



Highways Division Department of Transportation State of Hawaii

Financial Statements
June 30, 2022

Submitted by
The Auditor
State of Hawaii



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Department of Transportation
State of Hawaii
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June 30, 2022

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Report of Independent Auditors

The Auditor
State of Hawaii

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Highways Division, Department of Transportation, State of Hawaii (the "Highways Division"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Highways Division's basic financial statements as listed in the index.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Highways Division as of June 30, 2022, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Highways Division and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matters

Financial Reporting Entity

As discussed in Note 1, the financial statements of the Highways Division are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of Hawaii that is attributable to the transactions of the Highways Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2022, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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Change in Accounting Principle

As discussed in Note 2 to the financial statements, effective July 1, 2021, the Highways Division adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. 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.


In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Highways Division's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Highways 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.
 - Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Highways Division’s ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 4 through 15 and schedule of revenues and expenditures – budget and actual (non-GAAP budgetary basis) – State Highway Fund on pages 49 through 51, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2023 on our consideration of the Highways Division’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 Highways 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 Highways Division’s internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
March 10, 2023

Highways Division
Department of Transportation
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2022

The following Management’s Discussion and Analysis (“MD&A”) of activities and financial performance of the Highways Division, Department of Transportation, State of Hawaii (the “Highways Division”) provides the reader with an introduction and overview to the financial statements of the Highways Division as of and for the year ended June 30, 2022. 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 Territorial Highway Department was created by the Territorial Legislature on April 24, 1925 by Act 78 to qualify Hawaii for participation in the Federal-Aid Program. The purpose of the Federal-Aid Program was to ensure the development of an integrated network of highways in the United States. Congress defined that the Federal government would provide the funds for construction on a matching contribution basis while the State of Hawaii (“State”) or its political subdivisions would administer the highways.

The Department of Transportation was created in 1959 by the Hawaii State Government Reorganization Act. In creating the new department, the Legislature transferred the responsibilities of the old Highway Department to the Highways Division of the new Department of Transportation.

The mission of the Highways Division is to facilitate the rapid, safe and economical movement of people and goods within the State by providing, maintaining and operating land transportation facilities and support services. The major goals of the Highways Division are to plan, design, construct and maintain highway facilities. In addition, the Highways Division, together with the Statewide Transportation Planning Office, implements innovative and diverse approaches to congestion management to increase the efficiency of the transportation system.

The Highways Division is managed by the Division Administrator. Each island in the system is managed by a district manager except for the Maui District, which includes the islands of Molokai and Lanai. The Staff Services Office, headed by the Administrative Services Officer, is responsible for personnel, budget, procurement, financial management, and methods, standards and evaluation functions of the Highways Division. Other major functional operations within the Highways Division include Project Coordination and Technical Services Office, Engineering Services Office, Motor Vehicle Safety Office, Planning Branch, Design Branch, Rights-of-Way Branch, Materials Testing and Research Branch, Construction and Maintenance Branch, and Traffic Branch.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Highways Division’s financial statements. The Highways Division’s financial statements are comprised of government-wide financial statements, fund financial statements, and notes to the financial statements.

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Government-wide Financial Statements

The government-wide statements report information about the Highways Division as a whole in a manner similar to a private-sector business. The statements provide both long-term and short-term information about the Highways Division's overall financial status. They are prepared using the economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses connected with the fiscal year, regardless of when cash is received or paid. The government-wide financial statements are comprised of the following:

- The *Statement of Net Position* presents all of the Highways Division's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in the Highways Division's net position are an indicator of whether its financial health is improving or deteriorating.
- The *Statement of Activities* presents information showing how the Highways Division's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Highways Division's activities are considered governmental activities and are primarily funded by taxes, charges for services, and intergovernmental revenues.

The government-wide financial statements can be found on pages 16 and 17 of this report.

Fund Financial Statements

A fund is a grouping of related self-balancing accounts, which is used to maintain control over resources that have been segregated for specific activities or objectives.

- *Governmental Funds* – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Highways Division's near-term financing and finance-related legal requirements.

Governmental funds financial statements are prepared using the current financial resources measurement focus and the modified-accrual basis of accounting. These statements provide a detailed short-term view of the Highways Division's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of the Highways Division.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities of the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Highways Division’s near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide reconciliations on pages 19 and 21, respectively, to facilitate this comparison between governmental funds financial statements and government-wide financial statements.

The Highways Division maintains three governmental funds – the State Highway Fund (“SHF”) (a special revenue fund), the Debt Service Fund, and the Capital Projects Fund – all of which are considered major funds for presentation purposes. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for each of these funds.

The governmental funds financial statements can be found on pages 18 through 21 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and governmental funds financial statements. The notes to financial statements can be found in pages 22 through 48 of this report.

Required Supplementary Information Other Than MD&A

Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – State Highway Fund

The budgetary comparison schedule compares the SHF’s original budget, final budget, and actual amounts prepared on a budgetary basis. A reconciliation between the actual SHF revenues and expenditures compared to the SHF revenues and expenditures prepared for budgetary purposes is included in notes to the Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis). The Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – State Highway Fund can be found on page 49 of this report.

Financial Highlights

Implementation of GASB Statement No. 87

During fiscal year 2022, the Department implemented Governmental Accounting Standards Board (“GASB”) Statement No. 87, *Leases*. The Statement established criteria for accounting and financial reporting for leases. It creates a single model for lease accounting and requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. A lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources.

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The adoption of Statement No. 87 resulted in an increase in receivables and deferred inflows of resources of approximately \$2,712,000 as of July 1, 2021.

Government-wide Financial Statements

The assets and deferred outflows of resources of the Highways Division exceeded its liabilities and deferred inflows of resources at June 30, 2022 by \$4.7 billion. Of this amount, \$334 million is considered unrestricted and may be used to meet the Highways Division's ongoing obligations.

The Highways Division's net position decreased by \$5 million during the year ended June 30, 2022.

Fund Financial Statements

At June 30, 2022, the Highways Division's governmental funds reported a combined ending fund balance of \$501 million. The combined fund balance decreased by \$8 million from the prior year's ending fund balance.

The Highways Division's SHF, the major operating fund, reported an ending fund balance of \$380 million. There was a \$67 million increase in fund balance during the year ended June 30, 2022.

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June 30, 2022

Government-wide Financial Analysis

Condensed Statements of Net Position

As noted earlier, net position may serve over time as a useful indicator of the Highways Division's financial position. The Highways Division's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4.7 billion at June 30, 2022 and 2021.

Condensed Statements of Net Position
As of June 30, 2022 and 2021

	2022	2021
Assets		
Current and other assets	\$ 597,878,102	\$ 590,736,040
Capital assets, net	<u>4,917,236,465</u>	<u>4,951,071,001</u>
Total assets	<u>\$ 5,515,114,567</u>	<u>\$ 5,541,807,041</u>
Deferred outflows of resources		
Deferred charge on refunding, net	<u>\$ 2,776,404</u>	<u>\$ 6,367,009</u>
Liabilities		
Current liabilities	\$ 108,306,158	\$ 92,495,948
Long-term liabilities	<u>671,848,030</u>	<u>714,923,234</u>
Total liabilities	<u>\$ 780,154,188</u>	<u>\$ 807,419,182</u>
Deferred inflows of resources		
Deferred inflow of resources related to leases	<u>\$ 2,478,982</u>	<u>\$ -</u>
Net position		
Net investment in capital assets	\$ 4,401,255,059	\$ 4,458,496,596
Unrestricted	<u>334,002,742</u>	<u>282,258,272</u>
Total net position	<u>\$ 4,735,257,801</u>	<u>\$ 4,740,754,868</u>

The largest portion of the Highways Division's net position (\$4.4 billion and \$4.5 billion at June 30, 2022 and 2021, respectively) reflects its investment in capital assets (e.g., land and land improvements, buildings and improvements, vehicles and equipment, and infrastructure), net of accumulated depreciation, which is reduced by any related debt and other borrowings used to acquire those assets that is still outstanding and deferred charges on refunding net of accumulated amortization. The Highways Division uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Highways Division's net investment in capital assets is reported net of related debt and other borrowings, it should be noted that the resources needed to repay the debt and other borrowings must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

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The remaining net position (\$334 million and \$282 million at June 30, 2022 and 2021, respectively) is unrestricted and may be used to meet the Highways Division's ongoing obligations to citizens and creditors.

Current and other assets increased by \$7 million or 1% from June 30, 2021 to June 30, 2022, due primarily to increases in cash and cash equivalents of \$51 million, due from U.S. government of \$5 million, and other assets of \$3 million, offset by a decrease in restricted cash of \$53 million.

Capital assets, net decreased by \$34 million or 1% from June 30, 2021 to June 30, 2022, primarily due to depreciation expense of \$209 million and impairments of \$24 million, offset by additions of \$200 million.

Current liabilities increased by \$16 million or 17% from June 30, 2021 to June 30, 2022, primarily due to a \$9 million increase in contracts payable, a \$3 million increase in accounts payable, and a \$3 million increase in revenue bond interest payable.

Long-term liabilities decreased by \$43 million or 6% from June 30, 2021 to June 30, 2022, primarily due to a decrease in revenue bonds payable of \$39 million. Refer to "Long-Term Debt" section on pages 14 and 15 for discussion on the revenue bond issuance in June 2022.

A reconciliation on page 19 facilitates the comparison between governmental funds and governmental activities.

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Condensed Statements of Activities

The following condensed financial information reflects how the Highways Division's net position changed during the years ended June 30, 2022 and 2021.

Condensed Statements of Activities
For the Years Ended June 30, 2022 and 2021

	2022	2021
Expenses		
Depreciation expense	\$ 209,283,052	\$ 210,993,473
Administration of Highways Division	138,790,398	95,647,930
Operations and maintenance	138,246,834	125,429,257
Interest expense	18,586,533	20,867,550
Motor Vehicle Safety Office	14,999,562	14,066,996
Other	53,806,459	57,883,389
Total expenses	<u>573,712,838</u>	<u>524,888,595</u>
Revenues		
Program revenues		
Capital grants and contributions	143,549,475	84,696,444
Operating grants and contributions	115,481,319	153,903,445
Charges for services	55,954,084	57,950,513
Total program revenues	<u>314,984,878</u>	<u>296,550,402</u>
Net program expenses	<u>(258,727,960)</u>	<u>(228,338,193)</u>
General revenues		
Taxes	243,297,817	188,404,799
Investment income and other	9,933,076	9,194,897
Total general revenues	<u>253,230,893</u>	<u>197,599,696</u>
Change in net position	(5,497,067)	(30,738,497)
Net position		
Beginning of year	<u>4,740,754,868</u>	<u>4,771,493,365</u>
End of year	<u>\$ 4,735,257,801</u>	<u>\$ 4,740,754,868</u>

Total expenses increased by \$49 million or 9% from \$525 million in fiscal year 2021 to \$574 million in fiscal year 2022. This increase is due primarily to the increases in administration of Highways Division expenses of \$43 million and operations and maintenance expenses of \$13 million. The increase is offset by decreases in repairs and maintenance of \$3 million, interest expenses of \$2 million, and surcharge on gross receipts of \$1 million.

Total revenues increased by \$74 million or 15% from \$494 million in fiscal year 2021 to \$568 million in fiscal year 2022, due primarily to an increase in program revenues of \$18 million or 6%, and an increase in general revenues of \$56 million or 28%.

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Program revenues, which comprise charges for services, as well as capital and operating grants, accounted for 55% and 60% of total revenues in fiscal years 2022 and 2021, respectively. The largest components of program revenues (82% for fiscal year 2022 and 80% for fiscal year 2021) resulted from capital and operating grants and contributions primarily from the Federal Highway Administration for the maintenance and construction of roads and other infrastructure. Capital and operating grants and contributions increased by \$20 million from \$239 million in fiscal year 2021 to \$259 million in fiscal year 2022 due primarily to a \$59 million increase in capital grants and contributions offset by a \$39 million decrease in operating grants and contributions. These changes were due to the related changes in expenditures for capital expenditures and operating expenditures, respectively, both of which are primarily reimbursable arrangements per the related grant agreements.

General revenues, which consist of taxes, including state fuel taxes, vehicle weight taxes and penalties, and rental motor and tour vehicle surcharge taxes, as well as investment income, accounted for 45% and 40% of total revenues in fiscal years 2022 and 2021, respectively.

The decrease in net position was \$7 million in fiscal year 2022 as compared to the decrease in net position of \$31 million in fiscal year 2021.

A reconciliation on page 21 facilitates the comparison between governmental funds and governmental activities.

Financial Analysis of the Highways Division's Governmental Funds

As noted earlier, the Highways Division uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Highways Division's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Highways Division's financing requirements.

At June 30, 2022, the Highways Division's governmental funds reported a combined ending fund balance of \$501 million, representing a decrease of \$8 million from the prior year. \$380 million of the fund balance is classified as committed to indicate that amounts can only be used for specific purposes pursuant to formal action of the Legislature. \$121 million of the fund balance is classified as restricted to indicate that amounts are restricted for specific purposes imposed by external parties.

At June 30, 2021, the Highways Division's governmental funds reported a combined ending fund balance of \$509 million, representing an increase of \$185 million from the prior year. \$313 million of the fund balance was classified as committed to indicate that amounts could only be used for specific purposes pursuant to formal action of the Legislature. \$196 million of the fund balance was classified as restricted to indicate that amounts were restricted to specific purposes imposed by external parties.

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The SHF is the major operating fund of the Highways Division. The State imposes taxes, fees and charges relating to the operation and use of motor vehicles on the public highways of the State. These funds are deposited into the SHF established under Section 248-8, Hawaii Revised Statutes ("HRS"). Monies deposited in the SHF are used for acquisition, planning, design, construction, operation, repair and maintenance of the State Highway System.

The current taxes, fees and charges deposited to the SHF consist of (1) highway fuel taxes, (2) vehicle registration fees, (3) vehicle weight tax, and (4) rental motor vehicle and tour vehicle surcharge taxes. Together, these taxes, fees and charges accounted for most of the receipts of the SHF. Other sources of revenues include interest earnings on monies previously credited to the SHF, vehicle weight tax penalties, certain rental income from State Highway System properties, passenger motor vehicle inspection charges, overweight permits, sales of surplus lands, commercial license fees, and other miscellaneous revenues.

At June 30, 2022 and 2021, the total fund balance of the SHF was \$380 million and \$313 million, respectively. SHF's fund balance increased by \$67 million in the current year compared to a \$55 million increase in the prior year. The current year increase was mainly due to revenues over expenditures of \$107 million offset by net transfers out of \$39 million.

The Debt Service Fund ("DSF") is used to track the revenue bond debt service for the Highways Division. Debt service requirements are primarily transferred from the SHF. The debt service expenditures were \$50 million and \$51 million for fiscal years 2022 and 2021, respectively.

The Capital Projects Fund ("CPF") accounts for the Highways Division's capital improvements program. At June 30, 2022, the CPF had a total fund balance of \$121 million. The CPF fund balance decreased by \$76 million in fiscal year 2022 as compared to a \$130 million increase in the prior year. The decrease in the current year fund balance was mainly due to expenditures over revenues of \$65 million and net transfers out of \$11 million.

State Highway Fund Budgetary Highlights

The final SHF budget had total revenues of \$267 million. The actual revenues on a budgetary basis were \$299 million or 12% more than the final budget, primarily due to higher than budgeted revenues for rental motor and tour vehicle surcharge taxes and state fuel taxes of \$29 million and \$9 million, respectively, offset by lower than budgeted revenues for vehicle registration fees and vehicle weight taxes of \$3 million each.

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Expenditures on the budgetary actual basis were \$214 million or 14% lower than the final budgeted amounts. Most of the difference was due to actual expenditures lower than final budgeted amounts for operations and maintenance and administration of the Highways Division of \$16 million and \$19 million, respectively. The lower-than-budgeted expenditures were primarily due to reductions in State maintenance projects during the year ended June 30, 2022. These reductions resulted from pandemic-related reductions in State Highway Fund revenues which resulted in reduced resources to fund budgeted activities.

Capital Asset and Debt Administration

Capital Assets

The Highways Division's capital assets as of June 30, 2022 amounted to \$12 billion and accumulated depreciation of \$7 billion, resulting in net capital assets of \$5 billion. This investment in capital assets includes land and land improvements, buildings and building improvements, vehicles and equipment, infrastructure assets, and construction in progress. Infrastructure assets consist of land, roadways, tunnels and bridges, and miscellaneous roadway components.

During fiscal year 2022, the Highways Division had bid openings for 42 projects, with contract amounts totaling approximately \$166 million. There were 23 projects on Oahu, 3 projects on Maui (includes Molokai and Lanai), 5 projects on Hawaii, and 6 projects on Kauai. In addition, there were 5 statewide projects.

During fiscal year 2021, the Highways Division had bid openings for 45 projects, with contract amounts totaling approximately \$200 million. There were 27 projects on Oahu, 8 projects on Maui (includes Molokai and Lanai), 2 projects on Hawaii, and 4 projects on Kauai. In addition, there were 4 statewide projects.

During the year ended June 30, 2022, the Highways Division recognized impairment losses on capital assets of approximately \$24 million, which is reported as administration expense in the statement of activities.

Additional information on the Highways Division's capital assets can be found in Note 6 to the financial statements.

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Long-Term Debt

As of June 30, 2022, outstanding State of Hawaii Highway Revenue Bonds amounted to \$506 million, compared to \$538 million as of June 30, 2021. These revenue bonds are payable solely from, and collateralized solely by, certain revenues held in the State Highway Fund. The proceeds of the revenue bonds are used to finance highway capital improvement projects and other related projects for the State Highways System.

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2011	0.75 – 5.00 %	2032	\$ 117,365,000	\$ 5,095,000
2014	2.00 – 5.00 %	2034	135,660,000	88,555,000
2016	1.25 – 5.00 %	2036	204,485,000	170,500,000
2019A	3.00 – 5.00 %	2040	81,835,000	81,835,000
2019B	5.00 %	2032	23,130,000	23,130,000
2021	5.00 %	2041	137,205,000	137,205,000
			<u>\$ 699,680,000</u>	<u>\$ 506,320,000</u>

On October 7, 2021, the Highways Division issued \$23,130,000 in State of Hawaii Revenue Bonds Series 2019B (the “2019B Bonds”). The 2019B Bonds bear interest at 5.00% and mature in annual installments through 2032. These bonds were issued at a premium of approximately \$4,051,000, and were issued to advance refund \$26,825,000 of the outstanding callable series 2011A bonds with interest rates ranging from 2.00% to 5.00%.

The Highways Division’s revenue bond rating by Moody’s Investors Service, Inc. and Standard & Poor’s Corporation are “Aa2” and “AA+,” respectively.

Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such ratings will continue for any given period of time or that such ratings will not be revised downward, suspended or withdrawn entirely by the rating agencies if, in the judgment of such rating agencies, circumstances so warrant. The State undertakes no responsibility to oppose any such revision, suspension or withdrawal.

See Notes 8 and 9 to the financial statements for additional information on the State of Hawaii Highway Revenue Bonds.

The Highways Division entered into a financed purchase agreement to fund the acquisition and installation of energy conservation measures at selected Highways Division locations. Lease payments commenced on August 1, 2017 and will continue through August 1, 2031 at an interest rate of 2.63%. See Note 17 to the financial statements for further information on this financed purchase obligation, which amounted to \$51 million and \$53 million at June 30, 2022 and 2021, respectively.

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Additional information on the Highways Division's other long-term liabilities can be found in Note 8 to the financial statements.

Request for Information

This financial report is designed to provide a general overview of the Highways 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 to Administrative Services Officer, State of Hawaii, Department of Transportation, Highways Division, 869 Punchbowl Street, Honolulu, Hawaii 96813.

Highways Division
Department of Transportation
State of Hawaii
Statement of Net Position – Governmental Activities
June 30, 2022

Assets	
Equity in cash and cash equivalents and investments in State Treasury	\$ 354,115,053
Receivables, net	
Due from U.S. government	33,515,558
Due from counties	14,793,301
Other receivables	1,096,885
Restricted cash and cash equivalents and investments in State Treasury	
Capital projects	176,897,345
Security deposits	14,277,846
Other assets	3,182,114
Capital assets, net of accumulated depreciation	<u>4,917,236,465</u>
Total assets	<u>5,515,114,567</u>
Deferred Outflows of Resources	
Deferred charge on refunding, net	2,776,404
Liabilities	
Accounts payable	43,216,846
Accrued payroll	5,593,161
Accrued interest payable	1,331,016
Contracts payable	
Current portion	25,395,656
Retainage payable	5,745,248
Revenue bond interest payable	12,205,713
Security deposits	14,277,846
Due to other State agencies	540,672
Long-term liabilities	
Due within one year	
Accrued vacation payable	3,843,545
Workers' compensation payable	1,105,214
Financed purchase	3,179,770
Revenue bonds payable	26,955,000
Due after one year	
Accrued vacation payable	9,181,123
Workers' compensation payable	10,369,203
Financed purchase	47,429,206
Revenue bonds payable	569,784,969
Total liabilities	<u>780,154,188</u>
Deferred Inflows of Resources	
Deferred inflow of resources related to leases	2,478,982
Net Position	
Net investment in capital assets	4,401,255,059
Unrestricted	<u>334,002,742</u>
Total net position	<u>\$ 4,735,257,801</u>

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

Highways Division
Department of Transportation
State of Hawaii
Statement of Activities – Governmental Activities
Year Ended June 30, 2022

Expenses

Operations and maintenance	
Oahu highways and services	\$ 63,181,869
Kauai highways and services	6,535,147
Hawaii highways and services	14,886,347
Maui highways and services	12,561,187
Molokai highways and services	1,348,634
Lanai highways and services	335,473
Pass-through for county highways and services	39,398,177
Depreciation expense	209,283,052
Administration	138,790,398
Interest expense	18,586,533
Repairs and maintenance	46,657,276
Surcharge on gross receipts	7,149,183
Motor Vehicle Safety Office	14,999,562
Total expenses	<u>573,712,838</u>

Program revenues

Capital grants and contributions	143,549,475
Operating grants and contributions	115,481,319
Charges for services	
Vehicle registration fees	47,155,080
Penalties and fines	4,747,210
Other fees and permits	3,144,326
Rentals	907,468
Total program revenues	<u>314,984,878</u>
Net program expenses	<u>(258,727,960)</u>

General revenues

Taxes	
Vehicle weight taxes	86,968,901
State fuel taxes	76,768,614
Rental motor and tour vehicle surcharge taxes	79,560,302
Investment income	1,473,951
Other revenues	8,459,125
Total general revenues	<u>253,230,893</u>
Change in net position	<u>(5,497,067)</u>

Net position

Beginning of year	<u>4,740,754,868</u>
End of year	<u>\$ 4,735,257,801</u>

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

Highways Division
Department of Transportation
State of Hawaii
Balance Sheet – Governmental Funds
June 30, 2022

	State Highway Fund	Capital Projects Fund	Total
Assets			
Equity in cash and cash equivalents and investments in State Treasury Receivables	\$ 335,123,236	\$ 18,991,817	\$ 354,115,053
Due from capital projects fund	50,467,353	-	50,467,353
Due from U.S. government	10,468,406	23,047,152	33,515,558
Due from counties	14,793,301	-	14,793,301
Other receivables	549,523	547,362	1,096,885
Restricted cash and cash equivalents and investments in State Treasury			
Capital projects	-	176,897,345	176,897,345
Security deposits	14,277,846	-	14,277,846
Other assets	3,159,547	22,567	3,182,114
Total assets	<u>\$ 428,839,212</u>	<u>\$ 219,506,243</u>	<u>\$ 648,345,455</u>
Liabilities			
Accounts payable	\$ 18,096,778	\$ 24,926,108	\$ 43,022,886
Accrued payroll	5,593,161	-	5,593,161
Contracts payable			
Current portion	3,394,433	22,001,223	25,395,656
Retainage payable	4,366,369	1,378,879	5,745,248
Security deposits	14,277,846	-	14,277,846
Due to State Highway Fund	-	50,467,353	50,467,353
Due to other State agencies	540,672	-	540,672
Total liabilities	<u>46,269,259</u>	<u>98,773,563</u>	<u>145,042,822</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to leases	2,478,982	-	2,478,982
Fund Balances			
Restricted – Capital Projects Fund	-	120,732,680	120,732,680
Committed – State Highway Fund	380,090,971	-	380,090,971
Total fund balances	<u>380,090,971</u>	<u>120,732,680</u>	<u>500,823,651</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 428,839,212</u>	<u>\$ 219,506,243</u>	<u>\$ 648,345,455</u>

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

Highways Division
Department of Transportation
State of Hawaii
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2022

Total fund balances – governmental funds		\$ 500,823,651
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds financial statements. These assets consist of		
Governmental capital assets	\$ 11,739,333,257	
Less: Accumulated depreciation	<u>(6,822,096,792)</u>	4,917,236,465
Deferred charges on refunding are recorded as expenditures in governmental funds financial statements when the corresponding debt is first issued. However, in government-wide financial statements, such amounts are recorded as a deferred outflow of resources and amortized over the term of the related bonds.		2,776,404
Accrued interest payable is not recognized in governmental funds		(13,536,729)
Other liabilities not recognized in governmental funds		(193,960)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds financial statements		
Revenue bonds payable	(596,739,969)	
Financed purchase	(50,608,976)	
Accrued vacation payable	(13,024,668)	
Workers' compensation payable	<u>(11,474,417)</u>	<u>(671,848,030)</u>
Net position of governmental activities		<u>\$ 4,735,257,801</u>

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

Highways Division
Department of Transportation
State of Hawaii

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2022

	State Highway Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues				
Charges for services				
Vehicle registration fees	\$ 47,155,080	\$ -	\$ -	\$ 47,155,080
Penalties and fines	4,747,210	-	-	4,747,210
Other fees and permits	3,144,326	-	-	3,144,326
Rentals	907,468	-	-	907,468
Capital grants and contributions	-	-	143,549,475	143,549,475
Operating grants and contributions	115,481,319	-	-	115,481,319
Taxes				
Vehicle weight taxes	86,968,901	-	-	86,968,901
State fuel taxes	76,768,614	-	-	76,768,614
Rental motor and tour vehicle surcharge taxes	79,560,302	-	-	79,560,302
Investment income	1,473,951	-	-	1,473,951
Other revenues	8,384,205	-	74,920	8,459,125
Total revenues	<u>424,591,376</u>	<u>-</u>	<u>143,624,395</u>	<u>568,215,771</u>
Expenditures				
Operations and maintenance				
Oahu highways and services	66,796,623	-	-	66,796,623
Hawaii highways and services	14,548,552	-	-	14,548,552
Kauai highways and services	6,719,997	-	-	6,719,997
Maui highways and services	12,733,255	-	-	12,733,255
Molokai highways and services	1,348,634	-	-	1,348,634
Lanai highways and services	335,473	-	-	335,473
Pass-through for county highways and services	39,398,177	-	-	39,398,177
Administration	154,025,150	-	-	154,025,150
Surcharge on gross receipts	7,149,183	-	-	7,149,183
Motor Vehicle Safety Office	14,999,562	-	-	14,999,562
Capital outlay	-	-	208,169,519	208,169,519
Debt service				
Principal payments	-	27,335,075	-	27,335,075
Interest expense	-	22,966,394	-	22,966,394
Total expenditures	<u>318,054,606</u>	<u>50,301,469</u>	<u>208,169,519</u>	<u>576,525,594</u>
Revenues over (under) expenditures	106,536,770	(50,301,469)	(64,545,124)	(8,309,823)
Other financing sources (uses)				
Transfers in	-	50,301,469	-	50,301,469
Transfers out	(39,169,800)	-	(11,131,669)	(50,301,469)
Premiums on revenue bonds	-	4,050,908	-	4,050,908
Issuance of revenue bonds	-	23,130,000	-	23,130,000
Payment to escrow agent for refunding of bonds	-	(27,180,908)	-	(27,180,908)
Total other financing sources (uses)	<u>(39,169,800)</u>	<u>50,301,469</u>	<u>(11,131,669)</u>	<u>-</u>
Net change in fund balances	67,366,970	-	(75,676,793)	(8,309,823)
Fund balances				
Beginning of year	312,724,001	-	196,409,473	509,133,474
End of year	<u>\$ 380,090,971</u>	<u>\$ -</u>	<u>\$ 120,732,680</u>	<u>\$ 500,823,651</u>

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

Highways Division
Department of Transportation
State of Hawaii
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
Year Ended June 30, 2022

Net change in fund balances – total governmental funds		\$	(8,309,823)
Amounts reported for governmental activities in the statement of activities are different because			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense			
Expenditures for capital assets	\$	199,611,509	
Loss on impairment of capital assets		(24,162,993)	
Less: Current fiscal year depreciation		<u>(209,283,052)</u>	(33,834,536)
Repayment of long-term debt and financed purchase is reported as expenditures in the governmental funds financial statements, but the repayment reduces long-term liabilities in the government-wide financial statements			
Bond principal repayment	\$	27,430,271	
Financed purchase		2,851,145	
Change in revenue bonds interest payable		(2,724,044)	27,557,372
Governmental funds report the effect of original issue premium and deferred charge on refunding when the corresponding debt is first issued, whereas the amounts are amortized to expense over the remaining term of the related bond in the government-wide financial statements			
Amortization of bond premiums	\$	11,730,934	
Amortization of deferred charge on refunding		<u>(3,590,605)</u>	8,140,329
Other revenues and expenditures in the government-wide financial statements do not provide or use current financial resources and therefore are not reported as revenues and expenditures in governmental funds financial statements			949,591
Change in net position – governmental activities			<u>\$ (5,497,067)</u>

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

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2022

1. Financial Reporting Entity

Act 1, Session Laws of Hawaii (“SLH”), Second Special Session 1959, the Hawaii State Government Reorganization Act of 1959 (the “Act”), established the Department of Transportation (the “Department”) whose function is to establish, maintain and operate transportation facilities of the State of Hawaii (the “State”), including highways, airports, harbors, and such other transportation facilities and activities as may be authorized by law. The Department’s activities are carried out through three primary operating divisions: Airports, Harbors and Highways (the “Highways Division”). Through the Highways Division, the Department has general supervision of the management and maintenance of the State Highways System and the location, design and construction of new highways and facilities. The Highways Division provides supervision to assure completion of State highway contracts in accordance with plans and specifications.

Taxes, fees and charges authorized and collected relating to the operation and use of motor vehicles on public highways of the State are deposited into the State Highway Fund, and expenditures for purposes of the Act are made from the State Highway Fund.

The State Highway Fund also includes the Motor Vehicle Safety Office (“MVSO”). The MVSO was originally established as the Highway Safety Coordinator’s Office to implement the 1967 Hawaii Highway Safety Act. It was reorganized by the 1977 State Legislature to encompass the additional duty of the safety of operations of heavy motor vehicles. The MVSO is assigned as a staff office under the Highways Division.

The financial statements of the Highways Division are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and governmental funds of the State of Hawaii that are attributable to the transactions of the Highways Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2022, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which includes the Highways Division’s financial activities.

2. Summary of Significant Accounting Policies

The Highways Division’s financial statements are prepared in accordance with GAAP, as prescribed by the Governmental Accounting Standards Board (“GASB”). The significant accounting policies used by the Highways Division are described below.

Measurement Focus, Basis of Accounting, and Financial Position

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all the nonfiduciary activities of the Highways Division. Interfund activity has been removed from these government-wide statements. The economic resources measurement focus and the accrual basis of accounting are used to report the government-wide financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

The statement of net position includes all capital assets and long-term liabilities that are excluded from the governmental funds financial statements. The net position is reported in three categories: net investment in capital assets, restricted for capital projects activity, and unrestricted. When both restricted and unrestricted resources are available for use, generally it is the Highways Division's policy to use restricted resources first, then unrestricted resources as they are needed.

The statement of activities demonstrates the degree to which the direct expenses of a given function, segment or component unit are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function, segment or component unit. Program revenues include charges paid by users and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included in program revenues are reported instead as general revenues.

Governmental Funds Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are measurable and available. The Highways Division considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Revenues susceptible to accrual include taxpayer-assessed tax revenues. Taxpayer-assessed tax revenues primarily consist of income and general excise taxes. The revenues of the Highways Division do not include any income or general excise taxes. Other revenues which are not considered susceptible to accrual and therefore are not accrued include fines, forfeitures and penalties, licenses, permits, and franchise taxes. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2022

The governmental funds accounts of the Highways Division are organized on the basis of funds, each of which is considered a separate accounting entity. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. For financial reporting purposes, the Highways Division includes all funds that are controlled by or dependent on the Highways Division's administrative head. Control by or dependence on the Division was determined on the basis of statutory authority and monies flowing through the Highways Division to each fund or account.

A description of the funds administered by the Highways Division are included in the governmental funds financial statements as follows:

- **State Highway Fund** – The State Highway Fund, which generally accounts for revenues and expenditures for highway operations, maintenance and administration is a special revenue fund of the State established by Section 248-8, Hawaii Revised Statutes (“HRS”). All fuel taxes collected under Section 243-4, HRS except county fuel taxes, aviation fuel taxes, and taxes on fuel sold for use by small boats are deposited in the State Highway Fund. Section 248-9, HRS provides that monies in the State Highway Fund shall be expendable by the Department of Transportation for the design, construction, reconstruction, repair and maintenance, and for acquisition of rights-of-way for public highways included in the State Highway Fund established under Section 264-41, HRS.
- **Debt Service Fund** – The Debt Service Fund accounts for the Highways Division's financial resources obtained and used for the payment of principal and interest on State of Hawaii Highway Revenue Bonds.
- **Capital Projects Fund** – The Capital Projects Fund accounts for the Highways Division's construction projects and the related sources of financing.

The accompanying financial statements include highway projects authorized by legislative acts through June 30, 2022.

Equity in Cash and Cash Equivalents and Investments in State Treasury

Equity in cash and cash equivalents and investments in State Treasury consists of amounts held in State Treasury for governmental funds as discussed in Note 3.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consist of amounts held in State Treasury, the use of which is legally restricted. Restricted cash and cash equivalents account for the principal and interest amounts accumulated to make debt service payments on the Highways Division's revenue bonds, security deposits collected from third parties, and bond proceeds restricted for the construction of capital projects.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2022

Receivables

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible accounts is based on collection history and current information regarding the creditworthiness of the tenants and others doing business with the Highways Division. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

Capital Assets

Capital assets, which include land and land improvements, buildings and improvements, vehicles and equipment, infrastructure (i.e., roads, bridges, tunnels), and construction in progress, are reported in the government-wide statement of net position. Such assets are recorded at cost or at estimated fair value at the date of donation. Capital outlays are recorded as expenditures of the State Highway Fund or Capital Projects Fund in the governmental funds and as assets in the government-wide statement of net position to the extent the capitalization threshold is met.

Capital assets are depreciated by the straight-line method over their useful lives estimated by management as follows:

Class of Assets	Estimated Useful Life	Capitalization Threshold
Land improvements	15 years	\$ 100,000
Buildings	30 years	100,000
Building improvements	30 years	100,000
Vehicles and equipment	5 – 7 years	5,000
Infrastructure	28 – 75 years	100,000

Disposals of assets are recorded by removing the costs and related accumulated depreciation from the accounts with the resulting gain or loss recorded in operations.

Repairs and maintenance, and minor replacements, renewals and betterments are charged against operations. Major replacements, renewals and betterments are capitalized.

Leases

Lessor

The Highways Division is a lessor for leases of various properties. The Highways Division recognizes lease receivables and deferred inflows of resources in the financial statements. 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 Highways Division initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2022

The deferred inflows of resources 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 lease term in a systematic and rational method.

Key estimates and judgments include how the Highways 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 Highways Division uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease.
- Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The Highways 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.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources are a consumption of net assets by a government that is applicable to a future reporting period and deferred inflows of resources are an acquisition of net assets by a government that is applicable to a future reporting period. Both deferred outflows of resources and deferred inflows of resources are reported in the government-wide statement of net position but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate occur. Deferred outflows of resources of the Highways Division represent the deferred charge of refunding revenue bonds. Deferred inflows of resources of the Highways Division represent revenues expected to be collected in the future under noncancelable lease agreements.

The difference between the reacquisition price of issued bonds 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. As of June 30, 2022, the deferred charge on refunding, net of accumulated amortization, amounted to approximately \$2,776,000.

The Highways Division defers recognition of lease income for lease receivables and recognizes revenue over the lease term. As of June 30, 2022, the deferred lease income amounted to approximately \$2,479,000.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2022

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums are deferred and amortized over the life of the bonds using the effective interest method.

In the governmental funds financial statements, bond premiums are recognized when received. The face amount of debt and any related premium are reported as other financing sources.

Bond Issuance Costs

Costs relating to the issuance of bonds are expensed as incurred in the accompanying financial statements.

Compensated Absences

It is the Highways Division's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the accompanying government-wide financial statements. A liability for these amounts is reported in the governmental funds financial statements only if they have matured, for example, as a result of employee resignations and retirements.

Fund Balances

The Highways Division classifies fund balances based primarily on the extent to which it is bound to follow constraints on how resources can be spent. Classifications include:

- **Nonspendable** – Balances that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.
- **Restricted** – Balances that are restricted to specific purposes by external parties such as creditors, grantors, or other governments, which are sources of externally enforceable legal restrictions.
- **Committed** – Balances that can only be used for specific purposes pursuant to formal action of the State Legislature, the highest level of decision-making authority. Legislation is required to modify or rescind a fund balance commitment.
- **Assigned** – Balances that are constrained by management for specific purposes as authorized by the Hawaii Revised Statutes, but are not restricted or committed.
- **Unassigned** – Residual balances that are not contained in the other classifications.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, Highways Division considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Highways Division
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State of Hawaii
Notes to Financial Statements
June 30, 2022

Risk Management

The Highways Division is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The State is self-insured for workers' compensation as discussed in Note 18. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

Intrafund and Interfund Transactions

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as transfers in the financial statements.

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 basic financial statements and accompanying notes. Actual results may differ from those estimates.

Recently Issued Accounting Pronouncements

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract.

The adoption of Statement No. 87 resulted in the recording of lease receivables and deferred inflows of resources related to leases at July 1, 2021, in accordance with the provisions of this Statement. Lease receivables and deferred inflows of resources related to leases of approximately \$2,712,000 were reported at July 1, 2021. The adoption of Statement No. 87 did not result in a restatement of beginning net position. Refer to Note 16 for more information on the Highways Division's leases.

GASB Statement No. 94

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

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Notes to Financial Statements
June 30, 2022

GASB Statement No. 96

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

GASB Statement No. 99

The GASB issued Statement No. 99, *Omnibus 2022*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Certain requirements of this Statement are effective upon issuance, while other requirements are effective for periods beginning after June 15, 2022 and periods beginning after June 15, 2023. The Highways Division is currently evaluating the impact that this Statement will have on its financial statements.

GASB Statement No. 100

The GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. This statement enhances 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. This Statement is effective for fiscal years beginning after June 15, 2023. The Highways Division is currently evaluating the impact that this Statement will have on its financial statements.

GASB Statement No. 101

The GASB issued Statement No. 101, *Compensated Absences*. This statement aims to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement is effective for fiscal years beginning after December 15, 2023. The Highways Division is currently evaluating the impact that this Statement will have on its financial statements.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2022

3. Equity in Cash and Cash Equivalents and Investments in State Treasury

Cash and cash equivalents at June 30, 2022 consisted of amounts held in State Treasury and are reflected in the accompanying financial statements at June 30, 2022 as follows:

Cash and cash equivalents	\$ 354,115,053
Restricted cash and cash equivalents	
Capital projects	176,897,345
Security deposits	14,277,846
	<hr/>
Total cash and cash equivalents	\$ 545,290,244

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. 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 Highways Division. However, as the governmental funds are held in the State investment pool, the Highways Division does not manage these investments and the types of investments, and related interest rate, credit, and custodial risk are not determinable at the Highways Division level. The risk and fair value disclosures related to 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: <https://ags.hawaii.gov/reports/financial-reports>.

4. Tax and Fee Revenues

State Fuel Tax

For fiscal year 2022, the tax on liquid motor vehicle fuel imposed on each gallon of fuel was as follows:

Gasoline	16 cents
Diesel fuel	
Non-highway use	1 cent
Highway use	16 cents
Liquefied petroleum gas	5.2 cents

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Vehicle Weight Tax and Penalties

The vehicle weight tax was 1.75 to 2.25 cents per pound of net vehicle weight, to a maximum of \$300 per vehicle.

Rental Motor and Tour Vehicle Surcharge Taxes

The rental motor vehicle surcharge tax was \$5.50 a day that a rental motor vehicle is rented or leased.

The tour vehicle surcharge tax was \$66 a month for tour vehicles categorized by the Public Utilities Commission as an over 25-passenger carrier vehicle and \$16 a month for tour vehicles categorized as an 8- to 25-passenger carrier vehicle.

Vehicle Registration and Motor Carrier Safety Inspection Fees

The vehicle registration fee was \$45 per vehicle, of which \$5 is earmarked for deposit into the Emergency Medical Services (“EMS”) special fund. During the year ended June 30, 2022, the Highways Division collected approximately \$5,868,000 on behalf of the EMS special fund.

The motor carrier safety inspection fee was \$1.50 per vehicle.

5. Federal Grants-in-Aid

The Highways Division has projects in progress in which part of the funding is being provided by the Federal Highway Administration (“FHWA”) through grants-in-aid. Such projects are generally accounted for in the Capital Projects and State Highway Funds. At June 30, 2022, receivables totaling approximately \$33,516,000 from the U.S. government are comprised of billed costs, pending reimbursement, as well as unbilled costs, which are eligible for reimbursement.

In addition, the MVSO has projects in progress in which part of the funding is being provided through federal grants-in-aid. The grants contain various compliance requirements, which must be met by the MVSO, including a matching of the grant amounts with state and local highway safety expenditures as defined in a formula. MVSO’s matching requirement is met through the expenditures of the Division of Driver Education, The Judiciary, State of Hawaii. Cost reimbursement by the FHWA and National Highway Traffic Safety Administration (“NHTSA”) are subject to final audit by federal agencies. In addition, FHWA and NHTSA reserve the right to examine the Highways Division for economy, efficiency, and program results. The Highways Division’s management believes that any federal aid received as of June 30, 2022 that might be required to be repaid to the FHWA or NHTSA based on federal audits would not be material to the financial position of the various funds of the Highways Division at June 30, 2022, or the results of operations of such funds for the year then ended.

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6. Capital Assets

The following is a summary of changes in capital assets during the year ended June 30, 2022:

	Balance July 1, 2021	Additions	Disposals	Transfers	Balance June 30, 2022
Nondepreciable assets					
Land	\$ 1,268,303,251	\$ 2,947,654	\$ -	\$ -	\$ 1,271,250,905
Construction in progress	213,484,767	196,493,939	(24,162,993)	(83,330,965)	302,484,748
Total nondepreciable assets	<u>1,481,788,018</u>	<u>199,441,593</u>	<u>(24,162,993)</u>	<u>(83,330,965)</u>	<u>1,573,735,653</u>
Depreciable assets					
Land improvements	2,215,473	-	-	-	2,215,473
Buildings and improvements	61,365,134	-	-	-	61,365,134
Vehicles and equipment	93,975,212	169,916	(1,278,931)	-	92,866,197
Infrastructure	9,925,819,835	-	-	83,330,965	10,009,150,800
Total depreciable assets	10,083,375,654	169,916	(1,278,931)	83,330,965	10,165,597,604
Less: Accumulated depreciation	<u>(6,614,092,671)</u>	<u>(209,283,052)</u>	<u>1,278,931</u>	<u>-</u>	<u>(6,822,096,792)</u>
Total depreciable assets, net	<u>3,469,282,983</u>	<u>(209,113,136)</u>	<u>-</u>	<u>83,330,965</u>	<u>3,343,500,812</u>
Total capital assets, net	<u>\$ 4,951,071,001</u>	<u>\$ (9,671,543)</u>	<u>\$ (24,162,993)</u>	<u>\$ -</u>	<u>\$ 4,917,236,465</u>

During the year ended June 30, 2022, the Highways Division recognized impairment losses on capital assets that are no longer in use of approximately \$24,163,000. The related assets were derecognized at net carrying amount. The impairment loss is reported in administration expenses in the government-wide statement of activities.

7. Net Position

At June 30, 2022, net position consisted of the following:

Net investment in capital assets	
Net property, plant and equipment	\$ 4,917,236,465
Less: Revenue bonds payable	(596,739,969)
Add: Unspent revenue bond proceeds	176,897,345
Add: Deferred charge on refunding, net	2,776,404
Less: Financed purchase, net of unused proceeds and financed interest cost	(50,608,976)
Less: Capital-related accounts and contracts payable	<u>(48,306,210)</u>
Total net investment in capital assets	4,401,255,059
Unrestricted	<u>334,002,742</u>
Total net position	<u>\$ 4,735,257,801</u>

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8. General Long-Term Liabilities

Changes in general long-term liabilities during the year ended June 30, 2022 were as follows:

	Balance June 30, 2021	Additions	Reductions	Balance June 30, 2022	Amount Due Within One Year
Accrued vacation payable	\$ 13,128,117	\$ 5,012,154	\$ (5,115,603)	\$ 13,024,668	\$ 3,843,545
Workers' compensation payable	12,240,001	877,789	(1,643,373)	11,474,417	1,105,214
Financed purchase	53,460,121	-	(2,851,145)	50,608,976	3,179,770
Revenue bonds payable	537,995,000	23,130,000	(54,805,000)	506,320,000	26,955,000
Revenue bonds payable – unamortized premium	98,099,995	4,050,908	(11,730,934)	90,419,969	-
Total governmental activities long-term liabilities	<u>\$ 714,923,234</u>	<u>\$ 33,070,851</u>	<u>\$ (76,146,055)</u>	<u>\$ 671,848,030</u>	<u>\$ 35,083,529</u>

State Highway funds are used to settle the above other long-term liabilities.

9. Revenue Bonds

In 1993, the Director of the Department of Transportation issued the *Certificate of the Director of Transportation Providing for the Issuance of State of Hawaii Highway Revenue Bonds* ("Certificate"). Subsequent issues of revenue bonds were covered by supplemental certificates to the original 1993 Certificate.

These revenue bonds are payable solely from, and collateralized solely by, the revenues held in the State Highway Fund consisting primarily of highway fuel taxes, vehicle registration fees, vehicle weight taxes, rental motor vehicle and tour vehicle surcharge taxes, and interest earnings on monies previously credited to the State Highway Fund. The proceeds of the revenue bonds are used to finance certain highway capital improvement projects and other related projects for the State Highways System.

On December 15, 2011, the Highways Division issued \$112,270,000 in State of Hawaii Revenue Bonds Series 2011A ("2011A Bonds"). The 2011A Bonds bear interest at rates ranging from 0.75% to 5.00% and mature in annual installments through 2032. These bonds were issued at a premium of approximately \$13,152,000, which will be amortized over the life of the bonds using the effective interest method.

On December 15, 2011, the Highways Division also issued \$5,095,000 in State of Hawaii Revenue Bonds Series 2011B ("2011B Bonds") with an interest rate of 4.00% and mature in annual installments through 2032. These bonds were issued at a premium of approximately \$467,000, which will be amortized over the life of the bonds using the effective interest method. The 2011B bonds were issued to provide funds for a current refunding of the outstanding 2001 Bonds. The payments for the current refunding of revenue bonds amounted to \$5,400,000.

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On August 14, 2014, the Highways Division issued \$103,375,000 in State of Hawaii Revenue Bonds Series 2014A ("2014A Bonds"). The 2014A Bonds bear interest at rates ranging from 2.00% to 5.00% and mature in annual installments through 2034. These bonds were issued at a premium of approximately \$17,291,000, which will be amortized over the life of the bonds using the effective interest method.

On August 14, 2014, the Highways Division also issued \$32,285,000 in State of Hawaii Revenue Bonds Series 2014B ("2014B Bonds"). The 2014B Bonds bear interest at rates ranging from 3.00% to 5.00% and mature in annual installments through 2026. These bonds were issued at a premium of approximately \$5,865,000, which will be amortized over the life of the bonds using the effective interest method.

On September 8, 2016, the Highways Division issued \$103,395,000 in State of Hawaii Revenue Bonds Series 2016A ("2016A Bonds"). The 2016A Bonds bear interest at rates ranging from 1.25% to 5.00% and mature in annual installments through 2030. These bonds were issued at a premium of approximately \$17,107,000, which will be amortized over the life of the bonds using the effective interest method.

On September 8, 2016, the Highways Division also issued \$101,090,000 in State of Hawaii Revenue Bonds Series 2016B ("2016B Bonds"). The 2016B Bonds bear interest at rates ranging from 2.00% to 5.00% and mature in annual installments through 2036. These bonds were issued at a premium of approximately \$25,989,000, which will be amortized over the life of the bonds using the effective interest method. The Highways Division issued the bonds to advance refund \$111,590,000 of the outstanding callable series 2008 and 2011A bonds with interest rates ranging from 4.80% to 6.00%.

The net proceeds of approximately \$128,188,000 (after an additional contribution of \$2,019,000, payment of \$514,000 in underwriting fees, insurance, and other issuance costs, and payment of \$397,000 in accrued interest) were used to purchase U.S. Treasury securities. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2008 and 2011A series bonds. As a result, that portion of the 2008 and 2011A series bonds are considered defeased, and the Highways Division has removed the liability from its accounts.

On December 11, 2019, the Highways Division issued \$81,835,000 of State of Hawaii Revenue Bonds Series 2019A ("2019A Bonds"). The 2019A Bonds bear interest at rates ranging from 3.00% to 5.00% and mature in annual installments through 2040. These bonds were issued at a premium of approximately \$18,661,000. The 2019A Bonds maturing on and before January 1, 2029 are not subject to redemption prior to their respective maturity dates. The 2019A Bonds maturing on or after January 1, 2030 are subject to redemption prior to their respective maturity dates at the option of the State at 100% plus accrued interest.

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On June 9, 2021, the Highways Division issued \$137,205,000 of State of Hawaii Revenue Bonds Series 2021 ("2021 Bonds"). The 2021 Bonds bear interest at 5.00% and mature in annual installments beginning in 2027 through 2041. These bonds were issued at a premium of approximately \$43,909,000. The 2021 Bonds, maturing on and before January 1, 2030, are not subject to redemption prior to their respective maturity dates. The 2021 Bonds, maturing on or after January 1, 2033, are subject to redemption prior to their respective maturity dates at the option of the State at 100% plus accrued interest.

On October 7, 2021, the Highways Division issued \$23,130,000 in State of Hawaii Revenue Bonds Series 2019B ("2019B Bonds"). The 2019B Bonds bear interest at 5.00% and mature in annual installments through 2032. These bonds were issued at a premium of approximately \$4,051,000, which will be amortized over the life of the bonds using the effective interest method. The Highways Division issued the bonds to advance refund \$26,825,000 of the outstanding callable series 2011A bonds with interest rates ranging from 2.00% to 5.00%.

The net proceeds of approximately \$27,147,000 (after payment of approximately \$33,000 in underwriting fees, insurance, and other issuance costs) plus an additional approximately \$322,000 in debt service fund monies were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2011A series bonds. As a result, that portion of the 2011A series bonds are considered defeased, and the Highways Division has removed the liability from its accounts.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately \$2,640,000. This difference, reported in the accompanying financial statements as deferred outflows of resources, is being charged to operations through fiscal year 2032. The advance refunding reduced the Highways Division's total debt service payments over the next 10 years by approximately \$4,450,000 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$3,798,000.

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The following is a summary of revenue bonds issued and outstanding at June 30, 2022:

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2011	0.75 – 5.00 %	2032	\$ 117,365,000	\$ 5,095,000
2014	2.00 – 5.00 %	2034	135,660,000	88,555,000
2016	1.25 – 5.00 %	2036	204,485,000	170,500,000
2019A	3.00 – 5.00 %	2040	81,835,000	81,835,000
2019B	5.00 %	2032	23,130,000	23,130,000
2021	5.00 %	2041	137,205,000	137,205,000
			<u>\$ 699,680,000</u>	<u>506,320,000</u>
		Add: Unamortized premium		90,419,969
		Less: Current portion		(26,955,000)
		Noncurrent portion		<u>\$ 569,784,969</u>

During the year ended June 30, 2022, approximately \$50,301,000 was transferred from the State Highway Fund to the Debt Service Fund for repayment of revenue bonds principal of approximately \$4,425,000 and \$22,910,000 on July 1, 2021 and January 1, 2022, respectively, and interest of approximately \$9,482,000 and \$13,485,000 due on July 1, 2021 and January 1, 2022, respectively.

The approximate maturities in each of the next five years and thereafter are as follows:

Years ending June 30,	Principal	Interest	Total
2023	\$ 26,955,000	\$ 24,411,426	\$ 51,366,426
2024	28,090,000	23,394,200	51,484,200
2025	29,120,000	22,020,750	51,140,750
2026	30,495,000	20,644,500	51,139,500
2027	32,145,000	19,169,100	51,314,100
2028 – 2032	144,875,000	72,126,400	217,001,400
2033 – 2037	133,545,000	38,811,750	172,356,750
2038 – 2041	81,095,000	10,384,000	91,479,000
Total	<u>\$ 506,320,000</u>	<u>\$ 230,962,126</u>	<u>\$ 737,282,126</u>

A comparison of revenues pledged as collateral for debt service payments recognized for the year ended June 30, 2022 to the principal and interest requirements of the bonds for the period is as follows:

Pledged user taxes	\$ 299,252,000
Principal and interest requirements	\$ 50,301,000

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10. Transfers

Transfers are accounted for in the governmental funds statement of revenues, expenditures, and changes in fund balances as other financing sources and uses, and in the government-wide statement of activities as transfers, and are summarized as follows:

	State Highway Fund	Debt Service Fund	Capital Projects Fund
Funding of revenue bond and financed purchase debt service	\$ (50,301,469)	\$ 50,301,469	\$ -
Funding of highway capital projects	11,131,669	-	(11,131,669)
	<u>\$ (39,169,800)</u>	<u>\$ 50,301,469</u>	<u>\$ (11,131,669)</u>

11. Pension Plan

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the Employees' Retirement System (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: <https://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 classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 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.

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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.

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 the 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 dependent children (up to age 18) receive a benefit equal to a percentage of 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 dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

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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 children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or 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 twelve 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.

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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.

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- *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 established 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 year 2022 was 24% for general employees. Contributions to the pension plan from the Highways Division were approximately \$12,564,000 for the year ended June 30, 2022.

Pursuant to Act 17, SLH 2017, employer contributions from the State and counties were expected to increase over four years beginning July 1, 2017. The rate for general employees increased to 24.0% on July 1, 2020.

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.

Measurement of the actuarial valuation is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Highways Division. It is the State's policy to recognize the proportionate share of the pension liability, pension expense, deferred inflows related to pensions, and deferred outflows related to pensions for only component units and proprietary funds that are reported separately in the State's ACFR. Therefore, the Highways Division's share of the net pension liability, pension expense, deferred inflows related to pensions, and deferred outflows related to pension are not included in the accompanying financial statements.

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 <https://ers.ehawaii.gov/resources/financials>.

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Payables to the Pension Plan

The Highways Division's contribution payable to the ERS at June 30, 2022 approximated \$513,000.

Disclosures and Required Supplementary Information

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

12. Postemployment Healthcare 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 Hawaii Employer-Union Health Benefits Trust Fund ("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>.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. 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 fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with 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 fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For 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.

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

Measurement of the actuarial valuation and the ARC are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the Highways Division. The State has only computed the allocation of the other postemployment benefit (“OPEB”) liability, OPEB expense, deferred outflows of resources, and deferred inflows of resources related to OPEB to component units and proprietary funds that are reported separately in the State’s ACFR. Therefore, the OPEB costs for the Highways Division were not available and are not included in the financial statements.

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. The employer is required to make all contributions for members.

The governor’s Fourteenth Supplementary (emergency) Proclamation, issued on October 13, 2020, suspended specific provisions of law. Included were Sections 87A-42(b) – (f), HRS, *other postemployment benefits trust*, 87A-43, HRS, *payment of public employer contributions to the other postemployment benefits trust*, and 237-31(3), HRS, *remittances*, related to the requirement for public employers to pay the annual required contribution to the EUTF in the fiscal years 2020–2021. The Highways Divisions did not make any contributions to the OPEB plan for the year ended June 30, 2022.

Detailed information about the OPEB plan’s fiduciary net position is available in the separately issued EUTF financial report. The EUTF’s complete financial statements are available at <https://eutf.hawaii.gov/reports/>.

Payables to the OPEB Plan

The Highways Division did not have any contribution payable to EUTF at June 30, 2022.

Disclosures and Required Supplementary Information

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

13. Deferred Compensation Plan

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

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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 accompanying basic financial statements.

14. Transactions with Other State Agencies

The State assesses a surcharge of 5% for central service expenses on all receipts of the State Highway Fund, after deducting any amounts pledged, charged or encumbered for the payment of bonds and interest during the year. During fiscal year 2022, the assessment amounted to approximately \$7,149,000, which is included as the caption surcharge on gross receipts expense/expenditures in the accompanying financial statements.

The Highways Division is also assessed a percentage of the cost of the general administration expenses of the Department of Transportation. During fiscal year 2022, assessments net of amounts refunded amounted to approximately \$4,286,000, which is included in administration expense/expenditures in the accompanying financial statements.

15. Commitments and Contingencies

Construction Contracts

At June 30, 2022, construction contracts outstanding amounted to approximately \$266,538,000 for various infrastructure projects and approximately \$435,775,000 for operations and maintenance projects.

Condemnation Proceedings

The Highways Division occasionally finds it necessary to condemn property for construction of highways. These proceedings require the Highways Division to compensate existing property owners for the fair market value of their real property. Prior to the determination of fair value, the Highways Division is required to deposit funds in State courts for these proceedings. The amount of funds deposited in the State courts was approximately \$467,000 at June 30, 2022. Such funds deposited may not be sufficient to cover the full amount required for compensation purposes. Management, however, believes any additional compensation in excess of amounts deposited with State courts will not be material to the financial statements of the Highways Division. The funds deposited in the State courts are reflected in capital projects expenditures in the governmental fund statement of revenue, expenditures, and changes in fund balances and in capital assets on the government-wide statement of net position in the year in which the deposits were made.

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Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2022, accumulated sick leave was approximately \$28,025,000.

Defeased Bonds

At various dates in prior years, the Highways Division has placed proceeds from bond issuances in irrevocable refunding escrow accounts for the purpose of providing sufficient funds to pay all principal and interest refunded bond issues and remaining payment dates (defeased bonds). The likelihood of the earnings and principal not being sufficient to pay the defeased bonds appears remote and accordingly the escrow accounts and defeased bonds are not included in the accompanying financial statements. There was no defeased bonds principal outstanding at June 30, 2022.

Litigation

The State is the defendant in lawsuits seeking damages allegedly related to State highways and highway construction contracts. 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 Highways Division's financial position. In addition, the State has not determined whether the ultimate liabilities, if any, will be imposed on the State Highway Fund. Accordingly, no provision for any liabilities that might result from the lawsuits have been made in the accompanying financial statements.

Environmental Issues

The Highways Division is subject to laws and regulations relating to the protection of the environment. The Highways Division has been identified by the State Department of Health as a potentially responsible party for petroleum contamination in the Honolulu Harbor/Iwilei area. Pursuant thereto, the Highways Division entered into a voluntary agreement with the Department of Health and other third parties to share in the responsibility for the investigation and potential remediation of petroleum contamination in the Iwilei District. This group of potentially responsible parties, known as the Iwilei District Participating Parties ("IDPP"), has conducted various investigations to determine potential contamination in the Iwilei area from 1997 to present, which investigations have determined the existence of petroleum contamination at various locations.

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

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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. As a result, it is not possible to reasonably estimate the amount of the potential cost to the IDPP and allocable share of the Highways Division, and if there would be a material impact to the Highways Division's financial statements. Accordingly, no estimate of loss has been recorded in the accompanying financial statements.

16. Leases

The Highways Division is a lessor of various properties under noncancelable lease agreements that expire through fiscal year 2044. At June 30, 2022, lease receivables of approximately \$2,508,000 were reported in other assets. For the year ended June 30, 2022, lease revenue and interest revenue of approximately \$258,000 and \$78,000, respectively, were reported in charges for services – rentals.

Scheduled annual minimum revenues are as follows:

Years ending June 30,	
2023	\$ 344,000
2024	344,000
2025	344,000
2026	344,000
2027	346,000
2028 – 2032	1,730,000
2033 – 2037	1,688,000
2038 – 2042	1,660,000
2043 – 2044	664,000
Total	<u>\$ 7,464,000</u>

17. Financed Purchase

On July 8, 2015, the Highways Division entered into an equipment purchase agreement for the acquisition and installation of energy conservation measures at selected Highways Division locations. Annual financing payments commenced on August 1, 2017 and will continue through August 1, 2031 at an interest rate of 2.63%.

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Notes to Financial Statements
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Future minimum payments under this financed purchase agreement are as follows:

	Principal	Interest	Total
Years ending June 30,			
2023	\$ 3,179,770	\$ 1,331,016	\$ 4,510,786
2024	3,530,110	1,247,388	4,777,498
2025	3,903,401	1,154,546	5,057,947
2026	4,300,946	1,051,887	5,352,833
2027	4,724,116	938,772	5,662,888
2028 – 2032	30,970,633	2,581,833	33,552,466
Total	<u>\$ 50,608,976</u>	<u>\$ 8,305,442</u>	<u>\$ 58,914,418</u>

18. 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 have a \$100,000,000 per occurrence limit. There are two different types of deductibles for the property coverage. The deductible for losses such as hurricanes, 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 perils such as a fire is \$1,000,000. The deductible for terrorism coverage is \$1,000,000.

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 claims expense coverage, which has a \$100,000 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.

General Liability (Including Torts)

Liability (tort and auto) 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 personal injury and property damage liability, including automobile and public errors and omissions, employment liability, and employee benefits liability insurance policy in force with a \$5,000,000 self-insured retention per occurrence, including a \$2,500,000 corridor. The annual aggregate

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limit for general liability occurrence is \$7,500,000 per occurrence. Losses under the deductible amount but over the Risk Management Office authority or over the aggregate limit are typically 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 of \$5,000,000 with a deductible of \$5,000,000 per claim. This policy includes (with sub-limits) system failure business interruption, dependent business interruption system failure, bricking of hardware, and consequential reputation loss.

Self-Insured Risks

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to \$25,000 are administered by the Risk Management Office.

Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation claims is established if information indicates that a loss has been incurred as of June 30, 2022, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying government-wide statement 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.

**Required Supplementary Information
Other than Management's Discussion
and Analysis (Unaudited)**

Highways Division
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State Highway Fund
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis)
Year Ended June 30, 2022

	Original	Final	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
Revenues				
State fuel taxes	\$ 68,012,849	\$ 68,012,849	\$ 76,768,614	\$ 8,755,765
Vehicle weight taxes	88,586,953	88,586,953	85,634,567	(2,952,386)
Rental motor and tour vehicle surcharge taxes	50,750,000	50,750,000	79,560,302	28,810,302
Vehicle registration fees	49,542,200	49,542,200	46,343,675	(3,198,525)
Investment income	1,188,405	1,188,405	1,373,740	185,335
Other fees and penalties	8,569,497	8,569,497	9,029,440	459,943
Total revenues	<u>266,649,904</u>	<u>266,649,904</u>	<u>298,710,338</u>	<u>32,060,434</u>
Expenditures				
Operations and maintenance				
Oahu highways and services	83,058,408	83,058,408	77,208,571	5,849,837
Hawaii highways and services	18,335,556	18,335,556	14,935,393	3,400,163
Maui highways and services	19,827,730	19,827,730	16,085,601	3,742,129
Kauai highways and services	11,287,424	11,287,424	8,388,329	2,899,095
Molokai highways and services	2,255,073	2,255,073	1,799,279	455,794
Lanai highways and services	458,832	458,832	341,577	117,255
Administration including debt service	93,840,943	93,551,246	74,260,314	19,290,932
Surcharge on gross receipts	10,859,486	11,149,183	12,563,408	(1,414,226)
Motor Vehicle Safety Office	9,324,272	9,324,272	8,615,477	708,795
Total expenditures	<u>249,247,724</u>	<u>249,247,724</u>	<u>214,197,950</u>	<u>35,049,774</u>
Revenues over expenditures and other uses	<u>\$ 17,402,180</u>	<u>\$ 17,402,180</u>	<u>\$ 84,512,388</u>	<u>\$ 67,110,208</u>

**Highways Division
Department of Transportation
State of Hawaii
State Highway Fund
Note to Schedule of Revenues and Expenditures – Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2022**

Budget and Budgetary Accounting

In the schedule of revenues and expenditures – budget and actual (non-GAAP budgetary basis) for the State Highway Fund, amounts reflected as original and amended budgeted revenues are the official estimates as compiled by the Highways Division’s management and the State Department of Budget and Finance at the time of budget consideration and adoption by the State Legislature. Revenue received from federal grants-in-aid is not included in the schedule of revenues and expenditures – budget and actual (non-GAAP budgetary basis) for the State Highway Fund since such grants are normally reimbursements of costs incurred on approved projects.

In the case of expenditures, the original and amended budgeted amounts reflected on the schedule of revenues and expenditures – budget and actual (non-GAAP budgetary basis) for the State Highway Fund are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawaii.

Allotments are made and expenditures are controlled at the program level for the State Highway Fund. Allotments for the State Highway Fund lapse at year-end.

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Note to Schedule of Revenues and Expenditures – Budget and Actual
(Non-GAAP Budgetary Basis)
Year Ended June 30, 2022

The table below reconciles the revenues over expenditures and other uses shown on the schedule of revenues and expenditures – budget and actual (non-GAAP budgetary basis) for the State Highway Fund to the revenues over expenditures, before other financing uses, on a GAAP basis shown on the statement of revenues, expenditures, and changes in fund balances for the State Highway Fund. The expenditures shown on the schedule of revenues and expenditures – budget and actual (non-GAAP budgetary basis) are based on the budgetary allotted expenditures while the expenditures shown on the statement of revenues, expenditures, and changes in fund balance are based on GAAP. Therefore, significant differences may exist between these two bases.

Revenues over expenditures and other uses, non-GAAP budgetary basis	\$ 84,512,388
Federal grants in aid – not included in budgeted revenues but included in GAAP basis revenues	115,481,319
Miscellaneous differences in revenues based on budgetary basis and GAAP basis	10,399,719
Pass-through expenditures for county projects not included in allotted expenditures on budgetary basis but included in GAAP basis expenditures	(39,398,177)
Debt service payments budgeted as part of Administration of Highways Division, but not shown as an expenditure in State Highway Fund	50,301,469
Differences in operations and maintenance expenditures between budgetary basis and GAAP basis	16,276,216
Differences in Highways Division administrative expenditures between allotted expenditures on budgetary basis and expenditures on GAAP basis (less budgeted debt service payment)	(130,066,305)
Differences in Motor Vehicle Safety Office expenditures and gross receipts surcharge between allotted expenditures on budgetary basis and expenditures on GAAP basis	<u>(969,860)</u>
Revenues over expenditures, before other financing uses, GAAP basis	<u>\$ 106,536,770</u>