STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

FINANCIAL AND COMPLIANCE AUDIT

For the Year Ended June 30, 2013

CW Associates
A Hawaii Certified Public Accounting Corporation

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION,
ADMINISTRATION DIVISION

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PART I

TRANSMITTAL

CW Associates
A Hawaii Certified Public Accounting Corporation

January 9, 2014

The Auditor
State of Hawaii

We have completed our financial and compliance audit of the State of Hawaii, Department of Transportation, Administration Division (Division) as of and for the fiscal year ended June 30, 2013. The audit was performed in accordance with our agreement, dated July 17, 2013, with the Auditor, State of Hawaii, and with the requirements of auditing standard generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

OBJECTIVES

The primary purpose of our audit was to form an opinion on the fair presentation of the Division's financial statements as of and for the fiscal year ended June 30, 2013, and to comply with the requirements of OMB Circular A-133. More specifically, the objectives of our audit were as follows:

- To provide a basis for an opinion on the fair presentation of the financial statements of the Division.
- To ascertain whether expenditures have been made, and all revenues and other receipts to which the Division is entitled have been collected and accounted for, in accordance with the laws, rules and regulations, and policies and procedures of the state and the federal government.
- To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the State and the Division the proper information to plan, evaluate, control, and correct program activities.
- To evaluate the adequacy, effectiveness, and efficiency of the systems and procedures for financial accounting, operational and internal controls, and to recommend improvements to such systems and procedures.
- To satisfy the audit requirements of the federal grantor agency.

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SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; the *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of our audit included an examination of the transactions and accounting records of the Division as of and for the fiscal year ended June 30, 2013.

ORGANIZATION OF THE REPORT

This report is organized into six parts:

PART I – Presents the transmittal letter.

PART II – Presents management's discussion and analysis.

PART III – Presents the financial section which includes the Division's financial statements and the auditors' report on such statements and supplementary financial information.

PART IV – Contains the reports on internal controls over financial reporting and compliance.

PART V – Presents the schedules of audit findings and questioned costs.

PART VI – Contains the corrective action plan.

We wish to thank the personnel of the Administration Division and particularly the Business Management Office Staff for their cooperation and the assistance extended to us. We will be happy to respond to any questions that you may have on this report.

Very truly yours,

Robert Hatanaka
Audit Partner

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2013

This section of the annual financial report presents management's discussion and analysis of the Division's financial performance during the fiscal year ended June 30, 2013. It should be read in conjunction with the Division's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Division's total net position (deficit) was ($3,042,000) at June 30, 2013, a decrease of $126,000 or 4.0% below the prior year. Assessments increased by $906,000, net of a decrease in administrative expenses of $168,000. Other revenue increased by $23,000.
- The Division's investment in capital assets of $678,000 at June 30, 2013, increased by $299,000 or 78.9% above the prior year due to additions in the current year of computer equipment.
- The Division's current liabilities were $12,367,000 at June 30, 2013, which was an increase of $1,766,000 or 16.7% over the prior year primarily due to increases in accounts payable and amounts due to other divisions and funds.
- The Division's long-term liabilities were $5,195,000 at June 30, 2013, which was a decrease of $766,000 or 12.9% below the prior year due to payments of Aloha Tower Development Corporation's note payable to the Harbors Division of the State of Hawaii, Department of Transportation.
- Total revenues were $27,337,000 for the year ended June 30, 2013, a decrease of $352,000 or 1.3% below the prior year primarily attributable to a decrease in federal grant revenues of $1,281,000 or 10.3%, offset by an increase in assessments of $906,000 or 6.4%.

OVERVIEW OF FINANCIAL STATEMENTS

The financial statements consists of six parts: Management's Discussion and Analysis, which discusses the Division's financial performance during the fiscal year; a financial section, which presents the Division's financial statements, notes to the financial statements, and supplementary information; reports on internal controls and compliance; schedule of prior audit findings and questioned costs; schedule of findings and questioned costs; and the Division's corrective action plan, if any. These components are described below.

Government-Wide Financial Statements

The government-wide financial statements report information about the Division as a whole using accounting methods similar to those used by private sector companies. The *Statement of Net Position* provides both short-term and long-term information about the Division's financial position, which reflects the Division's financial condition at the end of the fiscal year. All of the current year's revenues and expenditures are accounted for in the *Statement of Activities* on the accrual basis of accounting.

The *Statement of Net Position* presents the Division's assets, deferred outflows (none in 2013), liabilities, and deferred inflows (none in 2013) with the difference between the two reported as "net position". This statement reflects the financial position of the Division as of its fiscal year end.

The *Statement of Activities* reflects the operations of the Division during the fiscal year and the resultant change in the net assets.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

The fund financial statements provide detailed information about the Division's significant funds. A fund is a grouping of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Funds are either reported as a major fund or a non-major fund.

The Division has two types of funds:

- Governmental Funds:

  Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Division's Special Revenue Funds were established to account for the contracts that the State entered into for the Division with the U.S. Department of Transportation, Federal Highway Administration (FHWA) and Federal Transit Administration (FTA). The Special Revenue Fund also includes the transactions and balances of Aloha Tower Development Corporation (ATDC), a blended component unit.

- Fiduciary Funds:

  Agency Funds – Agency Funds are used to account for assets held by the Division in an agency capacity for other divisions of the State of Hawaii, Department of Transportation (DOT). These assets include receipts of bid deposits for contracts with DOT and restricted AMTRAK Funds in accordance with the Taxpayer Relief Act of 1997. These assets can only be used or applied if certain requirements are met. The Division's fiduciary activities are reported in a separate "Statement of Fiduciary Net Assets". These activities are excluded from the Division's basic financial statements because the Division cannot use these assets to finance its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional disclosures for the information reflected in the financial statements essential to understanding the financial data provided in the government-wide financial statements.

Other Reports

Following the Notes to Financial Statements are a Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards,* and a Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance Required by OMB Circular A-133. The schedules of prior and current findings and questioned costs and the Division's corrective action plan accompany these reports.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Government-Wide Financial Analysis

The Statement of Net Position reflects the Division's financial condition at the end of the fiscal year. As of June 30, 2013, the Division's total net position (deficit) was ($3,042,000).

The following presents a summarized comparison of net assets (deficit) and changes in net assets for the fiscal years ended June 30, 2013 and 2012, rounded to the nearest $1,000.

	2013	2012
ASSETS		
Current	$13,842,000	$13,015,000
Capital assets net of depreciation	678,000	379,000
Total assets	$14,520,000	$13,394,000
LIABILITIES		
Current	$12,367,000	$10,601,000
Long-term	5,195,000	5,961,000
Total liabilities	17,562,000	16,562,000
NET POSITION		
Invested in capital assets, net of related debt	678,000	379,000
Restricted	4,830,000	4,830,000
Unrestricted deficit	(8,550,000)	(8,377,000)
Total net position (deficit)	(3,042,000)	(3,168,000)
Total liabilities and net position	$14,520,000	$13,394,000

At June 30, 2013, the net position of the Division is a deficit of approximately $3,042,000, which decreased by $126,000 or 4.0% from the prior year. Investment in capital assets (such as furniture and fixtures) and restricted funds for transportation projects represent a large portion of the Division's net position. The Division uses these capital assets for the benefit of and use by government agencies; consequently, these assets are not available for future spending and cannot be used to settle any liabilities. The remaining restricted assets of $4,830,000 at June 30, 2013 and 2012, represent resources that are subject to external restrictions or enabling legislation on how they may be used. Unrestricted deficits approximated to $8,550,000 and $8,377,000 at June 30, 2013 and 2012, respectively.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

The changes in net position (deficit) reflect the Division's current fiscal year revenues and expenses on the accrual basis of accounting.

	2013	2012
Revenues		
Assessments	$15,172,000	$14,266,000
Federal grant revenues	11,116,000	12,397,000
Other	1,049,000	1,026,000
Total	27,337,000	27,689,000
Expenses		
Administration	11,984,000	12,152,000
Operating grants	11,116,000	12,397,000
Total	23,100,000	24,549,000
Excess before transfers	4,237,000	3,140,000
Transfers	(4,111,000)	(7,345,000)
Change in net position	126,000	(4,205,000)
Net position (deficit) – beginning of year	(3,168,000)	1,037,000
Net position (deficit) – end of year	$ (3,042,000)	$ (3,168,000)

The Division's federal grant revenues decreased by $1,281,000 or 10.3% and total revenues decreased by $352,000 or 1.3% in 2013. Total expenses decreased by $1,449,000 or 5.9%. The significant changes in revenues and expenses during 2013 were primarily attributable to decreases in grant revenues and related expenses.

SPECIAL FUND BUDGETARY ANALYSIS

The annual budget for the Division is based on assessments to the Harbors, Highways, and Airport Divisions, as detailed in the Notes to the Financial Statements. The significant differences between budgeted and actual revenues and expenditures in the Special Funds were primarily attributed to decreases in federal grant programs. Total revenues differed by $22,555,000 or 46.4% below budget, and total expenditures differed by $28,804,000 or 56.9% below budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2013 and 2012, the Division had $678,000 and $379,000, respectively, in capital assets, net of accumulated depreciation. The 2013 amount represents a net increase of approximately $299,000 or 78.9% from 2012. For the year ended June 30, 2013, capital assets additions totaled approximately $487,000, which consisted primarily of computer equipment, and disposition and transfers of capital assets totaled approximately $146,000.

Net Capital Assets (rounded to the nearest $1,000) are as follows:

	2013	2012
Capital assets:		
Furniture and equipment	$4,722,000	$4,380,000
Less accumulated depreciation	4,044,000	4,001,000
Total capital assets, net	$ 678,000	$ 379,000

Debt Administration

As of June 30, 2013, the balance of a note payable to Harbors approximated $4,148,000. The note is an existing liability payable to Harbors by ATDC (a blended component unit). The Division did not have any debt financing as of or for the year ended June 30, 2013.

CURRENTLY KNOWN DECISIONS AND FACTS

None

PART III

FINANCIAL SECTION

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii Department of Transportation, Administration Division (Division) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements as listed in the table of contents.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Division as of June 30, 2013, 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.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 10 and the budgetary comparison information on page 37 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which 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.

Report on Schedule of Expenditures of Federal Awards

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 9, 2014, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

January 9, 2014

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES

As of June 30, 2013

Current Assets	
Cash and cash equivalents	$ 8,471,390
Accounts receivable	5,369,970
Total current assets	13,841,360
Capital assets, net of depreciation	678,184
Total assets	14,519,544
Current Liabilities	
Accounts payable	5,302,403
Accrued payroll	306,769
Accrued vacation	311,475
Due to other divisions and funds	6,446,496
Total current liabilities	12,367,143
Long-term liabilities	
Due to general fund	2,550
Accrued vacation	1,043,894
Note payable to Department of Transportation, Harbors Division	4,148,067
Total long-term liabilities	5,194,511
Total liabilities	17,561,654
Net position	
Invested in capital assets	678,184
Restricted for transportation projects	4,830,262
Unrestricted deficit	(8,550,556)
Total net position (deficit)	$(3,042,110)

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues	Net (Expenses) Revenues and Changes in Net Assets
Governmental activities			
Operating grants	$11,116,464	$ -	$(11,116,464)
Administration	11,983,971	-	(11,983,971)
Total governmental activities	$23,100,435	$ -	(23,100,435)
General revenues			
Assessments			15,172,217
Federal grant revenues			11,116,464
Rental property revenues			1,000,000
Investment earnings			43,892
Miscellaneous			5,132
Total general revenues			27,337,705
Excess revenues over expenses			4,237,270
Other financing uses – transfers, net			(4,111,118)
Change in net position			126,152
Net position (deficit) – beginning of year			(3,168,262)
Net position (deficit) – end of year			$ (3,042,110)

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

BALANCE SHEET – GOVERNMENTAL FUNDS

As of June 30, 2013

	Administration Fund	Restricted Funds S-210	Restricted Funds S-256	Restricted Funds S-257	Restricted Funds S-258	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	$7,344,124	$ -	$ 16,140	$ -	$ 556,984	$ 554,142	$ 8,471,390
Accounts receivable	-	-	120,207	-	5,249,763	-	5,369,970
TOTAL ASSETS	$7,344,124	$ -	$136,347	$ -	$5,806,747	$ 554,142	$13,841,360
LIABILITIES							
Accounts payable	$ 40,256	$ -	$ 26,215	$ -	$5,235,932	$ -	$ 5,302,403
Accrued payroll	306,769	-	-	-	-	-	306,769
Due to general fund	2,550	-	-	-	-	-	2,550
Note payable to Department of Transportation, Harbors Division	-	-	-	-	-	4,148,067	4,148,067
Due to other divisions	6,446,496	-	-	-	-	-	6,446,496
Total liabilities	6,796,071	-	26,215	-	5,235,932	4,148,067	16,206,285
FUND BALANCES (DEFICITS)							
Assigned	1,375,119	-	-	-	-	-	1,375,119
Unassigned	(827,066)	-	110,132	-	570,815	(3,593,925)	(3,740,044)
Total fund balances (deficits)	548,053	-	110,132	-	570,815	(3,593,925)	(2,364,925)
TOTAL LIABILITIES AND FUND BALANCES	$7,344,124	$ -	$136,347	$ -	$5,806,747	$ 554,142	$13,841,360

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

As of June 30, 2013

Total fund deficits – governmental funds	$ (2,364,925)
Amounts reported for governmental activities that are different in the Statement of Net Position due to:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds	678,184
Accrued employee benefits payable not reported in the governmental funds	(1,355,369)
Total net position (deficit) – governmental activities	$ (3,042,110)

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2013

	Administration Fund	Restricted Funds S-210	Restricted Funds S-256	Restricted Funds S-257	Restricted Funds S-258	Other Governmental Funds	Total Governmental Funds
REVENUES							
Assessments	$15,172,217	$ -	$ -	$ -	$ -	$ -	$15,172,217
Federal grant revenues	-	-	123,581	46,286	10,946,597	-	11,116,464
Other	49,024	-	-	-	-	1,000,000	1,049,024
Total	15,221,241	-	123,581	46,286	10,946,597	1,000,000	27,337,705
EXPENDITURES							
Personal services	9,373,624	-	-	46,286	121,260	-	9,541,170
Other	2,722,551	-	123,885	-	10,825,337	225,675	13,897,448
Total	12,096,175	-	123,885	46,286	10,946,597	225,675	23,438,618
EXCESS OF REVENUES OVER EXPENDITURES	3,125,066	-	(304)	-	-	774,325	3,899,087
OTHER FINANCING SOURCES (USES)							
Transfers in	-	-	105,662	-	4,031	-	109,693
Transfers out	(4,118,137)	(30,133)	-	(471)	-	(72,070)	(4,220,811)
Total	(4,118,137)	(30,133)	105,662	(471)	4,031	(72,070)	(4,111,118)
NET CHANGE IN FUND BALANCES	(993,071)	(30,133)	105,358	(471)	4,031	702,255	(212,031)
FUND BALANCES (DEFICITS), BEGINNING OF YEAR	1,541,124	30,133	4,774	471	566,784	(4,296,180)	(2,152,894)
FUND BALANCES (DEFICITS), END OF YEAR	$ 548,053	$ -	$110,132	$ -	$ 570,815	$(3,593,925)	$ (2,364,925)

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2013

Total net change in fund balances – governmental funds		$ (212,031)
Amounts reported for governmental activities that are different in the Statement of Net Position due to:		
Net transfers and disposals	$487,480	
Depreciation expense	(188,008)	
Excess of capital asset outlays over depreciation expense		299,472
The net change in obligations for accrued vested vacation benefits is reported in the Statement of Activities, but is not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.		38,711
Change in net position of governmental activities		$ 126,152

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2013

ASSETS	
Cash and cash equivalents	$191,365
TOTAL ASSETS	$191,365
LIABILITIES	
Bid bond payable	$149,555
Amtrak Funds payable	38,810
Other payable	3,000
TOTAL LIABILITIES	$191,365

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Department of Transportation of the State of Hawaii was formed shortly after Hawaii became a State in 1959. It has three divisions, Airports, Harbors, and Highways, which are supported by 10 departmental staff offices. The State of Hawaii Department of Transportation, Administration Division (Division) consists of the Office of the Director of Transportation, Departmental Staff Services Offices, and the Statewide Transportation Planning Office. Collectively, these offices provide the overall administrative support of the Department of Transportation.

The Statewide Transportation Planning (STP) Office is responsible for the administration of certain Federal Transit Administration (FTA) and Federal Highway Administration (FHWA) grants awarded to the Department of Transportation.

The Division's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements. The more significant accounting policies established in GAAP and used by the Division are discussed below.

Reporting Entity – The financial statements reflect the Division's financial activities as well as the financial activities of Aloha Tower Development Corporation (ATDC), a blended component unit of the Division. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State of Hawaii (State) annually, which includes the Division's financial activities.

Government-Wide and Fund Financial Statements – The Statement of Net Position and the Statement of Activities report information for all of the nonfiduciary activities of the Division. In general, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Division does not allocate general government (indirect) expenses to other functions. Net position components are classified as restricted when legally enforceable enabling legislation places restrictions or are externally imposed by citizens and/or public interest groups. Additionally, restricted components of net position are re-evaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Internally imposed designations of resources are not presented as restricted components of net position. When both restricted and unrestricted resources are available for use, generally it is the Division's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for Governmental Funds and Fiduciary Funds. However, the Fiduciary Funds are not included in the government-wide financial statements. Major Governmental Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

Government-Wide Financial Statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Government Funds Financial Statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Division considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the fiscal year.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenues when available and entitlement occurs which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred and funds are available.

Expenditures are generally recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The Division records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end are reported as restrictions, assignments, or commitments (no commitments in 2013) of fund balances since they do not constitute expenditures or liabilities.

Fiduciary Fund – The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above. Agency Funds do not have a measurement focus, and report only assets and liabilities.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting – The financial statements of the Division are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Division uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Division that are reported in the accompanying fund financial statements have been classified into the following major Governmental Fund. In addition, a description of the Fiduciary Fund follows:

Governmental Fund Type

The Division reports the following major Governmental Fund:

Special Revenue Fund – This fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes. The Special Revenue Funds were established to account for the contracts that the State entered into for the Division with the U.S. Department of Transportation, Federal Highways Administration (FHWA), Federal Transit Administration (FTA) and those between the Division and FTA prior to enactment of the Intermodal Surface Transportation Efficiency Act of 1991. The Special Revenue Fund also includes the transactions and balances of Aloha Tower Development Corporation (ATDC), a blended component unit.

Fiduciary Fund Type

The Division reports the following Fiduciary Fund:

Agency Fund – This fund is used to account for assets held by the Division in an agency capacity. These assets include the receipt of bid deposits for contracts with the Department of Transportation (DOT) and restricted AMTRAK Fund in accordance with the Taxpayer Relief Act of 1997. These assets can only be used or applied if certain requirements are met. The Division's fiduciary activities are reported in a separate "Statement of Fiduciary Net Position." These activities are excluded from the Division's basic financial statements because the Division cannot use these assets to finance its operations.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position and Fund Equity – GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (GASB 63), establishes a new statement of net position format that reports separately all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires deferred outflows of resources and deferred inflows of resources to be reported separately from assets and liabilities. The financial reporting impact resulting from the implementation of GASB 63 in the Division's financial statements was the renaming of "Net Assets" to "Net Position", including changing the name of the financial statement from "Statement of Net Assets" to "Statement of Net Position". In the government-wide financial statements, net position is reported in three components: net investment in capital assets, net of related debt, if any; restricted; and unrestricted. Restricted components are restricted by parties outside of the State or imposed by law through enabling legislation.

Fund Balance Reporting – GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires the presentation of fund balance classifications based on constraints related to how resources can be expended. The governmental fund balance classifications used by the Division are:

Nonspendable – Represents resources that inherently cannot be spent or are legally or contractually required to be maintained intact (none in 2013).

Restricted – Represents resources that are restricted to specific purposes usually imposed by external parties such as creditors, grantors, or other governments (none in 2013).

Committed – Represents resources that can only be used for specific purposes pursuant to formal action of the Legislature (none in 2013).

Assigned – Represents resources that are constrained by management's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Represents residual balances that are neither nonspendable, restricted, committed or assigned.

Encumbrance balances at year-end are reflected as *assigned*. The Division's Special Funds consist of specific revenue sources restricted or committed to expenditure for specific purposes other than debt service or capital projects. Restricted and committed revenues are expected to comprise a substantial portion of the fund inflows. Funds not meeting these criteria are reported in the general fund. The spending policy of the Division's Special Funds is, in order of priority, restricted, committed, and then assigned. The Division's classification of Special Fund inflows are restricted (federal grants), program revenues (committed), transfers from other funds (assigned), investment income (assigned unless restricted), and miscellaneous revenue (assigned). The Division's Special Funds are not encumbered.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Assessment Revenues – In accordance with Section 30, Chapter 36, of the Hawaii Revised Statues (HRS), the Division reports as assessment revenues a percentage of the Airports, Harbors, and Highways Divisions' State allotted appropriations for the cost of the general administration expenses of the DOT. On a quarterly basis, the divisions of DOT transfer their pro-rata share of their budgetary appropriation to cover their share of the operation expenses incurred by the Division. The unencumbered cash balances at the end of each fiscal year are transferred back to the respective divisions in accordance with their pro-rata share percentage. Due to Other Divisions and Funds as of June 30, 2013 was $6,446,496. The $4,111,118 reflected as Other financing sources – Transfers, net is the amount of unencumbered cash balances transferred back to the other divisions and other funds during 2013.

Risk Management – The Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first $1,000,000 per occurrence of property losses, and the first $4 million with respect to general liability claims, and the first $500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is $175 million, except for flood and earthquake which individually is a $175 million aggregate loss, and terrorism which is $50 million per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is $10 million each. The State also has an insurance policy to cover medical malpractice risk in the amount of $25 million per occurrence and $29 million in the aggregate. The State is generally self-insured for workers' compensation and automobile claims. The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, estimates (based on projections of historical developments) of claims incurred but not reported, and estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed, and as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

Interfund and Intrafund Transfers – Significant transfers of financial resources between activities within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive such funds, to funds authorized to expend such funds are recorded as operating transfers in the financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences – The Division's policy is to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave as sick leave is not convertible to pay upon termination of employment. All vacation pay is accrued when incurred in the Government-Wide financial statements. A liability for these amounts is reported in the Governmental Funds only if they have matured, for example, as a result of employee resignations and retirements.

Deferred Compensation Plan – The Division offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Division 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 Division has no responsibility for loss due to the investment or failure of investments of funds and assets in the plan, but does have a duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the Division's deferred compensation plan are not reported in the accompanying basic financial statements.

Cash and Cash Equivalents and Investments – Cash and cash equivalents include all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and certificates of deposit. Investments in U.S. government securities and certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

Grants – Revenues for all federal reimbursement-type grants are recorded as receivables when costs are incurred.

Capital Assets – Capital assets purchased or acquired with an original cost of $5,000 or more are reported in the Statement of Net Position, at cost. Donated assets are recorded at their estimated fair market value at the date of donation. Transfers are recorded at cost, net of the depreciation which would have been charged had the asset been directly acquired by the Division. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation is removed from the accounts, and any resulting gain or loss is recognized in the Statement of Activities.

The Division's capital assets consist of furniture and equipment which are depreciated using the straight-line method of their estimated useful lives of five to seven years.

NOTE B – BUDGETING AND BUDGETARY CONTROL

The Division's budget is established through the State of Hawaii's (State) budgetary process.

The budget of the State is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year; (2) the estimated revenues available to finance the operating plan; and (3) the estimated spending requirements of the operating plan. The budget represents a process through which policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the general fund statement of revenues and expenditures – budget and actual (budgetary basis) are those estimates as compiled by the Council on Revenues and the Director of Finance. Budgeted expenditures are derived primarily from the General Appropriations Act, Supplemental Appropriations Act, and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes, and other specific appropriations acts in various State Legislative Hearings. All expenditures of appropriated funds are made pursuant to the appropriations in the biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years. The final legally adopted budget in the accompanying General Fund Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services. To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

Budgets adopted by the State Legislature for the General Fund are presented in the General Fund Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis). The State's annual budget is prepared on the cash basis of accounting except for the encumbrance of purchase orders and contract obligations (basis difference), which is a departure from GAAP.

NOTE B – BUDGETING AND BUDGETARY CONTROL (Continued)

Adjustments necessary to convert the results of operations and fund balances for the year ended June 30, 2013 from the GAAP basis to the budget basis are as follows:

Excess of expenditures and transfers over revenues, GAAP basis	$ (212,031)
Increase (decrease) in revenues:	
Current year receivables	(5,369,970)
Prior year receivables	4,053,477
Total increase in revenues	(1,316,493)
Increase (decrease) in expenditures:	
Current year accrued liabilities	(5,611,722)
Prior year accrued liabilities	4,647,571
Current year encumbrances, net of adjustments	1,375,119
Prior year encumbrances	(2,007,845)
Total decrease in expenditures	(1,596,877)
Excess of expenditures and transfers over revenues, budgetary basis	$ 68,353

NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury. The Director of Finance pools and invests any monies of the Division, which in the Director's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Division based on its equity interest in the pooled monies.

Legally authorized investments include obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, certificates of deposits, auction rate securities, and repurchase agreements with federally-insured financial institutions. The sale of auction rate securities resulted in an unrealized gain of $57,722 for the year ended June 30, 2013 and has been recognized in the accompanying financial statements.

NOTE D – CAPITAL ASSETS

Capital assets activities of the governmental fund financial statements fund for the year ended June 30, 2013, were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Furniture and equipment	$4,379,895	$ 487,480	$ 145,816	$4,721,559
Accumulated depreciation	(4,001,183)	(188,008)	(145,816)	(4,043,375)
Capital assets, net of depreciation	$ 378,712	$ 299,472	$ -	$ 678,184

NOTE E – ACCRUED VACATION

At June 30, 2013, accrued vacation consisted of the following:

Balance at June 30, 2012	$1,394,080
Decreases	(38,711)
Balance at June 30, 2013	1,355,369
Less current portion	(311,475)
Total accrued vacation, long-term	$1,043,894

NOTE F – RETIREMENT BENEFITS

Employees' Retirement System

Plan Description

All eligible employees of the Division are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing, multiple-employer, defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits, and is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

NOTE F – RETIREMENT BENEFITS (Continued)

Employees' Retirement System (continued)

Plan Description (continued)

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new non-contributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the non-contributory plan. The non-contributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new non-contributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory plans, respectively. Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. Beginning on July 1, 2012, members in the hybrid plan will be eligible for retirement at age 65 with 10 years of credited service or age 60 and 30 years of credited service, with a benefit multiplier of 1.75%. The benefit payment options are similar to the current contributory plan. Most of the new employees hired from July 1, 2006 will be required to join the hybrid plan. Most covered employees of the hybrid plan are required to contribute 6% of their salary, while those beginning employment on and after July 1, 2012 are required to contribute 8% of their salary.

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Effective July 1, 2012, new employees are required to contribute 9.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2012, 2011, and 2010, based on the most recent information available, were approximately, $396,380,000, $388,242,000, and $398,724,000 respectively. The State contributed 108.6%, 105.3%, and 99.6% of its required contributions for those years, respectively. The Division's covered payroll was approximately $7,721,000 in 2013. The retirement plan contributions charged to the Division's operations were $798,000 in 2013.

NOTE F – RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 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. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

For employees hired before July 1, 1996, the State pays the entire monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the 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 less than 10 years of service, the State makes no contributions. For those retiring with at least 10 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. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Funding Policy and Annual OPEB Cost

On July 1, 2006, the EUTF implemented GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other than Pensions (GASB 43). GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets. The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retiree healthcare benefits. Accordingly, the EUTF reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues (GASB 10), as amended.

NOTE F – RETIREMENT BENEFITS (Continued)

Post-Retirement Health Care and Life Insurance Benefits (continued)

Funding Policy and Annual OPEB Cost (continued)

On July 1, 2007, the State of Hawaii adopted GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions* (GASB 45), which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero. The State is required by GASB 45 to obtain an actuarial valuation every other year. Accordingly, an actuarial valuation was performed for July 1, 2013.

The State's base contribution levels to EUTF are established by statutes. The retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium. The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's annual OPEB cost for each plan is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The actuarial methods and assumptions used to compute the ARC are disclosed in the notes to the financial statements of the State of Hawaii's comprehensive annual financial report. The Division's contributions for the years ended June 30, 2013, 2012, and 2011 were $529,000, $394,000, and $364,000, respectively.

For the year ended June 30, 2013, the estimated total annual required contribution of $1,006,695,000 was recognized for post-retirement health care and life insurance benefits by the State, of which an estimated $277,900,000 was paid in 2013. At June 30, 2013, the remaining estimated net OPEB obligation approximated $3,420,855,000. The Division's estimated share of the total annual required contribution was $1,936,000, of which an estimated $529,000 was paid in 2013 and an estimated net obligation of $5,911,000 remained at June 30, 2013. The estimated amounts were provided to the Division by the State of Hawaii Department of Accounting and General Services. The final amounts for post-retirement health care and life insurance benefits for the year ended June 30, 2013, for the annual required contribution, the annual required contribution paid, and the net OPEB obligation remaining, are included in the State of Hawaii's Comprehensive Annual Financial Report.

NOTE G – COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarter working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days of more of unused sick leave is entitled to additional service credit in the ERS. The Division's accumulated sick leave as of June 30, 2013, was approximately $3,538,000.

NOTE H – DUE TO OTHER DIVISIONS AND FUNDS

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

ATDC subleased lands surrounded by Piers 8 and 9 and a portion of land surrounded by Pier 10 to a developer and entered into a capital improvements, maintenance, operations, and securities agreement with the developer and Harbors. Harbors continues to operate the harbor facilities at Piers 8, 9, and 10.

The sublease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities as designated in the developer's proposal, including a Marketplace, and to reimburse Harbors for all losses in revenues and increased expenses which may be incurred by Harbors. The lease was subsequently amended and requires ATDC to pay $225,000 each year to Harbors as a minimum base payment for losses in revenues related to fiscal years beginning July 1, 2005, that, subject to approval, may be reduced for certain expenses incurred by ATDC. The Amendment also requires an equity participation payment to be made in an amount of 50% of the difference between the total revenues and total operating expenses of ATDC for a fiscal year (the equity payment), provided that if the equity payment exceeds two and one-half times the actual operating expenses of ATDC for such fiscal year, ATDC must make a supplemental payment equal to 75% of the difference between the equity payment and the product of two and one-half times the actual operating expenses of ATDC. These payments were to be applied to reduce the amount owed to the Harbors Division for losses in revenues by ATDC prior to July 1, 2004. During the year ended June 30, 2013, ATDC paid $225,000 to Harbors under for losses in revenues under the amendment. The balance owed to the Harbors Division by ATDC as of June 30, 2013 and 2012, was $4,148,067 and $4,923,067, respectively (See Note I). During the year ended June 30, 2013, ATDC received approximately $1,000,000 of rental income from the operator of the Aloha Tower complex, of which $387,500 was paid to Harbors.

NOTE I – NOTE PAYABLE TO DEPARTMENT OF TRANSPORTATION, HARBORS DIVISION

During the year ended June 30, 2012, the administration of the ATDC was assigned to the Department of Transportation by Act 152, Session Laws of Hawaii (SLH) 2011. Accordingly, the balance of an outstanding note payable from ATDC to Harbors of $4,923,067 was recognized as a transfer to the Division during the year ended June 30, 2012 (See Note H). During the year ended June 30, 2013, payments totaling $775,000 were made on the balance of the outstanding note, of which $387,500 was accrued for each of the years ended June 30, 2013 and 2012. As of June 30, 2013, the balance of the note amounted to $4,148,067. The note does not require specific payments of interest. Supplemental payments to Harbors are required under an amendment to the sublease agreement between ATDC and the developer of land surrounded by Pier 10, which reduce the amount owed to the Harbors Division for losses in revenues by ATDC prior to July 1, 2004 (see Note H).

NOTE J – FINANCIAL STATEMENT PRESENTATION

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued. The Division operates throughout the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of the Division, from such changes in economic conditions, if any, are not presently determinable.

SUPPLEMENTARY FINANCIAL INFORMATION

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

BUDGETARY COMPARISON STATEMENT (NON-GAAP BUDGETARY BASIS) – SPECIAL REVENUE FUND

For the Year Ended June 30, 2013

	Budget	Actual	Variance-Favorable (Unfavorable)
REVENUES			
Assessments	$14,833,618	$ 15,172,217	$ 338,599
Federal grant revenues	33,319,866	9,799,970	(23,519,896)
Other	423,067	1,049,023	625,956
Total revenues	48,576,551	26,021,210	(22,555,341)
EXPENDITURES			
Personal services	9,829,919	9,546,848	283,071
Other	40,815,665	12,294,891	28,520,774
Total expenditures	50,645,584	21,841,739	28,803,845
EXCESS OF REVENUES OVER EXPENDITURES	(2,069,033)	4,179,471	6,248,504
TRANSFERS TO OTHERS	2,069,033	(4,111,118)	(6,180,151)
EXCESS OF EXPENDITURES AND TRANSFERS OVER REVENUES	$ -	$ 68,353	$ 68,353

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2013

Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount	
Federal Transit Administration					
Capital improvement grant to assist in financing the acquisition, construction, reconstruction, and improvement of facilities, rolling stock and equipment for use in mass transportation in urban areas					
10/01/09 - 09/30/10		HI-03-0034	$ 12,633,409	$ 1,918,058	*
10/01/12 - 09/30/13		HI-03-0038	23,376,870	1,416,108	*
10/01/05 - 09/30/06		HI-03-0039	6,281,494	95,165	*
10/01/09 - 09/30/10		HI-03-0044	4,832,000	727,489	*
10/01/10 - 09/30/11		HI-03-0048	1,672,397	1,672,397	*
10/01/08 - 09/30/09		HI-04-0002	1,920,800	19,169	*
10/01/05 - 09/30/06		HI-04-0003	3,960,000	85,442	*
10/01/09 - 09/30/10		HI-04-0004	5,699,400	1,411,763	*
Total	20.500		60,376,370	7,345,591	
Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas					
10/01/04 - 09/30/05		HI-18-X023	1,072,343	26,271	
10/01/05 - 09/30/06		HI-18-X024	1,118,873	5,000	
10/01/05 - 09/30/06		HI-18-X025	1,719,756	20,284	
10/01/08 - 09/30/09		HI-18-X027	3,986,978	606,042	
10/01/09 - 09/30/10		HI-18-X028	2,042,259	1,145,533	
10/01/10 - 09/30/11		HI-18-X029	2,176,319	1,358,410	
10/01/11 - 09/30/12		HI-18-X030	2,127,899	231,564	
Total	20.509		14,244,427	3,393,104	
Capital assistance grant to assist in providing transportation services for elderly and the handicapped					
10/01/09 - 09/30/10		HI-16-0035	627,290	21,902	
10/01/10 - 09/30/11		HI-16-0036	926,529	24,384	
Total	20.513		1,553,819	46,286	

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

For the Year Ended June 30, 2013

Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount	
Federal Transit Administration (Continued):					
Job Access and Reverse Commute Program for capital planning and operating expenses for projects that transport low income individuals to and from jobs and activities related to employment, and for reverse commute projects					
10/01/07 - 09/30/08		HI-37-X001	$ 108,733	$ 97,860	
10/01/08 - 09/30/09		HI-37-X003	238,729	5,129	
10/01/10 - 09/30/11		HI-37-X006	145,707	49,752	
10/01/11 - 09/30/12		HI-37-X008	353,164	4,492	
	20.516		846,333	157,233	
New Freedom Program for capital and operating expenses for new public transportation services and alternatives beyond those required by the Americans with Disabilities Act of 1990 (ADA), that are designed to assist individuals with disabilities					
10/01/10 - 09/30/11	20.521	HI-57-X006	115,172	50,668	
Total Federal Transit Administration			77,136,121	10,992,882	
Federal Highway Administration:					
Grant to assist in the development of an integrated, interconnected transportation system					
10/01/10 - 09/30/11		SPR-0010(33)	236,400	119,153	*
10/01/11 - 09/30/12		SPR-0010(34)	70,400	2,234	*
10/01/12 - 09/30/13		SPR-0010(35)	101,200	2,195	*
	20.205		408,000	123,582	
Total Federal Financial Assistance			$77,544,121	$11,116,464	

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

For the Year Ended June 30, 2013

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying schedule of expenditures of federal awards was prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

* Denotes major program expenditures, comprising 67% of total expenditures of federal awards.

Of the federal expenditures presented in the schedule of expenditures of federal awards, subrecipients were provided federal awards as follows:

Federal CFDA Number	Program Name	Amount Provided to Subrecipients
20.500	Capital improvement grant to assist in financing the acquisition, construction, reconstruction, and improvement of facilities, rolling stock and equipment for use in mass transportation in urban areas	$ 7,330,149
20.509	Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas	3,312,267
20.516	Job Access and Reverse Commute Program for capital planning and operating expenses for projects that transport low income individuals to and from jobs and activities related to employment, and for reverse commute projects	133,041
20.205	Grant to assist in the development of an integrated, interconnected transportation system	119,153
20.521	New Freedom Program for capital and operating expenses for new public transportation services and alternatives beyond those required by the Americans With Disabilities Act of 1990 (ADA) that are designed to assist individuals with disabilities	39,419
	Total provided to subrecipients	$10,934,029

PART IV

INTERNAL CONTROL AND COMPLIANCE SECTION

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Department of Transportation, Administration Division (Division) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated January 9, 2014.

Internal Control over Financial Reporting

The management of the Division is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the Division's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Division's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

CW Associates, CPAs

January 9, 2014

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the State of Hawaii, Department of Transportation, Administration Division's (Division) compliance with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Division's major programs for the year ended June 30, 2013. The Division's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Division's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Division's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Division's compliance.

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Opinion on Each Major Federal Program

In our opinion, the Division complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Division is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit, we considered the Division's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

CW Associates, CPAs

January 9, 2014

PART V

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

Status of Prior Year Comments

Financial Statement Findings

No matters were reported.

Federal Award Findings and Questioned Costs

No matters were reported.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

SECTION I – SUMMARY OF AUDIT RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:

1. Internal control over financial reporting:	Unmodified
2. Material weakness identified?	No
Reportable condition identified that is not considered to be material weakness	None reported
3. Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

1. Internal control over major programs:	
Material weakness identified?	No
Reportable condition identified that is not considered to be material weakness?	None reported
2. Type of auditors; report issued on compliance for major programs:	Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with section 501(a) of Circular A-133?	None reported

4. Identification of major programs:
   a. CFDA No. 20.500 – Federal Transit Administration: Capital improvement grant to assist in financing the acquisition, construction, reconstruction, and improvement of facilities, rolling stock and equipment for use in mass transportation in urban areas. CFDA No. 20.205 – Federal Highway Administration: Grant to assist in the development of an integrated, interconnected transportation system.

b. Dollar threshold used to distinguish between type A and type B programs:	$300,000
c. Auditee qualified as low-risk auditee?	Yes

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2013

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PART VI

CORRECTIVE ACTION PLAN

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATIVE DIVISION

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2013

CORRECTIVE ACTION PLAN

A corrective action plan is not required because there were no audit findings or questioned costs reported for the year ended June 30, 2013.