



Highways Division Department of Transportation State of Hawaii

Financial Statements
June 30, 2025

Submitted by
The Auditor
State of Hawaii



Highways Division
Department of Transportation
State of Hawaii
Index
June 30, 2025

	Page(s)
Report of Independent Auditors	1–3
Management’s Discussion and Analysis (Unaudited)	4–12
Financial Statements	
Statement of Net Position – Governmental Activities.....	13
Statement of Activities – Governmental Activities.....	14
Balance Sheet – Governmental Funds.....	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Notes to Financial Statements.....	19–42
Required Supplementary Information Other than Management’s Discussion and Analysis (Unaudited)	43
Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – State Highway Fund	44
Note to Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – State Highway Fund	45



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, 2025, 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, 2025, 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, 2025, 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 opinions are not modified with respect to this matter.

Change in Accounting Principle

As described in Note 2, the Highways Division adopted the provisions of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*, during the year ended June 30, 2025. Our opinions are 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 and schedule of revenues and expenditures – budget and actual (non-GAAP budgetary basis) – State Highway Fund, 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 February 18, 2026 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
February 18, 2026

Highways Division
Department of Transportation
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2025

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, 2025. 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.

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.

Highways Division
Department of Transportation
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2025

- 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 13 and 14 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.

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 16 and 18, 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 15 through 18 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 19 through 42 of this report.

Highways Division
Department of Transportation
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2025

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 the note 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 44 of this report.

Financial Highlights

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, 2025 by \$4.8 billion. Of this amount, \$286 million is considered unrestricted and may be used to meet the Highways Division's ongoing obligations.

The Highways Division's net position increased by \$112 million during the year ended June 30, 2025.

Fund Financial Statements

At June 30, 2025, the Highways Division's governmental funds reported a combined ending fund balance of \$281 million. The combined fund balance decreased by \$61 million from the prior year's ending fund balance.

The Highways Division's SHF, the major operating fund, reported an ending fund balance of \$306 million. There was a \$15 million increase in fund balance during the year ended June 30, 2025.

Highways Division
Department of Transportation
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2025

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 \$4.8 billion at June 30, 2025 and \$4.7 billion at June 30, 2024. In accordance with the implementation of Governmental Accounting Standards Board Statement No. 101, *Compensated Absences*, net position was restated as of July 1, 2024.

Condensed Statements of Net Position
As of June 30, 2025 and 2024

	2025	2024
Assets		
Current and other assets	\$ 503,669,160	\$ 489,635,999
Capital assets, net	5,140,439,754	5,005,740,386
Total assets	<u>\$5,644,108,914</u>	<u>\$5,495,376,385</u>
Deferred outflows of resources		
Deferred charge on refunding, net	<u>\$ 399,102</u>	<u>\$ 1,082,532</u>
Liabilities		
Current liabilities	\$ 233,164,183	\$ 158,294,660
Long-term liabilities	577,436,613	606,822,102
Total liabilities	<u>\$ 810,600,796</u>	<u>\$ 765,116,762</u>
Deferred inflows of resources		
Deferred inflow of resources related to leases	<u>\$ 555,843</u>	<u>\$ 760,745</u>
Net position		
Net investment in capital assets	\$4,547,198,291	\$4,444,336,876
Unrestricted	286,153,086	286,244,534
Total net position	<u>\$4,833,351,377</u>	<u>\$4,730,581,410</u>

The largest portion of the Highways Division’s net position (\$4.5 billion at June 30, 2025 and \$4.4 billion at June 30, 2024) 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 are 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.

Highways Division
Department of Transportation
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2025

The remaining net position (\$286 million both at June 30, 2025 and 2024) is unrestricted and may be used to meet the Highways Division's ongoing obligations to citizens and creditors.

Current and other assets increased by \$14 million, or 3%, from June 30, 2024 to June 30, 2025, due primarily to an increase in due from U.S. government of \$56 million offset by decreases in equity in cash and cash equivalents of \$36 million and due from counties of \$7 million.

Capital assets, net increased by \$135 million, or 3%, from June 30, 2024 to June 30, 2025, primarily due to additions of \$385 million and recognition of software subscription assets of \$4 million, offset by depreciation and amortization expense of \$208 million and losses on disposal of \$46 million.

Current liabilities increased by \$75 million, or 47%, from June 30, 2024 to June 30, 2025, primarily due to increases in due to other State agencies of \$90 million and contracts payable of \$16 million, offset by decreases in accounts payable of \$24 million, accrued payroll of \$5 million, and unearned revenue of \$2 million.

Long-term liabilities decreased by \$29 million, or 5%, from June 30, 2024 to June 30, 2025, primarily due to decreases in revenue bonds payable of \$38 million and \$4 million in financed purchase, offset by increases of \$11 million in accrued compensated absences and \$1 million in workers' compensation.

A reconciliation on page 16 facilitates the comparison between governmental funds and governmental activities.

Highways Division
Department of Transportation
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2025

Condensed Statements of Activities

The following condensed financial information reflects how the Highways Division's net position changed during the years ended June 30, 2025 and 2024.

Condensed Statements of Activities
For the Years Ended June 30, 2025 and 2024

	2025	2024
Expenses		
Depreciation and amortization expense	\$ 208,238,274	\$ 206,014,704
Operations and maintenance	175,725,597	143,740,331
Administration of Highways Division	151,890,507	212,272,844
Motor Vehicle Safety Office	19,707,854	19,291,973
Interest expense	9,808,187	11,044,803
Other	<u>73,679,873</u>	<u>36,389,207</u>
Total expenses	<u>639,050,292</u>	<u>628,753,862</u>
Revenues		
Program revenues		
Capital grants and contributions	314,723,217	225,508,049
Operating grants and contributions	79,219,645	64,021,655
Charges for services	<u>58,330,900</u>	<u>56,068,070</u>
Total program revenues	<u>452,273,762</u>	<u>345,597,774</u>
Net program expenses	<u>(186,776,530)</u>	<u>(283,156,088)</u>
General revenues		
Taxes	282,991,578	269,165,384
Investment income and other	<u>15,358,451</u>	<u>19,880,663</u>
Total general revenues	<u>298,350,029</u>	<u>289,046,047</u>
Change in net position	111,573,499	5,889,959
Net position		
Beginning of year, as previously reported	4,730,581,410	4,724,691,451
Adjustment for change in accounting principle	<u>(8,803,532)</u>	-
Beginning of year, as restated	<u>4,721,777,878</u>	<u>4,724,691,451</u>
End of year	<u>\$4,833,351,377</u>	<u>\$4,730,581,410</u>

Total expenses increased by \$10 million, or 2%, from \$629 million in fiscal year 2024 to \$639 million in fiscal year 2025. The increase is due primarily to the increases in operations and maintenance by \$32 million and other expenses by approximately \$37 million, offset by decreases in administration of \$60 million and interest expense of \$1 million.

Total revenues increased by \$116 million, or 18%, from \$635 million in fiscal year 2024 to \$751 million in fiscal year 2025, due primarily to increases in program revenues of \$107 million and general revenues of \$9 million.

General revenues, which consist of taxes, vehicle weight taxes, and rental motor and tour vehicle surcharge taxes, as well as investment income, accounted for 40% and 46% of total revenues in fiscal years 2025 and 2024, respectively.

Highways Division
Department of Transportation
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2025

Program revenues, which comprise charges for services, as well as capital and operating grants, accounted for 60% and 54% of total revenues in fiscal years 2025 and 2024, respectively. The largest components of program revenues were 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 \$104 million from \$290 million in fiscal year 2024 to \$394 million in fiscal year 2025 due primarily to increases of \$15 million in operating grants and contributions and \$89 million in capital 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.

The increase in net position was \$112 million in fiscal year 2025 as compared to the increase in net position of \$6 million in fiscal year 2024.

A reconciliation on page 18 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, 2025, the Highways Division's governmental funds reported a combined ending fund balance of \$281 million, representing a decrease of \$61 million from the prior year. \$306 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. The Highways Division's governmental funds had an unassigned fund deficit of \$25 million.

At June 30, 2024, the Highways Division's governmental funds reported a combined ending fund balance of \$343 million, representing a decrease of \$97 million from the prior year. \$291 million of the fund balance was classified as committed to indicate that amounts can only be used for specific purposes pursuant to formal action of the Legislature. \$52 million of the fund balance was classified as restricted to indicate that amounts are restricted for specific purposes imposed by external parties.

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.

Highways Division
Department of Transportation
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2025

At June 30, 2025 and 2024, the total fund balance of the SHF was \$306 million and \$291 million, respectively. SHF’s fund balance increased by \$15 million in the current year compared to a \$57 million decrease in the prior year. The current year increase was mainly due to net transfers out of \$89 million offset by revenues over expenditures of \$104 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 \$51 million for both fiscal years 2025 and 2024.

The Capital Projects Fund (“CPF”) accounts for the Highways Division’s capital improvements program. At June 30, 2025, the CPF had a total fund deficit of \$25 million. The CPF fund balance decreased by \$77 million in fiscal year 2025 as compared to a \$40 million decrease in the prior year. The decrease in the current year fund balance was mainly due to expenditures over revenues of \$115 million, offset by net transfers in of \$38 million.

State Highway Fund Budgetary Highlights

The final SHF budget had total revenues of \$359 million. The actual revenues on a budgetary basis were \$353 million, or 2%, less than the final budget, primarily due to the lower than budgeted revenues for vehicle weight taxes of \$3 million, vehicle registration fees of \$4 million, and investment income of \$1 million, offset by higher than budgeted revenue in rental motor and tour vehicle surcharge taxes of \$4 million.

Expenditures on the budgetary actual basis were \$303 million, or 11%, lower than the final budgeted amounts. Most of the difference was due to actual expenditures being lower than final budgeted amounts for operations and maintenance and administration of the Highways Division of \$15 million and \$22 million, respectively. The lower-than-budgeted expenditures for Administration of \$22 million were mainly attributed to lower-than-anticipated debt service payments, and the lower-than-budgeted state maintenance program’s expenditures of \$15 million were mainly attributed to lower-than-anticipated personnel expenditures.

Capital Asset and Debt Administration

Capital Assets

The Highways Division’s capital assets as of June 30, 2025 amounted to \$12 billion and accumulated depreciation and amortization 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, software subscriptions, and construction in progress. Infrastructure assets consist of land, roadways, tunnels and bridges, and miscellaneous roadway components.

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

Highways Division
Department of Transportation
State of Hawaii
Management’s Discussion and Analysis (Unaudited)
June 30, 2025

Long-Term Debt

As of June 30, 2025, outstanding State of Hawaii Highway Revenue Bonds amounted to \$422 million, compared to \$451 million as of June 30, 2024. 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
2014	2.00 – 5.00 %	2034	\$ 135,660,000	\$ 63,155,000
2016	1.25 – 5.00 %	2036	204,485,000	132,505,000
2019A	3.00 – 5.00 %	2040	81,835,000	72,485,000
2019B	5.00 %	2032	23,130,000	16,805,000
2021	5.00 %	2041	137,205,000	137,205,000
			<u>\$ 582,315,000</u>	<u>\$ 422,155,000</u>

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 18 to the financial statements for further information on this financed purchase obligation, which amounted to \$40 million and \$44 million at June 30, 2025 and 2024, respectively.

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, 2025

Assets	
Equity in cash and cash equivalents and investments in State Treasury	\$ 304,947,356
Receivables, net	
Due from U.S. government	100,089,278
Due from counties	20,263,031
Other receivables	3,920,177
Restricted cash and cash equivalents and investments in State Treasury	
Capital projects	61,411,248
Security deposits	12,478,650
Other assets	559,420
Capital assets, net of accumulated depreciation and amortization	<u>5,140,439,754</u>
Total assets	<u>5,644,108,914</u>
Deferred Outflows of Resources	
Deferred charge on refunding, net	<u>399,102</u>
Liabilities	
Accounts payable	51,714,426
Accrued payroll	12,661,132
Accrued interest payable	1,225,292
Contracts payable	
Current portion	45,256,904
Retainage payable	6,227,104
Revenue bond interest payable	10,322,250
Security deposits	12,478,650
Due to other State agencies	93,278,425
Long-term liabilities	
Due within one year	
Accrued compensated absences payable	7,349,927
Workers' compensation payable	891,876
Financed purchase	4,300,946
Revenue bonds payable	30,495,000
Subscription liability	4,107,389
Due after one year	
Accrued compensated absences payable	19,729,683
Workers' compensation payable	15,241,618
Financed purchase	35,694,749
Revenue bonds payable	454,871,756
Subscription liability	<u>4,753,669</u>
Total liabilities	<u>810,600,796</u>
Deferred Inflows of Resources	
Deferred inflow of resources related to leases	<u>555,843</u>
Net Position	
Net investment in capital assets	4,547,198,291
Unrestricted	<u>286,153,086</u>
Total net position	<u>\$4,833,351,377</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, 2025

Expenses

Operations and maintenance	
Oahu highways and services	\$ 80,437,469
Kauai highways and services	10,049,030
Hawaii highways and services	17,568,849
Maui highways and services	22,244,053
Molokai highways and services	2,702,653
Lanai highways and services	402,492
Pass-through for county highways and services	42,321,051
Depreciation and amortization expense	208,238,274
Administration	151,890,507
Interest expense	9,808,187
Repairs and maintenance	58,331,188
Surcharge on gross receipts	15,348,685
Motor Vehicle Safety Office	19,707,854
Total expenses	<u>639,050,292</u>

Program revenues

Capital grants and contributions	314,723,217
Operating grants and contributions	79,219,645
Charges for services	
Vehicle registration fees	47,263,753
Penalties and fines	5,160,184
Other fees and permits	4,311,982
Rentals	1,594,981
Total program revenues	<u>452,273,762</u>
Net program expenses	<u>(186,776,530)</u>

General revenues

Taxes	
Vehicle weight taxes	89,331,998
State fuel taxes	75,681,221
Rental motor and tour vehicle surcharge taxes	117,978,359
Investment income	12,151,499
Other revenues	3,206,952
Total general revenues	<u>298,350,029</u>
Change in net position	111,573,499

Net position

Beginning of year, as previously reported	4,730,581,410
Adjustment for change in accounting principle	<u>(8,803,532)</u>
Beginning of year, as restated	<u>4,721,777,878</u>
End of year	<u>\$4,833,351,377</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, 2025

	State Highway Fund	Capital Projects Fund	Total
Assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 255,126,352	\$ 49,821,004	\$ 304,947,356
Receivables			
Due from capital projects fund	92,760,671	-	92,760,671
Due from U.S. government	7,841,443	92,247,835	100,089,278
Due from counties	22,927,455	-	22,927,455
Due from State of Hawaii	49,094	-	49,094
Other receivables	3,372,815	547,362	3,920,177
Restricted cash and cash equivalents and investments in State Treasury			
Capital projects	53,354,106	8,057,142	61,411,248
Security deposits	12,478,650	-	12,478,650
Other assets	559,420	-	559,420
Total assets	<u>\$ 448,470,006</u>	<u>\$ 150,673,343</u>	<u>\$ 599,143,349</u>
Liabilities			
Accounts payable	\$ 27,381,345	\$ 24,304,720	\$ 51,686,065
Accrued payroll	12,661,132	-	12,661,132
Contracts payable			
Current portion	4,462,164	40,794,740	45,256,904
Retainage payable	3,852,367	2,374,737	6,227,104
Security deposits	12,478,650	-	12,478,650
Due to State Highway Fund	-	92,760,671	92,760,671
Due to State agencies	80,610,513	12,717,006	93,327,519
Due to counties	-	2,664,424	2,664,424
Total liabilities	<u>141,446,171</u>	<u>175,616,298</u>	<u>317,062,469</u>
Deferred Inflows of Resources			
Deferred inflows of resources related to leases	555,843	-	555,843
Fund Balances			
Committed – State Highway Fund	306,467,992	-	306,467,992
Unassigned - Capital Projects Fund	-	(24,942,955)	(24,942,955)
Total fund balances	<u>306,467,992</u>	<u>(24,942,955)</u>	<u>281,525,037</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 448,470,006</u>	<u>\$ 150,673,343</u>	<u>\$ 599,143,349</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, 2025

Total fund balances – governmental funds		\$ 281,525,037
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	\$ 12,575,787,699	
Less: Accumulated depreciation and amortization	<u>(7,435,347,945)</u>	5,140,439,754
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.		399,102
Accrued interest payable is not recognized in governmental funds.		(11,547,542)
Other liabilities is not recognized in governmental funds.		(28,361)
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	\$ (485,366,756)	
Financed purchase	(39,995,695)	
Accrued compensated absences payable	(27,079,610)	
Workers’ compensation payable	(16,133,494)	
Subscription liability	<u>(8,861,058)</u>	<u>(577,436,613)</u>
Net position of governmental activities		<u>\$4,833,351,377</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, 2025

	State Highway Fund	Debt Service Fund	Capital Projects Fund	Total
Revenues				
Charges for services				
Vehicle registration fees	\$ 47,263,753	\$ -	\$ -	\$ 47,263,753
Penalties and fines	5,160,184	-	-	5,160,184
Other fees and permits	4,311,982	-	-	4,311,982
Rentals	1,594,981	-	-	1,594,981
Capital grants and contributions	-	-	314,723,217	314,723,217
Operating grants and contributions	79,219,645	-	-	79,219,645
Taxes				
Vehicle weight taxes	89,331,998	-	-	89,331,998
State fuel taxes	75,681,221	-	-	75,681,221
Rental motor and tour vehicle surcharge taxes	117,978,359	-	-	117,978,359
Investment income	12,151,499	-	-	12,151,499
Other revenues	1,935,861	-	1,276,771	3,212,632
Total revenues	<u>434,629,483</u>	<u>-</u>	<u>315,999,988</u>	<u>750,629,471</u>
Expenditures				
Operations and maintenance				
Oahu highways and services	85,770,255	-	-	85,770,255
Hawaii highways and services	18,600,243	-	-	18,600,243
Kauai highways and services	11,896,043	-	-	11,896,043
Maui highways and services	23,986,522	-	-	23,986,522
Molokai highways and services	2,702,653	-	-	2,702,653
Lanai highways and services	402,492	-	-	402,492
Pass-through for grants	-	-	42,321,051	42,321,051
Administration	151,669,997	-	-	151,669,997
Surcharge on gross receipts	15,348,685	-	-	15,348,685
Motor Vehicle Safety Office	19,707,854	-	-	19,707,854
Capital outlay	-	-	388,443,069	388,443,069
Debt service				
Principal payments	-	29,120,000	-	29,120,000
Interest expense	-	22,020,750	-	22,020,750
Total expenditures	<u>330,084,744</u>	<u>51,140,750</u>	<u>430,764,120</u>	<u>811,989,614</u>
Revenues over (under) expenditures	104,544,739	(51,140,750)	(114,764,132)	(61,360,143)
Other financing sources (uses)				
Transfers in	-	51,140,750	37,904,615	89,045,365
Transfers out	<u>(89,045,365)</u>	<u>-</u>	<u>-</u>	<u>(89,045,365)</u>
Total other financing sources (uses)	<u>(89,045,365)</u>	<u>51,140,750</u>	<u>37,904,615</u>	<u>-</u>
Net change in fund balances	15,499,374	-	(76,859,517)	(61,360,143)
Fund balances				
Beginning of year	<u>290,968,618</u>	<u>-</u>	<u>51,916,562</u>	<u>342,885,180</u>
End of year	<u>\$ 306,467,992</u>	<u>\$ -</u>	<u>\$ (24,942,955)</u>	<u>\$ 281,525,037</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, 2025

Net change in fund balances – total governmental funds		\$ (61,360,143)
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 and amortization expense		
Expenditures for capital assets	\$ 389,061,317	
Loss on disposals	(46,123,675)	
Less: Current fiscal year depreciation and amortization	<u>(208,238,274)</u>	134,699,368
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	\$ 29,120,000	
Financed purchase	3,903,401	
Change in revenue bonds interest payable	<u>688,125</u>	33,711,526
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	\$ 8,659,647	
Amortization of deferred charge on refunding	<u>(683,430)</u>	7,976,217
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		<u>(3,453,469)</u>
Change in net position – governmental activities		<u>\$ 111,573,499</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, 2025

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, 2025, 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 are met.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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.

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 is 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.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

- **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, 2025.

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.

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.

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. 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.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

- Lease receipts included in the measurement of the lease receivable are 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.

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.

Subscription Based Information Technology Arrangements (“SBITA”)

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

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

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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

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

- **Preliminary project stage** – Outlays are expensed as incurred.
- **Initial implementation stage** – Outlays are capitalized as an addition to the subscription asset.
- **Operation and additional implementation stage** – Outlays are expensed as incurred unless they meet specific capitalization criteria.

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

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

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

- The Highways Division uses the interest rate charged by the SBITA vendor as the discount rate. When the interest rate charged by the SBITA vendor is not provided, the Highways Division generally uses its estimated incremental borrowing rate as the discount rate for SBITA.
- The subscription term includes the noncancellable period of the SBITA. Subscription payments included in the measurement of the subscription liability are composed of fixed payments and purchase option price that the Highways Division is reasonably certain to exercise.
- The Highways Division monitors changes in circumstances that would require a remeasurement of its subscription liability.

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.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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, 2025, the deferred charge on refunding, net of accumulated amortization, amounted to approximately \$399,000.

The Highways Division defers recognition of lease income for lease receivables and recognizes revenue over the lease term. As of June 30, 2025, the deferred lease income amounted to approximately \$556,000.

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, compensatory time, and sick leave benefits, as well as well as participate in the leave donation pool and the direct sharing programs (collectively, "compensated absences"). A liability is recognized only for leave that is (a) attributable to services already rendered, (b) accumulates, and (c) is more likely than not to be used, paid or settled. The liability for vacation and compensatory time leave is measured using the pay or salary rates in effect at the financial statement date, including shortage differentials. The measurement also includes fringe benefits. The liability for sick leave that is more likely than not to be used, paid or settled through cash or noncash means is measured using the historical average use approach. This method is based upon the Highways Division's historical experience with sick leave usage through payouts over the last five years, and considers past trends to determine the amount of sick leave expected to be used or paid in the future. The liability for the leave donation pool is measured using the average rate of entitled employees utilizing the leave donation as of the financial statement date. The liability for the direct sharing program is measured using the rate of the employee utilizing the leave as of the financial statement date. All leave is accrued when incurred and reported in the government-wide statement of net position. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or 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.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

- **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 HRS, 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, the Highways Division considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

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 19. 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. 101

During fiscal year 2025, the Highways Division implemented GASB Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. This Statement requires recognition of a liability for compensated absences that (1) is attributed to services already rendered, (2) accumulates, and (3) is more likely than not to be used for time off or otherwise paid or settled.

Upon implementation of this Statement, the beginning net position balance as of July 1, 2024 was restated to reflect the cumulative effect of the Statement. The impact of the change as of July 1, 2024 is summarized in the table below:

Beginning Net Position (As Previously Reported)	Adjustment for GASB 101 Implementation	Beginning Net Position (As Restated)
\$4,730,581,410	\$ (8,803,532)	\$4,721,777,878

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

GASB Statement No. 102

During the fiscal year 2025, the Highways Division implemented GASB Statement No. 102, *Certain Risk Disclosures*. The primary objective of the Statement is to provide users of government financial statements with information about risks related to a government’s vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. Implementation of this Statement did not have a significant impact on the Highways Division’s financial statements or disclosures.

GASB Statement No. 103

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

GASB Statement No. 104

The GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The primary objective of this Statement is to improve users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. The Highways Division has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 105

The GASB issued Statement No. 105, *Subsequent Events*. The primary objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2026. The Highways Division has not determined the effect this statement will have on its financial statements.

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

Cash and cash equivalents at June 30, 2025 consisted of amounts held in State Treasury and are reflected in the accompanying financial statements at June 30, 2025 as follows:

Cash and cash equivalents	\$ 304,947,356
Restricted cash and cash equivalents	
Capital projects	61,411,248
Security deposits	<u>12,478,650</u>
Total equity in cash and cash equivalents and investments in State Treasury	<u>\$ 378,837,254</u>

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

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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 2025, 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

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 \$6.50 to \$7 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 \$46 per vehicle, of which \$5 is earmarked for deposit into the Emergency Medical Services ("EMS") special fund. During the year ended June 30, 2025, the Highways Division collected approximately \$5,397,000 on behalf of the EMS special fund.

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

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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, 2025, receivables totaling approximately \$100,089,000 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, 2025 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, 2025, or the results of operations of such funds for the year then ended.

6. Capital Assets

For the year ended June 30, 2025, capital assets activity, including subscription assets, for the Highways Division was as follows:

	Balance July 1, 2024	Additions	Disposals	Transfers	Balance June 30, 2025
Nondepreciable assets					
Land	\$1,272,536,598	\$ 348,665	\$ -	\$ -	\$1,272,885,263
Construction in progress	353,344,684	330,991,832	(46,102,425)	(146,546,102)	491,687,989
Total nondepreciable assets	<u>1,625,881,282</u>	<u>331,340,497</u>	<u>(46,102,425)</u>	<u>(146,546,102)</u>	<u>1,764,573,252</u>
Depreciable assets					
Land improvements	2,215,473	-	-	-	2,215,473
Buildings and improvements	61,902,460	-	-	7,409,238	69,311,698
Vehicles and equipment	93,365,203	12,931,606	(5,379,694)	1,548,797	102,465,912
Infrastructure	10,441,407,639	40,569,313	-	137,588,067	10,619,565,019
Software subscriptions	13,436,444	4,219,901	-	-	17,656,345
Total depreciable assets	<u>10,612,327,219</u>	<u>57,720,820</u>	<u>(5,379,694)</u>	<u>146,546,102</u>	<u>10,811,214,447</u>
Less: Accumulated depreciation and amortization	<u>(7,232,468,115)</u>	<u>(208,238,274)</u>	<u>5,358,444</u>	<u>-</u>	<u>(7,435,347,945)</u>
Total depreciable assets, net	<u>3,379,859,104</u>	<u>(150,517,454)</u>	<u>(21,250)</u>	<u>146,546,102</u>	<u>3,375,866,502</u>
Total capital assets, net	<u>\$5,005,740,386</u>	<u>\$ 180,823,043</u>	<u>\$ (46,123,675)</u>	<u>\$ -</u>	<u>\$5,140,439,754</u>

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

7. Net Position

At June 30, 2025, net position consisted of the following:

Net investment in capital assets	
Net property, plant and equipment	\$5,140,439,754
Less: Revenue bonds payable	(485,366,756)
Add: Unspent revenue bond proceeds	8,057,142
Add: Deferred charge on refunding, net	399,102
Less: Financed purchase, net of unused proceeds and financed interest cost	(39,995,695)
Less: Capital-related accounts and contracts payable	(67,474,198)
Less: Subscription Liability	<u>(8,861,058)</u>
Total net investment in capital assets	4,547,198,291
Unrestricted	<u>286,153,086</u>
Total net position	<u><u>\$4,833,351,377</u></u>

8. General Long-Term Liabilities

Changes in general long-term liabilities during the year ended June 30, 2025 were as follows:

	Balance			Balance	Amount
	July 1, 2024	Additions*	Deductions	June 30, 2025	Due Within
	(As restated)				One Year
Accrued compensated absences	\$ 25,095,806	\$ 1,983,804	\$ -	\$ 27,079,610	\$ 7,349,927
Workers' compensation payable	14,640,626	2,882,572	(1,389,704)	16,133,494	891,876
Financed purchase	43,899,096	-	(3,903,401)	39,995,695	4,300,946
Revenue bonds payable	451,275,000	-	(29,120,000)	422,155,000	30,495,000
Revenue bonds payable – unamortized premium	71,871,403	-	(8,659,647)	63,211,756	-
Subscription liability	<u>8,843,704</u>	<u>4,219,901</u>	<u>(4,202,547)</u>	<u>8,861,058</u>	<u>4,107,389</u>
Total governmental activities long-term liabilities	<u>\$ 615,625,635</u>	<u>\$ 9,086,277</u>	<u>\$ (47,275,299)</u>	<u>\$ 577,436,613</u>	<u>\$ 47,145,138</u>

* Accrued compensated absences are reported as net additions.

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

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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 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 2036. 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 2030. 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.

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.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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 following is a summary of revenue bonds issued and outstanding at June 30, 2025:

Series	Interest Rates	Final Maturity Date (July 1)	Original Amount of Issue	Outstanding Amount
2014	2.00 – 5.00 %	2034	\$ 135,660,000	\$ 63,155,000
2016	1.25 – 5.00 %	2036	204,485,000	132,505,000
2019A	3.00 – 5.00 %	2040	81,835,000	72,485,000
2019B	5.00 %	2032	23,130,000	16,805,000
2021	5.00 %	2041	<u>137,205,000</u>	<u>137,205,000</u>
			<u>\$ 582,315,000</u>	422,155,000
		Add: Unamortized premium		63,211,756
		Less: Current portion		<u>(30,495,000)</u>
		Noncurrent portion		<u>\$ 454,871,756</u>

During the year ended June 30, 2025, approximately \$51,141,000 was transferred from the State Highway Fund to the Debt Service Fund for repayment of revenue bonds principal of approximately \$29,120,000 on January 1, 2025, and interest of approximately \$11,010,000 due on July 1, 2024 and January 1, 2025, respectively.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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

	Principal	Interest	Total
Years ending June 30,			
2026	\$ 30,495,000	\$ 20,644,500	\$ 51,139,500
2027	32,145,000	19,169,100	51,314,100
2028	33,755,000	17,561,850	51,316,850
2029	35,440,000	15,874,100	51,314,100
2030	24,215,000	14,102,100	38,317,100
2031 – 2035	136,140,000	52,027,000	188,167,000
2036 – 2040	108,185,000	20,668,100	128,853,100
2041	21,780,000	1,089,000	22,869,000
Total	<u>\$ 422,155,000</u>	<u>\$ 161,135,750</u>	<u>\$ 583,290,750</u>

A comparison of revenues pledged as collateral for debt service payments recognized for the year ended June 30, 2025 to the principal and interest requirements of the bonds for the period is as follows:

Pledged user taxes	\$ 341,322,000
Principal and interest requirements	\$ 51,140,000

10. Subscription Liability

The Highways Division has entered into SBITAs for various administrative and operational purposes. These subscriptions include services related to cloud-based software applications, data storage, and management services. Under the terms of these arrangements, the Highways Division does not take possession of the software at any time and the vendor provides ongoing services for the software's operation. The subscription periods vary, with initial noncancellable terms ranging from three to seven years. The calculated interest rates used ranged from 5.144% to 5.247%.

As of June 30, 2025, the capitalized right-of-use assets related to SBITA was approximately \$11,927,000 and the total subscription liability was approximately \$8,861,000, of which approximately \$4,107,000 is classified as a current liability representing the portion due within the next fiscal year.

For the year ended June 30, 2025, the Highways Division recognized approximately \$458,000 of interest expense related to these arrangements.

Principal and interest payments to maturity are as follows:

	Principal	Interest	Total
Years ending June 30,			
2026	\$ 4,107,389	\$ 343,734	\$ 4,451,123
2027	3,553,079	158,197	3,711,276
2028	1,200,590	28,784	1,229,374
Total	<u>\$ 8,861,058</u>	<u>\$ 530,715</u>	<u>\$ 9,391,773</u>

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

11. 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 are summarized as follows:

	State Highway Fund	Debt Service Fund	Capital Projects Fund
Funding of revenue bond and financed purchase debt service	\$ (51,140,750)	\$ 51,140,750	\$ -
Funding of highway capital projects	(37,904,615)	-	37,904,615
	<u>\$ (89,045,365)</u>	<u>\$ 51,140,750</u>	<u>\$ 37,904,615</u>

12. 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.

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.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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.

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.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

- *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.

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.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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

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

Hybrid Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees’ retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.
- *Disability and Death Benefits* – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions

Contributions are 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 2025 was 24% for general employees. Contributions to the pension plan from the Highways Division were approximately \$15,679,000 for the year ended June 30, 2025.

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

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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 financial statements are available at <https://ers.ehawaii.gov/resources/financials>.

Payables to the Pension Plan

The Highways Division's contribution payable to the ERS at June 30, 2025 approximated \$614,000.

Disclosures and Required Supplementary Information

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

13. 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.

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.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

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.

Contributions to the OPEB plan from the Highways Division were approximately \$14,324,000 for the year ended June 30, 2025.

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

Payables to the OPEB Plan

The Highways Division’s contribution payable to EUTF at June 30, 2025 approximated \$608,000.

Disclosures and Required Supplementary Information

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

14. Deferred Compensation Plan

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

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

15. 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 2025, the assessment amounted to approximately \$15,349,000, 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 2025, assessments, net of amounts refunded, amounted

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

to approximately \$7,970,000, which is included in administration expense/expenditures in the accompanying financial statements.

16. Commitments and Contingencies

Construction Contracts

At June 30, 2025, construction contracts outstanding amounted to approximately \$112,038,000 for various infrastructure projects and approximately \$21,256,000 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 \$1,164,000 at June 30, 2025. 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 funds 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.

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 on 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, 2025.

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.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

The remediation alternative selected involves the management of the contamination in place with limited extraction; plume monitoring; active institutional controls including education/awareness and outreach of landowners, potential developers, and utility operators; and reimbursement of future incremental project costs attributable to the contamination. However, the project has not yet advanced to the stage where total costs to the IDPP can reasonably be estimated due to: (1) the extent of the environmental impact, (2) the undetermined allocation among the potentially responsible parties, and (3) the continued discussion with the regulatory authorities. 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.

17. Leases

The Highways Division is a lessor of various properties under noncancelable lease agreements that expire through fiscal year 2034. At June 30, 2025, lease receivables of approximately \$398,000 were reported in other assets. For the year ended June 30, 2025, lease revenue and interest revenue of approximately \$389,000 and \$29,000, respectively, were reported in charges for services – rentals.

Scheduled annual minimum revenues are as follows:

Years ending June 30,	
2026	\$ 414,000
2027	414,000
2028	414,000
2029	414,000
2030	14,000
2031 – 2034	54,000
Total	<u>\$ 1,724,000</u>

18. 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%.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

Future minimum payments under this financed purchase agreement are as follows:

	Principal	Interest	Total
Years ending June 30,			
2026	\$ 4,300,946	\$ 1,051,887	\$ 5,352,833
2027	4,724,116	938,772	5,662,888
2028	5,174,358	814,528	5,988,886
2029	5,653,193	678,442	6,331,635
2030	6,162,224	529,763	6,691,987
2031 – 2032	13,980,858	559,101	14,539,959
Total	<u>\$ 39,995,695</u>	<u>\$ 4,572,493</u>	<u>\$ 44,568,188</u>

19. 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, except as noted below. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past ten fiscal years. A summary of the State’s underwriting risks is as follows:

Property Insurance

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

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. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services, and losses not covered by insurance are paid from the State’s General Fund.

Casualty and Professional Liability

From July 1, 2024 to November 2024, the State had an effective general Liability insurance policy that provided \$5,000,000 coverage with a \$7,500,000 deductible. As of December 1, 2024, the State does not have any liability insurance policy. Therefore, the State is self-insured thereafter. Liability claims up to \$25,000 are handled by the State’s Risk Management Office. All other claims are handled by the Department of the Attorney General. Losses under the deductible amount but over the Risk Management Office authority or over the aggregate limit are paid from legislative appropriations of the State’s General Fund.

Highways Division
Department of Transportation
State of Hawaii
Notes to Financial Statements
June 30, 2025

Cyber Liability Insurance

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

Self-Insured Risks

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

Reserve for Losses and Loss Adjustment Costs

A liability for workers' compensation claims and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2025, 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 the State Highway Fund.

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

Highways Division
Department of Transportation
State of Hawaii
State Highway Fund
Required Supplementary Information
Schedule of Revenues and Expenditures – Budget and Actual
(Non-GAAP Budgetary Basis) (Unaudited)
Year Ended June 30, 2025

	Original	Final	Actual on Budgetary Basis	Variance with Final Budget Positive (Negative)
Revenues				
State fuel taxes	\$ 76,224,622	\$ 76,224,622	\$ 75,681,221	\$ (543,401)
Rental motor and tour vehicle surcharge taxes	114,233,232	114,233,232	117,978,359	3,745,127
Vehicle weight taxes	95,696,620	95,696,620	92,468,568	(3,228,052)
Vehicle registration fees	52,448,930	52,448,930	48,523,258	(3,925,672)
Investment income	11,787,200	11,787,200	10,717,752	(1,069,448)
Other fees and penalties	21,618,503	8,803,303	8,128,910	(674,393)
Total revenues	<u>372,009,107</u>	<u>359,193,907</u>	<u>353,498,068</u>	<u>(5,695,839)</u>
Expenditures				
Operations and maintenance				
Oahu highways and services	96,997,899	97,557,899	93,227,559	4,330,340
Hawaii highways and services	24,435,476	24,790,476	17,945,590	6,844,886
Maui highways and services	23,649,154	23,094,254	21,322,530	1,771,724
Kauai highways and services	1,964,497	3,015,497	2,628,151	387,346
Molokai highways and services	748,633	612,533	364,590	247,943
Lanai highways and services	13,042,171	13,247,171	11,666,170	1,581,001
Administration including debt service	150,632,972	148,749,688	127,000,368	21,749,320
Surcharge on gross receipts	13,730,165	17,655,641	17,655,641	-
Motor Vehicle Safety Office	10,067,523	11,087,523	10,771,439	316,084
Total expenditures	<u>335,268,490</u>	<u>339,810,682</u>	<u>302,582,038</u>	<u>37,228,644</u>
Revenues over expenditures	<u>\$ 36,740,617</u>	<u>\$ 19,383,225</u>	<u>\$ 50,916,030</u>	<u>\$ 31,532,805</u>

See report of independent auditors.

Highways Division
Department of Transportation
State of Hawaii
State Highway Fund
Required Supplementary Information
Note to Schedule of Revenues and Expenditures – Budget and Actual
(Non-GAAP Budgetary Basis) (Unaudited)
Year Ended June 30, 2025

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.

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 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, non-GAAP budgetary basis	\$ 50,916,030
Federal grants in aid – not included in budgeted revenues but included in GAAP basis revenues	76,504,142
Miscellaneous differences in revenues based on budgetary basis and GAAP basis	4,627,273
Debt service payments budgeted as part of Administration of Highways Division, but not shown as an expenditure in State Highway Fund	51,140,750
Differences in operations and maintenance expenditures between budgetary basis and GAAP basis	3,796,382
Differences in Highways Division administrative expenditures between allotted expenditures on budgetary basis and expenditures on GAAP basis (less budgeted debt service payment)	(75,810,379)
Differences in Motor Vehicle Safety Office expenditures and gross receipts surcharge between allotted expenditures on budgetary basis and expenditures on GAAP basis	(6,629,459)
Revenues over expenditures, GAAP basis	<u>\$ 104,544,739</u>

See report of independent auditors.