



**Highways Division  
Department of Transportation  
State of Hawaii**

Financial Statements  
(With Independent Auditors' Report Thereon)

June 30, 2020

Submitted by  
**THE AUDITOR  
STATE OF HAWAII**

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Financial Statements

June 30, 2020

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Management's Discussion and Analysis - Unaudited	3
Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Governmental Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis) - State Highway Fund	23
Statement of Fiduciary Net Position - Agency Fund	24
Notes to Financial Statements	25

## Independent Auditors' Report

The Auditor  
State of Hawaii:

### Report on the Financial Statements

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, 2020, and the related notes to financial statements, which collectively comprise the Highways 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 opinions.

## ***Opinions***

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, 2020, and the respective changes in financial position and the respective budgetary comparison of the State Highway Fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter – Relationship to the State of Hawaii***

As discussed in Note 1, the financial statements of the Highways Division are intended to present the financial position, the changes in financial position, and the budgetary comparison 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, 2020, and the changes in its financial position, and the budgetary comparison 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.

## ***Other Matter – Required Supplementary Information***

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

## ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 17, 2021, 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.

***KKDL Y LLC***

Honolulu, Hawaii  
March 17, 2021

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

The following Management's Discussion and Analysis (MD&A) of the Highways Division, Department of Transportation, State of Hawaii (the Highways Division) activities and financial performance 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, 2020. 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 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 with the exception of 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.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

**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 consist of three sections: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. These sections are described as follows:

**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 include the following two statements:

The *Statement of Net Position* presents all of the Highways Division's assets, deferred outflows of resources, and liabilities, with the difference reported as "net position." Over time, increases or decreases in the Highways Division's net position are an indicator of whether its financial health is improving or deteriorating.

The *Statement of Activities* presents information showing how the Highways Division's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

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

The government-wide financial statements can be found on pages 15 and 16 of this report.

**Fund Financial Statements**

***Governmental Funds***

A fund is a grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Highways Division, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

The fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. 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 in 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. A reconciliation to facilitate this comparison between governmental funds financial statements and government-wide financial statements is included on pages 19 and 22 of this report.

The Highways Division has three governmental funds, all of which are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. The Highways Division's three governmental funds are the State Highway Fund (SHF) (a special revenue fund), the Debt Service Fund, and the Capital Projects Fund.

The governmental funds financial statements can be found on pages 17 through 22 of this report.

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

The governmental funds financial statements are followed by a budgetary comparison statement, which 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 Note 3 to the financial statements.

The Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis) - State Highway Fund can be found on page 23 of this report.

***Fiduciary Fund***

The fiduciary fund is used to account for assets held by the Highways Division on behalf of other departments of the State. The statement of fiduciary net position of the agency fund can be found on page 24.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

**Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the governmental funds financial statements. The notes to financial statements can be found on pages 25 through 61 of this report.

**FINANCIAL HIGHLIGHTS**

**Government-wide Financial Statements**

The assets and deferred outflows of resources of the Highways Division exceeded its liabilities at June 30, 2020 by \$4.8 billion. Of this amount, \$228 million is considered unrestricted and may be used to meet the Highways Division's ongoing obligations.

The Highways Division's net position decreased by \$31 million during the year ended June 30, 2020.

**Fund Financial Statements**

At June 30, 2020, the Highways Division's governmental funds reported a combined ending fund balance of \$324 million. The combined fund balance increased by \$60 million from the prior year's ending fund balance.

The Highways Division's SHF, the major operating fund, reported an ending fund balance of \$258 million. There was a \$8 million increase in fund balance during the year ended June 30, 2020.



**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Summary Schedule 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 by \$4.8 billion at June 30, 2020 and 2019, respectively.

	<u>2020</u>	<u>2019</u>
<b>Assets:</b>		
Current and other assets	\$ 423,698,330	\$ 369,519,826
Capital assets, net	<u>5,007,050,155</u>	<u>5,030,423,739</u>
Total assets	<u>5,430,748,485</u>	<u>5,399,943,565</u>
 <b>Deferred Outflows of Resources:</b>		
Deferred charge on refunding, net	<u>7,796,440</u>	<u>9,358,188</u>
 <b>Liabilities:</b>		
Current liabilities	100,839,974	107,007,965
Long-term liabilities	<u>566,211,586</u>	<u>499,503,424</u>
Total liabilities	<u>667,051,560</u>	<u>606,511,389</u>
 <b>Net Position:</b>		
Net investment in capital assets	4,543,496,295	4,546,247,419
Restricted for capital projects activity	-	28,061,662
Unrestricted	<u>227,997,070</u>	<u>228,480,743</u>
Total net position	<u>\$ 4,771,493,365</u>	<u>\$ 4,802,789,824</u>

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

The largest portion (95%) of the Highways Division's net position (\$4.5 billion at June 30, 2020 and 2019) reflects its net investment in capital assets (e.g., land and land improvements, buildings and improvements, vehicles and equipment, and infrastructure), which is net of any related debt and other borrowings used to acquire those assets that is still outstanding and deferred charge on refunding, net. 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.

An additional portion of the Highways Division's net position represents resources that are subject to restrictions as to how they may be used. This primarily relates to net assets restricted to capital projects activity, amounting to nil and \$28 million at June 30, 2020 and 2019, respectively.

The remaining net position (\$228 million at June 30, 2020 and 2019) is unrestricted and may be used to meet the Highways Division's on-going obligations to citizens and creditors.

Current and other assets increased by \$54 million or 15% from June 30, 2019 to June 30, 2020, due primarily to increases in cash and cash equivalents and receivables of \$37 million and \$17 million, respectively.

Capital assets, net decreased by \$23 million from June 30, 2019 to June 30, 2020, primarily due to net additions to capital assets of \$186 million, offset by depreciation expense of \$209 million.

Current liabilities decreased by \$6 million or 6% from June 30, 2019 to June 30, 2020, primarily due to a \$21 million decrease in accounts and contracts payable, offset by an increase in security deposits of \$12 million.

Long-term liabilities increased by \$67 million or 13% from June 30, 2019 to June 30, 2020, primarily due to an increase in revenue bonds payable of \$63 million. Refer to "Long-Term Debt" section on page 13 for discussion on revenue bond issuance in December 2019.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

**Summary Schedule of Changes in Net Position**

The following condensed financial information reflects how the Highways Division's net position changed during the year ended June 30, 2020 and 2019.

	<b>2020</b>	<b>2019</b>
<b>Expenses:</b>		
Depreciation expense	\$ 209,237,344	\$ 204,844,826
Operations and maintenance	157,615,560	201,836,892
Administration of Highways Division	109,500,501	54,268,113
Interest expense	14,991,048	14,929,035
Motor Vehicle Safety Office	6,213,063	16,931,082
Other	24,373,377	74,093,014
Total expenses	521,930,893	566,902,962
<b>Revenues:</b>		
Program revenues:		
Capital grants and contributions	96,694,042	155,803,401
Operating grants and contributions	93,333,621	95,558,522
Charges for services	50,674,007	54,863,101
Total program revenues	240,701,670	306,225,024
Net program expenses	(281,229,223)	(260,677,938)
General revenues:		
Taxes	227,206,617	224,607,058
Investment income and other	22,726,147	27,031,796
Total general revenues	249,932,764	251,638,854
Change in net position	(31,296,459)	(9,039,084)
<b>Net Position, beginning of year</b>	4,802,789,824	4,811,828,908
<b>Net Position, end of year</b>	\$ 4,771,493,365	\$ 4,802,789,824

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

Total revenues decreased by \$67 million or 12% from \$558 million in fiscal year 2019 to \$491 million in fiscal year 2020, due primarily to a decrease in program revenues of \$65 million or 21%, and a decrease in general revenues of \$2 million or 1%.

Program revenues, which comprise charges for services, as well as capital and operating grants, accounted for 49% and 55% of total revenues in fiscal years 2020 and 2019, respectively. The largest components of program revenues (79% for fiscal year 2020 and 82% for the fiscal year 2019) resulted from capital and operating grants and contributions primarily from the Federal Highway Administration for the maintenance and construction of roads and other infrastructure. Capital and operating grants and contributions decreased by \$61 million from \$251 million in fiscal year 2019 to \$190 million in fiscal year 2020 due primarily to grants and contributions received for the decreased costs associated with the statewide highway maintenance programs.

General revenues, which consist of taxes, including state fuel taxes, vehicle weight taxes and penalties, and rental motor and tour vehicle surcharge taxes, as well as investment income, accounted for 51% and 45% of total revenues in fiscal years 2020 and 2019, respectively.

Total expenses decreased by \$45 million or 8% from \$567 million in fiscal year 2019 to \$522 million in fiscal year 2020. This decrease is due primarily to the decreases in operations and maintenance expenses and other expenses of \$44 million and \$50 million respectively, offset by an increase in administration of Highways Division expenses of \$55 million.

The decrease in net position was \$31 million in fiscal year 2020 as compared to the decrease in net position of \$9 million in fiscal year 2019.

#### **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 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.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

At June 30, 2020, the Highways Division's governmental funds reported combined ending fund balance of \$324 million, representing an increase of \$60 million from the prior year. \$258 million of the fund balance is committed to indicate that amounts can only be used for specific purposes pursuant to formal action of the Legislature. \$67 million of the fund balance is restricted to indicate that amounts are restricted to specific purposes imposed by external parties.

At June 30, 2019, the Highways Division's governmental funds reported combined ending fund balance of \$264 million, representing a decrease of \$39 million from the prior year. \$250 million of the fund balance is committed to indicate that amounts can only be used for specific purposes pursuant to formal action of the Legislature. \$14 million of the fund balance is restricted to indicate that amounts are restricted to 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) the highway fuel taxes; (2) the vehicle registration fees; (3) the vehicle weight tax; and (4) the rental motor vehicle and tour vehicle surcharge taxes. Together, these taxes, fees, and charges accounted for most of the receipts of the SHF. Other sources of revenues include interest earnings on monies previously credited to the SHF, vehicle weight tax penalties, certain rental income from State Highway System properties, passenger motor vehicle inspection charges, overweight permits, sales of surplus lands, commercial license fees, and other miscellaneous revenues.

At June 30, 2020 and 2019, the total fund balance of the SHF was \$258 million and \$250 million, respectively. SHF's fund balance increased by \$8 million in the current year compared to a \$3 million increase in the prior year. The current year increase was mainly due to revenues over expenditures of \$73 million and net transfers out of \$65 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 \$53 million and \$51 million for fiscal year 2020 and fiscal year 2019, respectively.

The Capital Projects Fund (CPF) accounts for the Highways Division's capital improvements program. At June 30, 2020, the CPF had a total fund balance of \$67 million. The CPF fund balance increased by \$52 million in fiscal year 2020 as compared to a \$41 million decrease in the prior year. The increase in the current year fund balance was mainly due to expenditures over revenues of \$60 million offset by net transfers in of \$11 million and \$101 million in other financing sources from revenue bond issuances.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

**STATE HIGHWAY FUND BUDGETARY HIGHLIGHTS**

The final SHF budget had total revenues of \$284 million. The actual revenues on a budgetary basis were \$4 million or 1% more than the final budget, primarily due to higher than budgeted revenues for rental motor and tour vehicle surcharge taxes of \$14 million and investment income of \$8 million, offset by lower than budgeted revenues for vehicle weight taxes of \$8 million, state fuel taxes of \$6 million, and vehicle registration fees of \$4 million.

Expenditures on the budgetary actual basis were \$53 million or 17% lower than the final budgeted amounts. The majority of the difference was due to actual operations and maintenance expenditures being \$12 million lower than the final budget, and actual expenditures related to the administration of the Highways Division being \$40 million lower than final budget. The lower than budgeted expenditures were primarily due to the deferral of several projects that had been budgeted for during the fiscal year and lower payroll expenditures due to staffing vacancies.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Highways Division's investment in capital assets as of June 30, 2020 amounted to \$5.0 billion, net of accumulated depreciation of \$6.4 billion. This investment in capital assets includes land and land improvements, buildings and building improvements, vehicles and equipment, infrastructure assets and construction in progress. Infrastructure assets consist of land, roadways, tunnels and bridges, and miscellaneous roadway components.

During fiscal year 2020, the Highways Division had bid openings for 40 projects, with contract amounts totaling approximately \$61 million. There were 21 projects on Oahu, 5 projects on Maui, (includes Molokai and Lanai), 4 projects on Hawaii, 7 projects on Kauai, and 3 statewide projects.

During fiscal year 2019, the Highways Division had bid openings for 9 projects, with contract amounts totaling approximately \$33 million. There were 4 projects on Oahu, 1 project on Maui, (includes Molokai and Lanai), 2 projects on Hawaii, and 2 statewide projects.

Additional information on the Highways Division's capital assets can be found in Note 7 to the financial statements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

**Long-Term Debt**

As of June 30, 2020, outstanding State of Hawaii Highway Revenue Bonds amounted to \$431 million, compared to \$379 million as of June 30, 2019. 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.

<u>Series</u>	<u>Interest Rates</u>	<u>Final Maturity Date (July 1)</u>	<u>Original Amount of Issue</u>	<u>Outstanding Amount</u>
2005B	3.00-5.25%	2021	\$ 123,915,000	\$ 12,555,000
2011	2.00-5.00%	2032	117,365,000	42,700,000
2014	2.00-5.00%	2034	135,660,000	103,535,000
2016	1.26-5.00%	2036	204,485,000	190,860,000
2019	3.00-5.00%	2040	81,835,000	81,835,000
			<u>\$ 663,260,000</u>	<u>\$ 431,485,000</u>

On December 11, 2019, the Highways Division issued \$82 million of State of Hawaii Revenue Bonds Series 2019A (the 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 \$19 million.

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 9 and 10 to the financial statements for additional information on the State of Hawaii Highway Revenue Bonds.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Management's Discussion and Analysis - Unaudited

June 30, 2020

The Highways Division entered into an equipment lease 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 14 to the financial statements for further information on this capital lease obligation, which amounted to \$56 million and \$58 million at June 30, 2020 and 2019, respectively.

Additional information on the Highways Division's other long-term liabilities can be found in Note 9 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**

Governmental Activities

Statement of Net Position

June 30, 2020

<b>Assets:</b>	
Cash and cash equivalents	\$ 231,992,742
Receivables, net:	
Due from U.S. government	45,496,958
Due from city and counties	10,416,878
Due from State of Hawaii	52,881
Other receivables	1,763,790
Restricted cash and cash equivalents:	
Capital projects	94,111,332
Revenue bond debt service	18,538,169
Security deposits	20,509,037
Other assets	816,543
Capital assets, net of accumulated depreciation	<u>5,007,050,155</u>
Total assets	<u>5,430,748,485</u>
<b>Deferred Outflows of Resources:</b>	
Deferred charge on refunding, net	<u>7,796,440</u>
<b>Liabilities:</b>	
Accounts payable	30,395,276
Accrued payroll	6,330,244
Accrued interest payable	1,477,825
Contracts payable:	
Current portion	16,405,968
Retainage payable	7,183,455
Payable from restricted assets:	
Revenue bonds - due within one year	8,130,000
Interest payable	10,408,169
Security deposits	20,509,037
Long-term liabilities:	
Due within one year:	
Accrued vacation payable	3,663,768
Workers' compensation payable	1,154,101
Capital lease obligation	2,543,062
Revenue bonds payable	22,565,000
Due after one year:	
Accrued vacation payable	9,314,124
Workers' compensation payable	11,303,616
Capital lease obligation	53,460,121
Revenue bonds payable	<u>462,207,794</u>
Total liabilities	<u>667,051,560</u>
<b>Net Position:</b>	
Net investment in capital assets	4,543,496,295
Unrestricted	<u>227,997,070</u>
Total net position	<u>\$ 4,771,493,365</u>

See accompanying notes financial statements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Governmental Activities

Statement of Activities

Year Ended June 30, 2020

**Expenses:**

Operations and maintenance:	
Oahu highways and services	\$ 65,211,422
Kauai highways and services	15,415,685
Hawaii highways and services	23,860,749
Maui highways and services	16,268,353
Molokai highways and services	2,370,820
Lanai highways and services	606,471
Pass through for County highways and services	33,882,060
Depreciation expense	209,237,344
Administration of Highways Division	109,500,501
Interest expense	14,991,048
Repairs and maintenance	12,735,425
Surcharge on gross receipts	11,637,952
Motor Vehicle Safety Office	<u>6,213,063</u>
Total expenses	<u>521,930,893</u>

**Program Revenues:**

Capital grants and contributions	96,694,042
Operating grants and contributions	93,333,621
Charges for services:	
Vehicle registration fees	42,755,532
Penalties and fines	3,556,240
Other fees and permits	3,315,920
Rentals	<u>1,046,315</u>
Total program revenues	<u>240,701,670</u>
Net program expenses	<u>(281,229,223)</u>

**General Revenues:**

Taxes:	
Vehicle weight taxes and penalties	77,421,094
State fuel taxes	77,285,432
Rental motor and tour vehicle surcharge taxes	72,500,091
Investment income	10,483,264
Other revenues	<u>12,242,883</u>
Total general revenues	<u>249,932,764</u>
Change in net position	(31,296,459)

**Net Position:**

Beginning of year	<u>4,802,789,824</u>
End of year	<u>\$ 4,771,493,365</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Governmental Funds

Balance Sheet

June 30, 2020

	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 194,317,530	\$ -	\$ 37,675,212	\$ 231,992,742
Receivables:				
Due from capital projects fund	71,822,696	-	-	71,822,696
Due from U.S. government	14,112,295	-	31,384,663	45,496,958
Due from city and counties	10,409,013	-	7,865	10,416,878
Due from State of Hawaii	52,881	-	-	52,881
Other receivables	1,763,790	-	-	1,763,790
Restricted cash and cash equivalents:				
Capital projects	-	-	94,111,332	94,111,332
Revenue bond debt service	-	18,538,169	-	18,538,169
Security deposits	20,509,037	-	-	20,509,037
Other assets	793,976	-	22,567	816,543
	<u>\$ 313,781,218</u>	<u>\$ 18,538,169</u>	<u>\$ 163,201,639</u>	<u>\$ 495,521,026</u>

See accompanying notes to financial statements.

(Continued)

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Governmental Funds

Balance Sheet (Continued)

June 30, 2020

	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b>Liabilities:</b>				
Accounts payable	\$ 22,222,906	\$ -	\$ 8,172,370	\$ 30,395,276
Accrued payroll	6,330,244	-	-	6,330,244
Contracts payable:				
Current portion	1,530,705	-	14,875,263	16,405,968
Retainage payable	5,545,433	-	1,638,022	7,183,455
Payable from restricted assets:				
Revenue bond debt service	-	18,538,169	-	18,538,169
Security deposits	20,509,037	-	-	20,509,037
Due to State Highway Fund	-	-	71,822,696	71,822,696
Total liabilities	<u>56,138,325</u>	<u>18,538,169</u>	<u>96,508,351</u>	<u>171,184,845</u>
<b>Fund Balances:</b>				
Restricted - Capital Projects Fund	-	-	66,693,288	66,693,288
Committed - State Highway Fund	257,642,893	-	-	257,642,893
Total fund balances	<u>257,642,893</u>	<u>-</u>	<u>66,693,288</u>	<u>324,336,181</u>
Total liabilities and fund balances	<u>\$ 313,781,218</u>	<u>\$ 18,538,169</u>	<u>\$ 163,201,639</u>	<u>\$ 495,521,026</u>

See accompanying notes to 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, 2020

Total fund balances - governmental funds		\$ 324,336,181
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds financial statements. These assets consist of:		
Governmental capital assets	\$ 11,411,595,981	
Less accumulated depreciation	<u>(6,404,545,826)</u>	
		5,007,050,155
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 life of the related bonds.		
		7,796,440
Accrued interest payable is not recognized in governmental funds		
		(1,477,825)
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	(484,772,794)	
Capital lease obligation	(56,003,183)	
Accrued vacation payable	(12,977,892)	
Workers' compensation payable	<u>(12,457,717)</u>	
		<u>(566,211,586)</u>
Net position of governmental activities		<u>\$ 4,771,493,365</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)

Year Ended June 30, 2020

	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b>Revenues:</b>				
Charges for services:				
Vehicle registration fees	\$ 42,755,532	\$ -	\$ -	\$ 42,755,532
Penalties and fines	3,556,240	-	-	3,556,240
Other fees and permits	3,315,920	-	-	3,315,920
Rentals	1,046,315	-	-	1,046,315
Capital grants and contributions	-	-	96,694,042	96,694,042
Operating grants and contributions	93,333,621	-	-	93,333,621
Taxes:				
Vehicle weights taxes and penalties	77,421,094	-	-	77,421,094
State fuel taxes	77,285,432	-	-	77,285,432
Rental motor and tour vehicle surcharge taxes	72,500,091	-	-	72,500,091
Investment income	10,483,264	-	-	10,483,264
Other revenues	12,005,823	-	237,060	12,242,883
Total revenues	<u>393,703,332</u>	<u>-</u>	<u>96,931,102</u>	<u>490,634,434</u>
<b>Expenditures:</b>				
Operations and maintenance:				
Oahu highways and services	92,139,535	-	-	92,139,535
Hawaii highways and services	28,085,474	-	-	28,085,474
Kauai highways and services	19,955,830	-	-	19,955,830
Maui highways and services	17,774,753	-	-	17,774,753
Molokai highways and services	2,370,820	-	-	2,370,820
Lanai highways and services	606,471	-	-	606,471
Pass through for County highways and services	33,882,060	-	-	33,882,060
Administration of Highways Division	108,360,203	-	-	108,360,203
Surcharge on gross receipts	11,637,952	-	-	11,637,952
Motor Vehicle Safety Office	6,213,062	-	-	6,213,062
Capital outlay	-	-	156,662,403	156,662,403
Debt service:				
Principal payments	-	32,499,406	-	32,499,406
Interest expense	-	20,653,975	-	20,653,975
Total expenditures	<u>321,026,160</u>	<u>53,153,381</u>	<u>156,662,403</u>	<u>530,841,944</u>
<b>Revenues over (under) expenditures, carried forward</b>	<u>\$ 72,677,172</u>	<u>\$ (53,153,381)</u>	<u>\$ (59,731,301)</u>	<u>\$ (40,207,510)</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)

Year Ended June 30, 2020

	<u>State Highway Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
<b>Revenues over (under) expenditures, brought forward</b>	\$ 72,677,172	\$ (53,153,381)	\$ (59,731,301)	\$ (40,207,510)
<b>Other Financing Sources (Uses):</b>				
Transfers in	-	53,153,381	11,456,075	64,609,456
Transfers out	(64,609,456)	-	-	(64,609,456)
Issuance of revenue bonds	-	-	81,835,000	81,835,000
Premiums on revenue bonds	-	-	18,660,847	18,660,847
Total other financing sources (uses)	<u>(64,609,456)</u>	<u>53,153,381</u>	<u>111,951,922</u>	<u>100,495,847</u>
<b>Net change in fund balances</b>	8,067,716	-	52,220,621	60,288,337
<b>Fund Balances:</b>				
Beginning of year	<u>249,575,177</u>	<u>-</u>	<u>14,472,667</u>	<u>264,047,844</u>
End of year	<u>\$ 257,642,893</u>	<u>\$ -</u>	<u>\$ 66,693,288</u>	<u>\$ 324,336,181</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
HIGHWAYS DIVISION**

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2020

Net change in fund balances - total governmental funds		\$ 60,288,337
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:		
Expenditures for capital assets	\$ 186,168,839	
Net loss of disposal of capital assets	(305,079)	
Less current fiscal year depreciation	<u>(209,237,344)</u>	(23,373,584)
Borrowings provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets		
Issuance of revenue bonds	(81,835,000)	
Premiums on revenue bonds	<u>(18,660,847)</u>	(100,495,847)
Repayment of long-term debt and capital lease 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	29,845,000	
Capital lease obligation	2,254,406	
Change in debt service liability recognized in debt service fund	<u>400,000</u>	32,499,406
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 life of the related bond in the government-wide financial statements:		
Amortization of bond premiums	7,165,977	
Amortization of deferred charge on refunding	<u>(1,561,748)</u>	5,604,229
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>(5,819,000)</u>
Change in net position - governmental activities		<u>\$ (31,296,459)</u>

See accompanying notes to financial statements.



**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

State Highway Fund

Statement of Revenues and Expenditures - Budget and Actual (Non-GAAP Budgetary Basis)

Year Ended June 30, 2020

	<b>Original</b>	<b>Final</b>	<b>Actual on Budgetary Basis</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues:</b>				
State fuel taxes	\$ 83,553,918	\$ 83,553,918	\$ 77,285,432	\$ (6,268,486)
Vehicle weight taxes	84,485,190	84,485,190	76,964,482	(7,520,708)
Rental motor and tour vehicle surcharge taxes	58,281,292	58,281,292	72,500,091	14,218,799
Vehicle registration fees	46,479,796	46,479,796	42,494,220	(3,985,576)
Investment income	2,770,090	2,770,090	10,377,360	7,607,270
Other fees and penalties	8,187,637	8,187,637	8,333,612	145,975
Total revenues	<u>283,757,923</u>	<u>283,757,923</u>	<u>287,955,197</u>	<u>4,197,274</u>
<b>Expenditures:</b>				
Operations and maintenance:				
Oahu highways and services	81,609,688	81,605,749	79,576,856	2,028,893
Hawaii highways and services	14,727,444	15,958,238	12,360,519	3,597,719
Maui highways and services	14,967,547	14,979,417	11,483,897	3,495,520
Kauai highways and services	9,389,613	9,449,521	7,650,505	1,799,016
Molokai highways and services	1,974,925	1,977,466	1,477,028	500,438
Lanai highways and services	522,718	523,563	399,835	123,728
Administration of Highways Division including debt service	165,287,980	162,553,550	122,719,832	39,833,718
Surcharge on gross receipts	11,637,952	13,044,591	12,744,591	300,000
Motor Vehicle Safety Office	9,581,991	9,581,991	8,615,580	966,411
Total expenditures	<u>309,699,858</u>	<u>309,674,086</u>	<u>257,028,643</u>	<u>52,645,443</u>
Revenues over (under) expenditures and other uses	<u>\$ (25,941,935)</u>	<u>\$ (25,916,163)</u>	<u>\$ 30,926,554</u>	<u>\$ 56,842,717</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Agency Fund

Statement of Fiduciary Net Position

June 30, 2020

**Asset:**

Cash and cash equivalents	\$ 1,435,991
Total asset	<u>\$ 1,435,991</u>

**Liability:**

Due to others	\$ 1,435,991
Total liability	<u>\$ 1,435,991</u>

See accompanying notes to financial statements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

**(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 accompanying financial statements present only the activities of the Highways Division and are not intended to present fairly the financial position of the governmental activities and the respective major funds of the State, and the respective changes in financial position and the respective budgetary comparison for the year then ended in conformity with accounting principles generally accepted in the United States of America (GAAP).

**(2) Significant Accounting Policies**

***Basis of Presentation***

The Highways Division's financial statements are prepared in conformity with GAAP. The Governmental Accounting Standards Board (the GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

***Governmental Funds Financial Statements***

The accounts of the Highways Division are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues,

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

and expenditures. 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.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when 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 federal grants and tax and fee revenues. 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.

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

*State Highway Fund* – The State Highway Fund generally accounts for revenues and expenditures for highway operations, maintenance, and administration.

The State Highway Fund is a special revenue fund of the State established by Section 248-8, Hawaii Revised Statutes (HRS). All fuel taxes collected under Section 243-4, HRS except county fuel taxes, aviation fuel taxes, and taxes on fuel sold for use by small boats are deposited in the State Highway Fund.

Section 248-9, HRS provides that monies in the State Highway Fund shall be expendable by the Department of Transportation for the design, construction, reconstruction, repair and maintenance, and for acquisition of rights-of-way for public highways included in the State Highway Fund established under Section 264-41, HRS.

*Debt Service Fund* – The Debt Service Fund accounts for the Highways Division's financial resources obtained and used for the payment of principal and interest on State of Hawaii Highway Revenue Bonds.

*Capital Projects Fund* – The Capital Projects Fund accounts for the Highways Division's construction projects and the related sources of financing.

The accompanying financial statements include highway projects authorized by legislative acts through June 30, 2020.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

The Highways Division classifies fund balance based primarily on the extent to which it is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

*Nonspendable* – Balances that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*Restricted* – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

*Committed* – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature. Legislation is required to modify or rescind a fund balance commitment.

*Assigned* – Balances that are constrained by management to be used for specific purposes, authorized by the HRS, but are neither restricted nor committed.

*Unassigned* – Residual balances that are not contained in the other classifications.

***Government-Wide Financial Statements***

The 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 imposed by the provider have been met. The effect of interfund activity has been removed from these financial statements.

*Statement of Net Position* – 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.

*Statement of Activities* – The statement of activities reports expenses and revenues in a format that focuses on the cost of the Highways Division's programs. Revenues are classified as either program revenues or general revenues. Program revenues include charges paid by users, as well as capital or operating grants. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

***Fiduciary Fund Financial Statement***

The agency fund is used to account for assets held by the Highways Division on behalf of other departments of the State. Cash and cash equivalents reported in the agency fund statement of fiduciary net position consist of amounts held in State Treasury, including deposits received and held for others in the amount of \$1,435,991 at June 30, 2020.

***Cash and Cash Equivalents***

Cash and cash equivalents consist of amounts held in State Treasury as discussed in Note 4. The State's investments held in the State Treasury are reported at fair value within the fair value hierarchy established by GAAP.

***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 accounts 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.

***Fair Value Measurements***

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

*Level 1* – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

*Level 2* – Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.

*Level 3* – Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

***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 credit worthiness of the tenants and others doing business with the Highways Division. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

***Capital Assets***

Capital assets, which include land and land improvements, buildings and improvements, vehicles and equipment, infrastructure (i.e., roads, bridges, tunnels), and construction in progress, are reported in the government-wide statement of net position. Such assets are recorded at cost or at estimated fair market 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:

<b>Class of Assets</b>	<b>Estimated Useful Life</b>	<b>Capitalization Threshold</b>
Land improvements	15 years	\$ 100,000
Buildings	30 years	\$ 100,000
Building improvements	30 years	\$ 100,000
Vehicles and equipment	5 to 7 years	\$ 5,000
Infrastructure	28 to 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.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

***Deferred Outflows of Resources and Deferred Inflows of Resources***

Deferred outflows of resources is a consumption of net position by a government that is applicable to a future reporting period and deferred inflows of resources is an acquisition of net position 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 statement of net position, but are not recognized in the financial statements as revenues and expenses until the period(s) to which they relate. Deferred outflows of resources of the Highways Division is the deferred charge of refunding. The Highways Division does not currently have any deferred inflows of resources.

***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.

***Refunding of Debt***

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. The deferred charge on refunding, net amounted to \$7,796,440 at June 30, 2020, and is reported as deferred outflows of resources in the statement of net position.

***Compensated Absences***

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



**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

***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 16. 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Recently Issued Accounting Pronouncements***

***GASB Statement No. 84***

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this statement are effective for reporting periods beginning after December 15, 2018, postponed by GASB Statement No. 95 (GASB 95) for one year. The Highways Division is currently evaluating the impact that this statement will have on its financial statements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

*GASB Statement No. 87*

The GASB issued Statement No. 87, *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the provisions of the contract. The requirements of this statement are effective for reporting periods beginning after June 15, 2019, postponed by GASB 95 for eighteen months. The Highways Division is currently evaluating the impact that this statement will have on its financial statements.

*GASB Statement No. 92*

The GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. The requirements of this statement are effective at multiple periods depending on when certain statements are implemented, postponed by GASB 95 for one year. The Highways Division is currently evaluating the impact that the statement will have on its financial statements.

*GASB Statement No. 93*

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods beginning after June 15, 2020, postponed by GASB 95 for one year. The Highways Division is currently evaluating the impact that this statement will have on its financial statements.

*GASB Statement No. 94*

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

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

*GASB Statement No. 95*

During fiscal year 2020, the State implemented GASB 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The requirements of this statement are effective immediately. This statement did not have any effect on the Highways Division's financial statements.

*GASB Statement No. 96*

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

**(3) Budget and Budgetary Accounting**

***State Highway Fund***

In the statement 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 statement 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 statement 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.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

The table below reconciles the revenues over expenditures and other uses shown on the statement of revenues and expenditures - budget and actual (non-GAAP budgetary basis) for the State Highway Fund to the revenues over expenditures, before other financing uses, on a GAAP basis shown on the statement of revenues, expenditures and changes in fund balances for the State Highway Fund. The expenditures shown on the statement 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 difference may exist between these two basis.

Revenues over expenditures and other uses,	
non-GAAP budgetary basis	\$ 30,926,554
Federal grants in aid - not included in budgeted revenues but included in GAAP basis revenues	93,333,621
Miscellaneous differences in revenues based on budgetary basis and GAAP basis	12,414,514
Pass through expenditures for county projects not included in allotted expenditures on budgetary basis but included in GAAP basis expenditures	(33,882,060)
Debt service payment budgeted as part of Administrative of Highways Division, but not shown as an expenditures in State Highway Fund	53,153,381
Differences in operations and maintenance expenses between allotted expenditures on budgetary basis and expenditures on GAAP basis	(47,984,243)
Differences in Highways Division administrative expenditures between allotted expenditures on budgetary basis and expenditures on GAAP basis (less budgeted debt service payment)	(38,793,752)
Differences in Motor Vehicle Safety Office expenditures and gross receipts surcharge between allotted expenditures on budgetary basis and expenditures on GAAP basis	<u>3,509,157</u>
Revenues over expenditures, before other financing uses, GAAP basis	<u><u>\$ 72,677,172</u></u>

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

***Capital Projects Fund***

Excess Capital Projects Fund allotments lapse after completion of the project, which is generally two or three years subsequent to allotment.

**(4) Cash and Cash Equivalents**

Cash and cash equivalents at June 30, 2020, consisted of amounts held in State Treasury and are reflected in the accompanying financial statements at June 30, 2020 as follows:

	<b>Governmental Activities</b>	<b>Agency Fund</b>	<b>Total</b>
Cash and cash equivalents	\$ 231,992,742	\$ 1,435,991	\$ 233,428,733
Restricted cash and cash equivalents:			
Capital projects	94,111,332	-	94,111,332
Revenue bond debt service	18,538,169	-	18,538,169
Security deposits	20,509,037	-	20,509,037
Total cash and cash equivalents	\$ 365,151,280	\$ 1,435,991	\$ 366,587,271

***Amounts Held in State Treasury***

The Director of Finance of the State Department of Budget and Finance (B&F) is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the pool participants based upon their 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, time certificates of deposit, and repurchase agreements with federally-insured financial institutions.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

At June 30, 2020, amounts held in State Treasury by the Highways Division totaled \$366,587,271. The amounts held in State Treasury reported in the accompanying statement of net position reflects the Highways Division's relative position in the State's investment pool based upon the average monthly investment balance of each participant in the investment pool.

Information relating to the cash and investments in State Treasury is determined on a statewide basis and not for individual departments or agencies. Information regarding the carrying amount and corresponding bank balances of the investment pool and collateralization of the investment pool balances is included in the comprehensive annual financial report (CAFR) of the State.

*Cash and Cash Equivalents*

The State maintains bank accounts for various purposes at locations throughout the State and the nation. Bank deposits for the State Treasury are under the custody of the Director of Finance. Cash and cash equivalents consist of cash, time certificates of deposit, and money market accounts. Cash and cash equivalents also include repurchase agreements and U.S. government securities with original maturities of three months or less.

*Investments*

The State holds investments both for its own benefit and as an agent for other parties. Further, the State pools all excess funds into an investment pool that is administered by B&F. The pool's investment options are limited to investments listed in the HRS.

At the end of each quarter, B&F allocates the investment pool amount to each of the participants. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The Hawaii Employer-Union Health Benefits Trust Fund (the EUTF) maintains a separate investment pool. The EUTF board is responsible for safekeeping these monies and has appointed an investment committee responsible for investing EUTF assets in compliance with HRS Sections 87A-24(2) and 88-119. Money is invested in accordance with the EUTF's investment policy.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

The following table presents the fair value of the investments included in the State's investment pool at June 30, 2020 (amounts expressed in thousands):

	Reported Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Primary government:				
Investments measured by fair value level:				
U.S. government securities	\$ 2,228,705	\$ 1,431,333	\$ 797,372	\$ -
Mutual funds	84,914	84,914	-	-
	2,313,619	\$ 1,516,247	\$ 797,372	\$ -
Investments measured at amortized cost:				
Certificates of deposit	742,902			
Total investments	\$ 3,056,521			
Fiduciary funds:				
Investments by fair value level:				
Equity securities	\$ 462,167	\$ 462,167	\$ -	\$ -
U.S. government securities	584,823	221,053	363,770	-
Mutual funds	71,949	71,949	-	-
Derivatives	(450)	-	(450)	-
	1,118,489	\$ 755,169	\$ 363,320	\$ -
Investments at net asset value (NAV):				
Commingled funds:				
Domestic equity	814,557			
International equity	703,635			
Domestic core fixed income	109,944			
Domestic inflation-linked fixed income	184,646			
Real estate	375,657			
Alternative investments	589,910			
Total investments at fair value	3,896,838			
Investments measured at amortized cost:				
Certificates of deposit	114,733			
Total investments	\$ 4,011,571			
Invested securities lending collateral at NAV:				
Money market fund	\$ 18,499			

***Cash and Cash Equivalents, Certificates of Deposit, and Repurchase Agreements***

The State considers all cash and investments with original maturities of three months or less to be cash equivalents. The carrying amounts for cash equivalents, certificates of deposit, and repurchase agreements are measured at amortized cost.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

***Debt Securities; Mutual Funds; Equity Securities; Commingled Funds, Real Estate, and Alternative Investments; and Money Market Funds***

The following methods and assumptions were used by the State in estimating the fair value of its financial instruments:

*Debt securities* – Debt securities held by the State consist of U.S. government obligations including U.S. Treasury bills and U.S. Treasury notes and bonds. The fair value of these investments are based on quoted prices in active markets or other observable inputs, including pricing matrices. These investments are categorized in either Level 1 or 2 of the fair value hierarchy.

*Mutual funds* – The mutual funds held by the State are open-ended mutual funds that are registered with the Securities Exchange Commission. The fair value of these mutual funds are valued at the daily closing price as reported by the fund. These funds are required to publish their daily NAV and to transact at that price. These investments are categorized in Level 1 of the fair value hierarchy.

*Equity securities* – Equity securities held by the State are valued at the closing price reported on the active market on which the individual securities are traded. These investments are categorized as Level 1 of the fair value hierarchy.

*Commingled funds, real estate, and alternative investments* – Investments in commingled funds, real estate, and alternative investments are valued at the NAV of the investment vehicles. The NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

*Money market funds* – Investments in money market funds are valued at the NAV of the custodian bank liquid asset portfolio. NAV is based on the fair value of the underlying assets held by the fund less its liabilities.

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that the State's investments have fluctuated since June 30, 2020.



**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

The following table presents the State's investments by maturity period at June 30, 2020 (amounts expressed in thousands):

	Reported Value	Maturity (in years)		
		Less than 1	1-5	More than 5
Primary government:				
Certificates of deposit	\$ 742,902	\$ 686,304	\$ 56,598	\$ -
U.S. government securities	2,228,705	1,500,400	728,305	-
	2,971,607	\$ 2,186,704	\$ 784,903	\$ -
Mutual funds	84,914			
Total investments	\$ 3,056,521			
Fiduciary funds:				
Certificates of deposit	\$ 114,733	\$ 110,296	\$ 4,437	\$ -
U.S. government securities	584,823	187,494	397,329	-
Derivatives	(450)	-	(450)	-
	699,106	\$ 297,790	\$ 401,316	\$ -
Equity securities	462,167			
Mutual funds	71,949			
Commingled funds	1,812,782			
Real estate	375,657			
Alternative investments	589,910			
Total investments	\$ 4,011,571			

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

***Interest Rate Risk***

As a means of limiting its exposure to fair value losses arising from rising interest rates, the State's investment policy generally limits maturities on investments to not more than five years from the date of investment.

***Credit Risk***

The State's general investment policy limits investments in state and U.S. Treasury securities, time certificates of deposit, U.S. government or agency obligations, repurchase agreements, commercial paper, banker's acceptances, and money market funds maintaining a Triple-A rating.

***Custodial Risk***

For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State's investments are held at broker/dealer firms, which are protected by the Securities Investor Protection Corporation (SIPC) up to a maximum amount. Excess SIPC coverage is provided by the firms' insurance policies. In addition, the State requires the institutions to set aside in safekeeping certain types of securities to collateralize repurchase agreements. The State monitors the market value of these securities and obtains additional collateral when appropriate.

***Concentration of Credit Risk***

The State's policy provides guidelines for portfolio diversification by placing limits on the amount the State may invest in any one issuer, types of investment instruments, and position limits per issue of an investment instrument.

***Foreign Currency Risk***

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. The asset allocation and investment policy allows for active and passive investments in international securities. The foreign currency risk exposure to the State arises from the international equity investment holdings, including commingled funds, common stocks, and exchange traded funds.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

**(5) Tax and Fee Revenues**

***State Fuel Tax***

The primary source of revenue for the State Highway Fund is the state tax on liquid (motor vehicle) fuel. For fiscal year 2020, the tax 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 \$5 a day that a rental motor vehicle is rented or leased.

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

***Vehicle Registration and Motor Carrier Safety Inspection Fees***

The vehicle registration fee was \$45 per vehicle, of which \$5 is earmarked for deposit into the Emergency Medical Services (EMS) special fund. During the year ended June 30, 2020 the Highways Division collected approximately \$5,570,000 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, 2020

**(6) 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, 2020, receivables totaling \$45,496,958 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, 2020 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, 2020, or the results of operations of such funds for the year then ended.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

**(7) Capital Assets**

Changes in capital assets during the year ended June 30, 2020 were as follows:

	<b>Balance July 1, 2019</b>	<b>Additions</b>	<b>Deductions</b>	<b>Transfers</b>	<b>Balance June 30, 2020</b>
<b>Nondepreciable assets:</b>					
Land	\$ 1,266,227,017	\$ 990,775	\$ (3,493)	\$ -	\$ 1,267,214,299
Construction in progress	369,060,392	178,718,825	(257,402)	(244,272,176)	303,249,639
Total nondepreciable assets	<u>1,635,287,409</u>	<u>179,709,600</u>	<u>(260,895)</u>	<u>(244,272,176)</u>	<u>1,570,463,938</u>
<b>Depreciable assets:</b>					
Land improvements	2,215,473	-	-	-	2,215,473
Buildings and improvements	58,203,300	-	-	3,013,358	61,216,658
Vehicles and equipment	88,532,753	6,459,239	(4,794,273)	-	90,197,719
Infrastructure	9,449,628,885	-	(3,385,510)	241,258,818	9,687,502,193
Total depreciable assets	9,598,580,411	6,459,239	(8,179,783)	244,272,176	9,841,132,043
Less accumulated depreciation	(6,203,444,081)	(209,237,344)	8,135,599	-	(6,404,545,826)
Total depreciable assets, net	<u>3,395,136,330</u>	<u>(202,778,105)</u>	<u>(44,184)</u>	<u>244,272,176</u>	<u>3,436,586,217</u>
Total capital assets, net	<u>\$ 5,030,423,739</u>	<u>\$ (23,068,505)</u>	<u>\$ (305,079)</u>	<u>\$ -</u>	<u>\$ 5,007,050,155</u>

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

**(8) Net Position**

At June 30, 2020, net position consisted of the following:

**Net investment in capital assets:**

Net property, plant and equipment	\$ 5,007,050,155
Less: Revenue bonds payable	(484,772,794)
Add: Unspent revenue bond proceeds	94,111,332
Add: Deferred charge on refunding, net	7,796,440
Less: Capital lease obligation, net of unused proceeds and financed interest cost	(56,003,183)
Less: Capital-related accounts and contracts payable	<u>(24,685,655)</u>
Total net investment in capital assets	4,543,496,295

**Unrestricted**

	<u>227,997,070</u>
Total net position	<u><u>\$ 4,771,493,365</u></u>

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

**(9) General Long-Term Liabilities**

Changes in general long-term liabilities during the year ended June 30, 2020 were as follows:

	<u>Balance June 30, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2020</u>	<u>Amount Due Within One Year</u>
Accrued vacation payable	\$ 12,675,753	\$ 5,389,478	\$ (5,087,339)	\$ 12,977,892	\$ 3,663,768
Workers' compensation payable (Note 16)	6,882,158	6,655,787	(1,080,228)	12,457,717	1,154,101
Capital lease obligation (Note 14)	58,257,589	-	(2,254,406)	56,003,183	2,543,062
Revenue bonds payable (Note 10)	379,495,000	81,835,000	(29,845,000)	431,485,000	30,695,000
Revenue bonds payable - unamortized premium (Note 10)	49,922,924	18,660,847	(7,165,977)	61,417,794	-
Total governmental activities long-term liabilities	<u>\$ 507,233,424</u>	<u>\$ 112,541,112</u>	<u>\$ (45,432,950)</u>	<u>\$ 574,341,586</u>	<u>\$ 38,055,931</u>

**(10) Revenue Bonds**

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

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

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

On February 20, 2005, the Highways Division issued \$123,915,000 in State of Hawaii Revenue Bonds Series B (2005B Bonds) with interest rates ranging from 3.0% to 5.25% and mature in annual installments through 2021. These bonds were issued at a premium of \$15,000,442, which will be amortized over the life of the bonds using the effective interest method.

On December 15, 2011, the Highways Division issued \$112,270,000 in State of Hawaii Revenue Bonds Series 2011A (2011A Bonds). The 2011A Bonds bear interest at rates ranging from 2.00% to 5.00% and mature in annual installments through 2032. These bonds were issued at a premium of \$13,152,124, which will be amortized over the life of the bonds using the effective interest method.

On December 15, 2011, the Highways Division also issued \$5,095,000 in State of Hawaii Revenue Bonds Series 2011B (2011B Bonds) with an interest rate of 4.00% and mature in annual installments through 2032. These bonds were issued at a premium of \$466,702, which will be amortized over the life of the bonds using the effective interest method. The 2011B bonds were issued to provide funds for a current refunding of the outstanding 2001 Bonds. The payments for the current refunding of revenue bonds amounted to \$5,400,000.

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 \$17,291,491, 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 \$5,865,358, 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 2.00% to 5.00% and mature in annual installments through 2030. These bonds were issued at a premium of \$17,107,039, 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 1.26% to 5.00% and mature in annual installments through 2036. These bonds were issued at a premium of \$25,989,247, 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%.



**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

The net proceeds of \$128,188,095 (after an additional contribution of \$2,019,488, payment of \$513,820 in underwriting fees, insurance, and other issuance costs, and payment of \$396,820 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 (the 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 \$18,660,847. 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.

The following is a summary of revenue bonds issued and outstanding at June 30, 2020:

<u>Series</u>	<u>Interest Rates</u>	<u>Final Maturity Date (July 1)</u>	<u>Original Amount of Issue</u>	<u>Outstanding Amount</u>
2005B	3.00-5.25%	2021	\$ 123,915,000	\$ 12,555,000
2011	2.00-5.00%	2032	117,365,000	42,700,000
2014	2.00-5.00%	2034	135,660,000	103,535,000
2016	1.26-5.00%	2036	204,485,000	190,860,000
2019	3.00-5.00%	2040	81,835,000	81,835,000
			<u>\$ 663,260,000</u>	431,485,000
			Add: unamortized premium	61,417,794
			Less: current portion	<u>(30,695,000)</u>
			Noncurrent portion	<u>\$ 462,207,794</u>

During 2020, \$49,366,802 was transferred from the State Highway Fund to the Debt Service Fund for repayment of revenue bonds principal of \$22,115,000 and \$8,130,000 on January 1, 2020 and July 1, 2020, and interest of \$8,713,632 and \$10,408,170 due on January 1, 2020 and July 1, 2020, respectively.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

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

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 30,695,000	\$ 20,382,477	\$ 51,077,477
2022	27,980,000	18,847,182	46,827,182
2023	27,615,000	17,684,526	45,299,526
2024	28,670,000	16,634,300	45,304,300
2025	29,710,000	15,246,850	44,956,850
2026-2030	144,805,000	54,502,400	199,307,400
2031-2035	104,185,000	21,973,950	126,158,950
2036-2040	37,825,000	4,986,350	42,811,350
Total	<u>\$ 431,485,000</u>	<u>\$ 170,258,035</u>	<u>\$ 601,743,035</u>

A comparison of revenues pledged as collateral for debt service payments recognized for the year ended June 30, 2020 to the principal and interest requirements of the bonds for the period is as follows:

Pledged user taxes	\$ 277,880,624
Principal and interest requirements	\$ 47,475,175

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

**(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 in the government-wide statement of activities as transfers, and are summarized as follows:

	<b>State Highway Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Total</b>
Funding of revenue bond bond and capital lease debt service	\$ (53,153,381)	\$ 53,153,381	\$ -	\$ -
Funding of highway capital projects	(11,456,075)	-	11,456,075	-
	\$ (64,609,456)	\$ 53,153,381	\$ 11,456,075	\$ -

**(12) Retirement Benefits**

*Pension Plan*

*Plan Description*

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

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

The following summarizes the provisions relevant to the largest employee groups of the respective membership class.

***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 10 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. 10 years of credited service is 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.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

Ordinary death benefits are available to employees who were active at the time of death with at least 10 years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

***Contributory Class for Members Hired Prior to July 1, 2012***

*Retirement Benefits*

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

*Disability Benefits*

Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. 10 years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

*Death Benefits*

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

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 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 10 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. 10 years of credited service is 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. 10 years of credited service is 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, 2020

*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 10 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 10 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. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.

*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 10 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 10 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.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

***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 2020 was 22.0% for general employees. Contributions to the pension plan from the Highways Division were approximately \$11,213,000 for the fiscal year ended June 30, 2020.

Pursuant to Act 17 SLH 2017, employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for general employees increased to 22.0% on July 1, 2019 and 24.0% on July 1, 2020.

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

***Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension***

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Highways Division. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension only to component units and proprietary funds that are reported separately in stand-alone financial statements or in the State's CAFR. Accordingly, the Highways Division's proportionate share of the State's pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's CAFR. The State's CAFR can be obtained at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.



**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

***Postemployment Health Care and Life Insurance Benefits***

*Plan Description*

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base 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 fewer 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. 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 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 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.

***Contributions***

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF paid by the Highways Division was approximately \$22,377,000 for the fiscal year ended June 30, 2020. The employer is required to make all contributions for members.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

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

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the Highways Division. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB only to component units and proprietary funds that are reported separately in stand-alone financial statements or in the State's CAFR. Accordingly, the Highways Division's proportionate share of the State's OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB are not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's CAFR.

***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 an 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 has 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 financial statements.

**(13) Transactions With Other Government 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 2020, the assessment amounted to approximately \$11,638,000, which is included as the caption surcharge on gross receipts expense/expenditures in the accompanying financial statements.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

The Highways Division is also assessed a percentage of the cost of the general administration expenses of the Highways Division. During fiscal year 2020, assessments net of amounts refunded amounted to approximately \$6,889,000, which is included in administration of Highways Division expense/expenditures in the accompanying financial statements.

**(14) Lease Commitments**

***Capital Lease Obligation***

On July 8, 2015, the Highways Division entered into an equipment lease purchase agreement for the acquisition and installation of energy conservation measures at selected Highways Division locations. Annual lease payments commenced on August 1, 2017, and will continue through August 1, 2031 at an interest rate of 2.63%. Assets under capital leases at June 30, 2020 totaled \$60,286,091, net of accumulated depreciation of \$5,382,687.

Future minimum lease payments are as follows:

<b>Years Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2021	\$ 2,543,062	\$ 1,472,884	\$ 4,015,946
2022	2,851,146	1,406,001	4,257,147
2023	3,179,770	1,331,016	4,510,786
2024	3,520,110	1,247,388	4,767,498
2025	3,903,401	1,154,546	5,057,947
2026-2030	26,024,836	4,013,391	30,038,227
2031-2032	13,980,858	559,101	14,539,959
	<u>\$ 56,003,183</u>	<u>\$ 11,184,327</u>	<u>\$ 67,187,510</u>

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

***Operating Leases***

*Rental Revenue*

The Highways Division is a lessor of various properties under non-cancelable lease agreements that expire through fiscal year 2044. Scheduled annual minimum revenues are as follows:

<b>Years Ending June 30,</b>	
2021	\$ 305,000
2022	302,000
2023	302,000
2024	302,000
2025	302,000
2026-2030	1,076,000
2031-2035	415,000
2036-2040	360,000
2041-2044	360,000
	<hr style="border-top: 1px solid black;"/>
Total	<u><u>\$ 3,724,000</u></u>

**(15) Commitments**

***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 the fair market 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 \$119,000 at June 30, 2020. Such funds deposited may not be sufficient to cover the full amount required for compensation purposes. Management, however, believes any additional compensation in excess of amounts deposited with State courts will not be material to the financial statements of the Highways Division. The funds deposited in the State courts are reflected in capital projects expenditures in the governmental fund statement of revenue, expenditures, and changes in fund balances and in capital assets on the government-wide statement of net position in the year in which the deposits were made.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

*Accumulated Sick Leave*

Full-time employees are credited with sick leave at the rate of one and three-quarters days for each month. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credits in the ERS. Accumulated sick leave at June 30, 2020 amounted to approximately \$25,374,000.

**(16) Risk Management**

The State 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 such as fires and 3% of a property's replacement cost value for catastrophic losses such as hurricanes, earthquakes, and floods, the first \$5,000,000 with respect to general liability claims, and the first \$500,000 of losses due to crime and cyber liability. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence of property losses is \$200,000,000, except for terrorism, which is \$100,000,000 per occurrence. The annual aggregate limit for general liability losses is \$9,000,000 per occurrence, \$50,000,000 for cyber liability losses and, for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of \$35,000,000 per occurrence and \$39,000,000 in the aggregate.

The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to \$15,000 are administered by the Risk Management Office. The State administers its workers' compensation losses.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year end, non-incremental estimates (based on projections of historical developments) or claims incurred but not reported, and non-incremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The Highways Division believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed and, as settlements are made and reserves adjusted, the differences are reported in current operations.

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

Accrued workers' compensation amounted to approximately \$12,457,717 and \$6,882,158 at June 30, 2020 and 2019, respectively. Changes in the workers' compensation liability for the years ended June 30, 2020 and 2019 are shown below:

	<b>2020</b>	<b>2019</b>
Beginning balance	\$ 6,882,158	\$ 5,911,067
Current year claims	6,655,787	2,747,468
Claims paid	(1,080,228)	(1,776,377)
Ending balance	\$ 12,457,717	\$ 6,882,158

**(17) Contingencies and Other**

***Prior Years Defeased Bonds***

At various dates in prior years, the Highways Division has placed proceeds from bond issuances in irrevocable refunding escrow accounts for the purpose of providing sufficient funds to pay all principal and interest refunded bond issues and remaining payment dates (defeased bonds). The likelihood of the earnings and principal not being sufficient to pay the defeased bonds appears remote and accordingly the escrow accounts and defeased bonds are not included in the accompanying financial statements. Defeased bonds principal outstanding at June 30, 2020 was \$39,560,000.

***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

**HIGHWAYS DIVISION  
DEPARTMENT OF TRANSPORTATION  
STATE OF HAWAII**

Notes to Financial Statements

June 30, 2020

remediation of petroleum contamination in the Iwilei District. This group of potentially responsible parties, known as the Iwilei District Participating Parties (IDPP), has conducted various investigations to determine potential contamination in the Iwilei area from 1997 to present, which investigations have determined the existence of petroleum contamination at various locations.

The remediation alternative selected involves the management of the contamination in-place with limited extraction, plume monitoring, active institutional controls including education/awareness and outreach of landowners, potential developers and utility operators, and reimbursement of future incremental project costs attributable to the contamination. However, the project has not yet advanced to the stage where total costs to the IDPP can reasonably be estimated due to: (1) the extent of the environmental impact, (2) the undetermined allocation among the potentially responsible parties, and (3) the continued discussion with the regulatory authorities. As a result, it is not possible to reasonably estimate the amount of the potential cost to the IDPP and allocable share of the Division, and if there would be a material impact to the Division's financial statements. Accordingly, no estimate of loss has been recorded in the accompanying financial statements.

**(18) Subsequent Events**

On March 11, 2020, the World Health Organization declared the outbreak of the coronavirus infection known as COVID-19 to be a global pandemic. The financial impact of COVID-19 on the economy of the United States, including Hawaii, is expected to be significant. Management is currently evaluating the short-term and long-term impact that COVID-19 could have on the Highways Division's operations. Because of the uncertainties surrounding the duration and severity of this pandemic, management is unable to make a reasonable estimate regarding the long-term effect on its operations and financial condition.

The 14th supplementary proclamation, issued on October 13, 2020, suspended specific provisions of law. Included were Sections 87A-42(b)-(f), HRS, other postemployment benefits trust, 87A-43, HRS, payment of public employer contributions to the other postemployment benefits trust, and 237-31(3), HRS, remittances, related to the requirement for public employers to pay the annual required contribution to the EUTF in fiscal year 2021.

The Highways Division has evaluated subsequent events through March 17, 2021, the date the financial statements were available to be issued, and determined that there are no other matters to disclose.