,725
Net differences between projected and actual earnings on OPEB plan investments	1,056,018	-
Contributions subsequent to the measurement date	3,270,097	-
	$ 4,529,720	$ 4,822,952
2023		
Differences between expected and actual experience	$ -	$ 4,755,082
Changes in assumptions	261,599	800,146
Net differences between projected and actual earnings on OPEB plan investments	906,299	-
Contributions subsequent to the measurement date	1,574,434	-
	$ 2,742,332	$ 5,555,228

At June 30, 2024 and 2023, respectively, approximately $3,270,000 and $1,574,000 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 subsequent fiscal year.

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,	
2025	$ (1,128,325)
2026	(1,213,976)
2027	(586,970)
2028	(596,039)
2029	(35,213)
Thereafter	(2,806)
	$ (3,563,329)

Actuarial Assumptions

The total OPEB liability in the July 1, 2023 and 2022 actuarial valuations was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 9, 2023, based on the experience study covering the five-year period ended June 30, 2022 as conducted for the ERS:

July 1, 2023	
Inflation	2.50%
Salary increases	3.75% to 6.75% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO*	Initial rate of 6.30%, declining to a rate of 4.25% after 21 years
HMO*	Initial rate of 6.30%, declining to a rate of 4.25% after 21 years
Part B and Base Contribution	Initial rate of 5.00%, declining to a rate of 4.25% after 21 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

July 1, 2022	
Inflation	2.50%
Salary increases	3.75% to 7.75% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO*	Initial rate of 6.40%, declining to a rate of 4.25% after 22 years
HMO*	Initial rate of 6.40%, declining to a rate of 4.25% after 22 years
Part B and Base Contribution	Initial rate of 5.00%, declining to a rate of 4.25% after 22 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 the July 1, 2023 and 2022 actuarial valuations are summarized in the following tables:

July 1, 2023

Strategic allocation (risk-based classes)	Target Allocation	Long-Term Expected Real Rate of Return
Private equity	15.00 %	10.00 %
U.S. microcap	3.00 %	8.70 %
Global equity	27.50 %	7.60 %
Global options	0.00 %	4.90 %
Real assets	12.00 %	4.30 %
Private credit	10.00 %	7.80 %
TIPS	5.00 %	2.00 %
Long treasuries	5.50 %	2.40 %
Reinsurance	5.00 %	3.40 %
Alternative risk premia	5.00 %	3.30 %
Trend following	10.00 %	2.40 %
Tail risk / long volatility	2.00 %	(1.10)%
Total investments	100.00 %	

July 1, 2022

Strategic allocation (risk-based classes)	Target Allocation	Long-Term Expected Real Rate of Return
Private equity	12.50 %	11.72 %
U.S. microcap	6.00 %	8.28 %
Global equity	27.50 %	6.62 %
Global options	5.00 %	4.45 %
Real assets	10.00 %	6.59 %
Private credit	8.00 %	6.38 %
TIPS	5.00 %	1.35 %
Long treasuries	6.00 %	2.32 %
Alternative risk premia	5.00 %	3.74 %
Trend following	10.00 %	4.53 %
Reinsurance	5.00 %	4.81 %
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. Therefore, the long-term expected rate of return on the EUTF's investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

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

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

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

The following table represents a schedule of changes in the net OPEB liability. The ending balances are as of the measurement dates, July 1, 2022 and 2023.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2022	$ 45,700,277	$ 11,042,303	$ 34,657,974
Service cost	687,707	-	687,707
Interest on the total OPEB liability	2,297,575	-	2,297,575
Difference between expected and actual experience	(3,108,515)	-	(3,108,515)
Changes of assumptions	(792,318)	-	(792,318)
Employer contributions	-	1,517,987	(1,517,987)
Net investment income	-	(219,772)	219,772
Benefit payments	(1,059,240)	(1,059,240)	-
Administrative expense	-	(909)	909
Other	-	2,629	(2,629)
Net changes	(1,974,791)	240,695	(2,215,486)
Balance at June 30, 2023	43,725,486	11,282,998	32,442,488
Service cost	414,435	-	414,435
Interest on the total OPEB liability	1,419,000	-	1,419,000
Difference between expected and actual experience	(139,602)	-	(139,602)
Employer contributions	-	1,574,434	(1,574,434)
Net investment income	-	344,633	(344,633)
Benefit payments	(789,186)	(789,186)	-
Administrative expense	-	(487)	487
Other	-	1,423	(1,423)
Net changes	904,647	1,130,817	(226,170)
Balance at June 30, 2024	$ 44,630,133	$ 12,413,815	$ 32,216,318

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:

2024	**1% Decrease (6.00%)**	**Discount Rate (7.00%)**	**1% Increase (8.00%)**
Harbors Division's proportionate share of the net OPEB liability	$ 40,286,000	$ 32,216,000	$ 25,775,000
2023			
Harbors Division's proportionate share of the net OPEB liability	$ 40,178,000	$ 32,442,000	$ 26,294,000

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:

2024	**1% Decrease**	**Healthcare Cost Trend Rate**	**1% Increase**
Harbors Division's proportionate share of the net OPEB liability	$ 25,013,000	$ 32,216,000	$ 41,437,000
2023			
Harbors Division's proportionate share of the net OPEB liability	$ 25,960,000	$ 32,442,000	$ 40,731,000

Payables to the OPEB Plan

The Harbors Division's employer contributions payable to the EUTF by fiscal year-end was paid by June 30, 2024 and 2023.

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 records a liability for risk financing and insurance-related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past ten fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance
The State has an insurance policy with various insurers for property coverage. The limit of loss per occurrence is $200,000,000, except for terrorism losses, which has a $100,000,000 per occurrence limit. The deductible for losses such as windstorm, tsunamis, floods and earthquakes are 3% of the replacement costs to the property subject to a $1,000,000 per occurrence minimum. The deductible for all other losses, except terrorism, is $1,000,000 per occurrence. The deductible for terrorism is $10,000 per occurrence.

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

Crime Insurance
The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for social engineering fraud (with Official Authorization) which has a $100,000 limit per occurrence and a $25,000 deductible, social engineering fraud (without Official Authorization) which has a $25,000 limit per occurrence and a $25,000 deductible, claims and computer investigation expenses which has a $100,000 limit per occurrence and a $0 deductible, and corporate credit card fraud which has a $10,000,000 limit per occurrence and a $1,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services, and losses not covered by insurance are paid from the State's General Fund.

Casualty and Professional Liability
Liability claims up to $25,000 are handled by the Risk Management Office. All other claims are handled by the Department of the Attorney General. The State has various types of coverages with a $5,000,000 self-insured retention per occurrence, including $2,500,000 corridor. The annual aggregate limit for the various coverages is $5,000,000. Losses under the deductible amount but over the Risk Management Office authority or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Cyber Liability Insurance
The State is insured for various types of cyber-related activities with a loss limit up to $10,000,000 with self-insured retention of $1,000,000. This policy covers all departments and divisions and includes (with sub-limits) media content liability, PCI-DSS assessment coverage, reputational risk response, reputational loss coverage, E-discovery consultant services, data recovery amendatory system failure non-physical damage loss of use (bricking), system failure coverage, criminal reward expense, claim avoidance expense, crypto jacking coverage, fraudulent impersonation and telecommunication fraud coverage, court attendance cost coverage, and company definition amendatory-scheduled entities with varying co-insurance (tiers 1 & 2).

Self-Insured Risks
The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to $25,000 per claim are administered by the Risk Management Office. The State administers its workers' compensation losses via the Department of Human Resources and Development.

Reserve for Losses and Loss Adjustment Costs
A liability for workers' compensation and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2024 and 2023, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying statements of net position, as those losses will be liquidated with future expendable resources. The estimated losses are generally paid from legislative appropriations of the State's General Fund. Accrued workers' compensation amounted to approximately $2,309,000 and $1,523,000 on June 30, 2024 and 2023, respectively.

13. Ceded Lands

In 2006, the Legislature enacted Act 178, Session Laws of Hawaii ("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 $14,760,000 and $14,992,000 to the Budget & Finance Department in four quarterly installments pursuant to Governor Executive Order No. 06-06 during the years ended June 30, 2024 and 2023, respectively. The transfers are included in harbor operations and maintenance costs in the accompanying statements of revenues, expenses, and changes in net position for the years ended June 30, 2024 and 2023.

In 2022, the Legislature passed Act 226, SLH 2022 to amend Sections 2 and 3 of Act 178. Section 2 was amended to effectuate the beginning fiscal year from 2005–2006 to 2022–2023 and increasing the income and proceeds from the pro rata portion of the public land trust under Article XII, Section 6, of the state constitution for expenditure by OHA for the betterment of the conditions of native Hawaiians for each fiscal year from $15,100,000 to $21,500,000. Section 3 was amended in a similar manner reflecting the minimum quarterly transfer increase from $3,775,000 to $5,375,000 and ensuring that the total quarterly transfers to OHA are not less than $5,375,000. Section 3 also adds an establishment of a working group to account for all ceded lands, account for all income and proceeds from the public land trust, and subsequently determine the 20% pro rata share of income and proceeds from the public land trust due annually to OHA.

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 $8,226,000 and $9,186,000 for the years ended June 30, 2024 and 2023, respectively, a decrease of approximately $959,000 or 10.4% due to the Harbors Division's decrease in receipts.

The Harbors Division is assessed a percentage of the Department's general administration expenses. The assessments amounted to approximately $2,427,000 and $1,770,000 for the years ended June 30, 2024 and 2023, respectively.

Act 200, SLH 2008 was enacted to authorize a statewide Harbors Modernization Plan ("HMP") to address harbor infrastructure improvements to Kahului Harbor on Maui, Nawiliwili Harbor on Kauai, Hilo and Kawaihae Harbors on Hawaii, and Honolulu and Kalaeloa Harbors on Oahu. In addition to the six commercial harbors included in the plan, the law placed Hana Harbor on Maui under the jurisdiction of the 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 fiscal year 2010 of the fiscal year 2009–2011 biennium. In its 2010 legislative session, the Legislature did not restore operating funds to ATDC for fiscal year 2011, 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 was $952,000 as of June 30, 2024 and 2023, and is included in notes receivable, net of allowance for doubtful accounts in the same amount, in the accompanying statements of net position.

At its meeting on July 13, 2011, the ATDC Board approved the transfer of the leasehold interest of the Aloha Tower Marketplace (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 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 acquiring LRP's interest in HLRP and 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 ("SMOU") with ATDC by its Acting Chief Executive and with HLRP by its Manager of the LLC. The SMOU required HLRP, or through its tenant HPU, to expend no less than $40 million in improvements to create student and faculty residences and various university spaces for HPU in good faith and complete the improvements as an educational center on or before December 31, 2015. The Department, ATDC and

HLRP agreed to abate one-year rent during the construction period, retroactive to July 1, 2014, to June 30, 2015.

The SMOU included terms for the DOT, ATDC and HLRP to analyze the extent that prior agreements implementing different phases of the Marketplace Lease of September 29, 1993 were no longer applicable. The SMOU provided a timeline for the DOT, ATDC and HLRP six years to the end of June 2017 to address current and obsolete provisions of the Marketplace Lease. Further, the SMOU provided that in consideration of ATDC's issuance of any renewed leases, certain debts and obligations must first be satisfied.

Article VII, DOT Expenses and Losses in Revenue, of the Ground Lease between the DOT and the ATDC provides that ATDC shall pay at the minimum the full amount of DOT expenses and losses entitled to under HRS Chapter 206J. The Harbors Division reviewed ATDC's fiscal year 2023 financial statements and determined that it is not at risk to collect the amounts owed. With the September 28, 2058 expiration date of the lease, the DOT has time to collect amounts owed and continue to support ATDC with addressing lease terms and obligations that are no longer applicable in the future.

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, 2024 and 2023, 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 $278,947,000 and $280,632,000 at June 30, 2024 and 2023, respectively.

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. 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, 2024 and 2023, accumulated sick leave was approximately $6,081,000 and $5,412,000, respectively.

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, 2024 and 2023.

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 USDOJ 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. In fiscal year 2020, the Harbors Division 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 $342,000 was paid as of June 30, 2024 and 2023, respectively. Subsequently, in fiscal year 2023, a third contract in the amount of $400,000 was entered into with approximately $192,000 and $43,000 being expended as of June 30, 2024 and 2023, respectively. 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 approximately $320,000 was paid as of June 30, 2024 and 2023, respectively.

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.

18. Temporary Hazard Pay

The State entered into multiple settlement agreements regarding the Temporary Hazard Pay with unions for periods covering dates in March 2020 through March 2022, for those employees who performed essential functions during the COVID-19 pandemic. Total Harbors Division accrued payroll for the year ended June 30, 2024, related to temporary hazard pay, was approximately $2.3 million.

Act 049, SLH 2024 provided emergency appropriations for public employment cost items and cost adjustments for employees of certain collective bargaining units. Effective July 1, 2024, the State appropriated a total of $458.8 million as a result of a negotiated settlement for employees who met certain requirements during the COVID-19 pandemic.

As of December 11, 2024, the State continues to negotiate with the remaining unions, and it was not practical to estimate the total liability owed to eligible Harbors Division employees.

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, 2024 **Schedule 1**

Unrestricted cash and cash equivalents	$ 225,635,676
Restricted cash and cash equivalents	
Construction – special purpose funds	390,893,713
Construction – revenue bonds	5,860,388
Revenue bond debt service payments	21,700,193
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	7,472,480
	450,677,582
	$ 676,313,258

With Director of Finance, State of Hawaii	$ 673,627,239
Petty cash and other	2,686,019
	$ 676,313,258

See accompanying report of independent auditors.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Revenue Bonds of the Public Undertaking
June 30, 2024 **Schedule 2**

	Final Redemption Date	Interest Rate	Original Amount of Issue	Balance at June 30, 2024 Current	Noncurrent	Total
Issue of 2013	July 1, 2029	3.25%	$ 23,615,000	$ 1,065,000	$ 5,895,000	$ 6,960,000
Issue of 2016 Series B	January 1 , 2031	2.46% – 2.89%	68,535,000	5,725,000	37,830,000	43,555,000
Issue of 2016 Series D	July 1, 2027	3.09%	22,425,000	3,400,000	10,775,000	14,175,000
Issue of 2020 Series A	July 1, 2037	4.00% – 5.00%	147,520,000	4,355,000	140,735,000	145,090,000
Issue of 2020 Series B	July 1, 2024	0.60% – 1.15%	15,685,000	965,000	-	965,000
Issue of 2020 Series C	July 1, 2040	4.00% – 5.00%	103,345,000	-	103,345,000	103,345,000
			$ 381,125,000	$ 15,510,000	$ 298,580,000	$ 314,090,000

See accompanying report of independent auditors.

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, 2024 — Schedule 3

		District									
		Oahu		Hawaii		Maui			Kauai		
	Statewide	Honolulu	Kalaeloa	Hilo	Kawaihae	Kahului	Kaunakakai	Kaumalapau	Nawiliwili	Port Allen	Total
Operating revenues, net											
Services											
Wharfage	$ -	$ 125,236,105	$ 5,229,557	$ 6,624,633	$ 7,348,174	$ 10,759,747	$ 424,206	$ 618,497	$ 5,496,049	$ -	$ 161,736,968
Dockage	-	5,609,328	911,563	393,314	105,600	372,173	22,036	7,650	308,743	5,325	7,735,732
Demurrage	-	3,002,308	-	279,720	114,667	112,495	-	-	77,297	-	3,586,487
Port entry	-	981,288	145,716	143,132	52,629	159,846	17,171	7,346	123,273	6,580	1,636,981
Mooring charges	-	81,721	-	8,942	30,018	-	1,898	-	-	100,863	223,442
Cleaning charges	-	114,005	-	-	-	-	-	-	-	1,541	115,546
Other services	-	49,881	3,163	11	503	102	175	50	1,099	24,736	79,720
Pax debark/embark	-	4,969,270	-	1,901,217	-	1,409,784	-	-	1,782,271	-	10,062,542
Total services	-	140,043,906	6,289,999	9,350,969	7,651,591	12,814,147	465,486	633,543	7,788,732	139,045	185,177,418
Leases											
Wharf space and land	-	14,053,783	3,424,361	118,958	401,154	364,335	36,195	16,922	362,480	444,025	19,222,213
Other pipeline	-	1,169,605	3,493,654	1,292,853	217,416	1,422,210	31,419	-	367,309	258,518	8,252,984
Storage	-	4,160,024	243,947	176,014	680,893	377,632	-	6,743	493,435	4,015	6,142,703
Automobile parking	-	947,737	7,549	70,051	10,455	67,768	1,063	-	99,074	13,163	1,216,860
Pipeline water	-	173,774	7,503	69,957	-	97,125	-	-	98,195	-	446,554
Total leases	-	20,504,923	7,177,014	1,727,833	1,309,918	2,329,070	68,677	23,665	1,420,493	719,721	35,281,314
Others											
Miscellaneous	-	915,986	184,496	80,760	10,613	84,520	1,337	-	113,301	1,041,036	2,432,049
Total others	-	915,986	184,496	80,760	10,613	84,520	1,337	-	113,301	1,041,036	2,432,049
Total operating revenues	-	161,464,815	13,651,509	11,159,562	8,972,122	15,227,737	535,500	657,208	9,322,526	1,899,802	222,890,781
Operating expenses before depreciation expenses											
Personnel services	7,898,164	10,793,956	538,363	1,622,833	166,828	1,719,145	74,626	75,151	1,539,952	77,142	24,506,160
Harbor operations and maintenance	16,341,370	7,459,112	861,077	932,540	442,080	1,266,197	(50,579)	8,658	859,819	28,723	28,148,997
State of Hawaii surcharge for central service expenses	8,226,340	-	-	-	-	-	-	-	-	-	8,226,340
General administration	4,379,784	90,247	811	45,370	8,817	25,724	2,542	2,463	41,321	1,291	4,598,370
Department of Transportation general administration expenses	2,427,064	-	-	-	-	-	-	-	-	-	2,427,064
Subtotal	39,272,722	18,343,315	1,400,251	2,600,743	617,725	3,011,066	26,589	86,272	2,441,092	107,156	67,906,931
Allocation of statewide expenses (1)	(39,272,722)	28,449,642	2,405,357	1,966,283	1,580,862	2,683,084	94,354	115,798	1,642,602	334,740	-
Total operating expenses before depreciation expense	-	46,792,957	3,805,608	4,567,026	2,198,587	5,694,150	120,943	202,070	4,083,694	441,896	67,906,931
Income from operations before depreciation expense	$ -	$ 114,671,858	$ 9,845,901	$ 6,592,536	$ 6,773,535	$ 9,533,587	$ 414,557	$ 455,138	$ 5,238,832	$ 1,457,906	$ 154,983,850

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

See accompanying report of independent auditors.

Harbors Division
Department of Transportation
State of Hawaii
(An Enterprise Fund of the State of Hawaii)
Harbor Revenue Bonds 1997 Certificate as Updated by the Tenth Supplemental Certificate – Minimum Net Revenue Requirement of the Public Undertaking
Year Ended June 30, 2024 **Schedule 4**

Net revenues, as defined by the 1997 Certificate, as updated by the Tenth Supplemental Certificate		
Operating income before depreciation expense as detailed below	$ 152,342,610	
Add		
Interest income	21,633,202	
State of Hawaii surcharge for central service expenses	8,226,340	
Cash available in the Harbors Division's reserve and contingency account	10,897,658	
	$ 193,099,810	
Harbor Revenue Bond debt service requirements under the 1997 Certificate, including minimum sinking fund payments	$ 27,705,782	
Ratio of net revenues to Harbor Revenue Bond debt service requirements	6.97	
Operating revenues as reported on the statements of revenues, expenses, and changes in net position	$ 222,890,781	
Less: Reclassify from Harbors Division's operating expenses, amounts statutorily required to be remitted to the Office of Hawaiian Affairs, ("OHA"), the OHA pro rata share, i.e., OHA's portion/share of Harbors Division's billings to and receipts from third-party users of Ceded Lands of the public land trust upon which certain Harbors Division's facilities are located (refer to Note 13, Ceded Lands). Portions of Harbors Division's billings and receipts collected by the Harbors Division are for and on OHA's behalf; these portions are not Harbors Division's revenues, rather they are OHA's revenues, which the Harbors Division must transfer or pass through to OHA, thus these amounts are contra-revenues for the Harbors Division, which is the reason for this deduction (a).	(14,760,235)	
Net operating revenues with reclassification		$ 208,130,546
Operating expenses before depreciation and amortization expense, reported on the statements of revenues, expenses, and changes in net position	67,906,931	
Less: Amounts statutorily required to be remitted to OHA in connection with the use of Ceded Lands by third-party users (refer to Note 13, Ceded Lands), reclassified from operating expenses. These are remittances of revenue amounts billed and collected on behalf of OHA. Additionally, Section 2.02(c)(v) of the Tenth Supplemental Certificate specifically excludes these amounts from operating expenses (b).	(14,760,235)	
Add/(deduct): Non-cash credits/(non-cash charges) associated with non-cash adjustments to the Harbors Division's pension and OPEB liabilities, currently included in operating expenses (c).	2,641,240	
Net operating expenses, before depreciation and amortization expenses as defined by Section 2.02(c) of the Tenth Supplemental Certificate dated December 2, 2020 which amended the definition of "Operation and Maintenance Expenses" previously stated in Section 1.01 of the 1997 Certificate, i.e., the Master Certificate.		55,787,936
Operating income before depreciation expense, reported above		$ 152,342,610

See accompanying report of independent auditors.

(a) Remittances to OHA represent OHA's pro rata share, which are the portions of amounts that the Harbors Division bills to and collects proceeds from, third-party users of Ceded Lands of the public land trust upon which certain Harbors Division's facilities are located. The Harbors Division acts as the billing and collection agent on OHA's behalf. The Harbors Division is required by Hawaii statutory laws, including Chapter 10, Hawaii Revised Statutes; Act 178, Session Laws of Hawaii 2006 and Act 226, Session Laws of Hawaii 2022; and the associated Governor's Executive Orders, to remit quarterly to OHA, the amounts determined to be OHA's pro rata share. These amounts need to be deducted from Harbors revenues because they are not Harbors revenues, rather they are a transfer or a pass-through of amounts billed and collected on OHA's behalf by the Harbors Division (i.e., contra-revenues for the Harbors Division).

(b) The amounts statutorily required to be remitted to OHA for OHA's pro rata share (i.e., the portion of proceeds received for the use of Ceded Lands by third-parties, (refer to Note 13, Ceded Lands)), are currently included in operating expenses. These amounts are not the Harbors Division's operating expenses because the Harbors Division only remits OHA's pro rata share from the amounts that the Harbors Division collects from third-party users of Ceded Lands (i.e., OHA's pro rata share is paid only from actual cash receipts that is paid to the Harbors Division by third-party users of Ceded Lands). There are no remittances made to OHA, if the Harbors Division receives no amounts from third-party users of Ceded Lands. These remittances to OHA are not made from the Harbors Division's special funds, nor are they rent payments made from the Harbors Division to OHA; these remittances are transfers of OHA's pro rata share collected or pass-throughs of OHA's pro rata share collected from third-party users of Ceded Lands managed by the Harbors Division. Section 2.02(c) of the Tenth Supplemental Certificate dated December 2, 2020 amended the definition of "Operation and Maintenance Expenses" previously stated in Section 1.01 of the 1997 Certificate, i.e., the Master Certificate; Section 2.02(c)(v), specifically excludes the amounts remitted to OHA from operating expenses.

(c) Section 2.02(c)(ii) of the Tenth Supplemental Certificate specifically excludes amounts for noncash charges, such as the noncash adjustments for the Harbors Division's pension and OPEB liabilities, currently included in operating expenses.

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 June 30, 2024, 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 11, 2024.

Report on 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 the Harbors Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 or significant deficiencies may exist that have not been identified.

999 Bishop Street
Suite 2300
Honolulu, HI 96813

OFFICE 808.531.3400
FAX 808.531.3433
accuityllp.com

Report on 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 11, 2024

ACCUITY