



# Highways Division Department of Transportation State of Hawaii

Financial Statements  
June 30, 2023

Submitted by  
The Auditor  
State of Hawaii



**Highways Division**  
**Department of Transportation**  
**State of Hawaii**  
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**June 30, 2023**

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## Report of Independent Auditors

The Auditor  
State of Hawaii

### Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of the Highways Division, Department of Transportation, State of Hawaii (the "Highways Division"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Highways Division's basic financial statements as listed in the index.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Highways Division as of June 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

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

### Emphasis of Matters

#### ***Financial Reporting Entity***

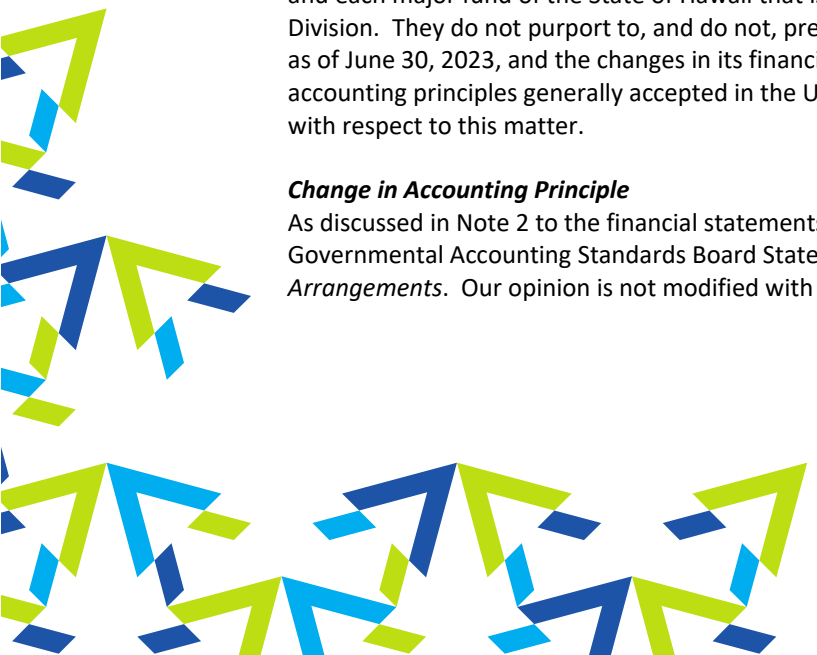
As discussed in Note 1, the financial statements of the Highways Division are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of Hawaii that is attributable to the transactions of the Highways Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2023, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.


#### ***Change in Accounting Principle***

As discussed in Note 2 to the financial statements, effective July 1, 2022, the Highways Division adopted Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. Our opinion is not modified with respect to this matter.

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## **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Highways Division's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Highways Division's ability to continue as a going concern for a reasonable period of time.

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



### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 and schedule of revenues and expenditures – budget and actual (non-GAAP budgetary basis) – State Highway Fund on pages 44 through 45, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2024 on our consideration of the Highways Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Highways Division's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Highways Division's internal control over financial reporting and compliance.

*Accuity LLP*

Honolulu, Hawaii  
January 29, 2024

**Highways Division**  
**Department of Transportation**  
**State of Hawaii**  
**Management’s Discussion and Analysis (Unaudited)**  
**June 30, 2023**

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The following Management’s Discussion and Analysis (“MD&A”) of activities and financial performance of the Highways Division, Department of Transportation, State of Hawaii (the “Highways Division”) provides the reader with an introduction and overview to the financial statements of the Highways Division as of and for the year ended June 30, 2023. This discussion has been prepared by management and should be read in conjunction with the financial statements and the notes thereto, which follow this section.

The Territorial Highway Department was created by the Territorial Legislature on April 24, 1925 by Act 78 to qualify Hawaii for participation in the Federal-Aid Program. The purpose of the Federal-Aid Program was to ensure the development of an integrated network of highways in the United States. Congress defined that the Federal government would provide the funds for construction on a matching contribution basis while the State of Hawaii (“State”) or its political subdivisions would administer the highways.

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

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

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

**Overview of the Financial Statements**

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

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***Government-wide Financial Statements***

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

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

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

The government-wide financial statements can be found on pages 13 and 14 of this report.

***Fund Financial Statements***

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities of the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Highways Division's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide reconciliations on pages 16 and 18, respectively, to facilitate this comparison between governmental funds financial statements and government-wide financial statements.

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

The governmental funds financial statements can be found on pages 15 through 18 of this report.

***Notes to the Financial Statements***

The notes to the financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and governmental funds financial statements. The notes to financial statements can be found in pages 19 through 43 of this report.

**Required Supplementary Information Other Than MD&A**

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

The budgetary comparison schedule compares the SHF’s original budget, final budget, and actual amounts prepared on a budgetary basis. A reconciliation between the actual SHF revenues and expenditures compared to the SHF revenues and expenditures prepared for budgetary purposes is included in the note to the schedule of revenues and expenditures – budget and actual (non-GAAP budgetary basis). The Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis) – State Highway Fund can be found on page 44 of this report.

**Financial Highlights**

***Implementation of GASB Statement No. 96***

During fiscal year 2023, the Department implemented Governmental Accounting Standards Board (“GASB”) Statement No. 96, *Subscription-Based Information Technology Arrangements*. The Statement established criteria for accounting and financial reporting for subscription-based information technology arrangements (“SBITA”) for government end users (governments). Governments are required to recognize a right-to-use subscription asset, an intangible asset, and a corresponding liability.

The adoption of Statement No. 96 resulted in an increase in capital assets and liabilities of approximately \$5,124,000 as of July 1, 2022.

***Government-wide Financial Statements***

The assets and deferred outflows of resources of the Highways Division exceeded its liabilities and deferred inflows of resources at June 30, 2023 by \$4.7 billion. Of this amount, \$327 million is considered unrestricted and may be used to meet the Highways Division’s ongoing obligations.

The Highways Division’s net position decreased by \$11 million during the year ended June 30, 2023.

***Fund Financial Statements***

At June 30, 2023, the Highways Division’s governmental funds reported a combined ending fund balance of \$440 million. The combined fund balance decreased 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 \$348 million. There was a \$32 million decrease in fund balance during the year ended June 30, 2023.



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**Government-wide Financial Analysis**

**Condensed Statements of Net Position**

As noted earlier, net position may serve over time as a useful indicator of the Highways Division's financial position. The Highways Division's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4.7 billion at June 30, 2023 and 2022.

**Condensed Statements of Net Position**  
**As of June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
<b>Assets</b>		
Current and other assets	\$ 582,518,465	\$ 597,878,102
Capital assets, net	<u>4,936,312,722</u>	<u>4,917,236,465</u>
Total assets	<u>\$5,518,831,187</u>	<u>\$5,515,114,567</u>
<b>Deferred outflows of resources</b>		
Deferred charge on refunding, net	<u>\$ 1,913,752</u>	<u>\$ 2,776,404</u>
<b>Liabilities</b>		
Current liabilities	\$ 152,349,148	\$ 108,306,158
Long-term liabilities	<u>640,849,133</u>	<u>671,848,030</u>
Total liabilities	<u>\$ 793,198,281</u>	<u>\$ 780,154,188</u>
<b>Deferred inflows of resources</b>		
Deferred inflow of resources related to leases	<u>\$ 2,855,207</u>	<u>\$ 2,478,982</u>
<b>Net position</b>		
Net investment in capital assets	\$4,397,232,564	\$4,401,255,059
Unrestricted	<u>327,458,887</u>	<u>334,002,742</u>
Total net position	<u>\$4,724,691,451</u>	<u>\$4,735,257,801</u>

The largest portion of the Highways Division's net position (\$4.4 billion at June 30, 2023 and 2022) reflects its investment in capital assets (e.g., land and land improvements, buildings and improvements, vehicles and equipment, and infrastructure), net of accumulated depreciation, which is reduced by any related debt and other borrowings used to acquire those assets that are still outstanding and deferred charges on refunding, net of accumulated amortization. The Highways Division uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the Highways Division's net investment in capital assets is reported net of related debt and other borrowings, it should be noted that the resources needed to repay the debt and other borrowings must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

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The remaining net position (\$327 million and \$334 million at June 30, 2023 and 2022, respectively) is unrestricted and may be used to meet the Highways Division's ongoing obligations to citizens and creditors.

Current and other assets decreased by \$15 million, or 3%, from June 30, 2022 to June 30, 2023, due primarily to decreases in restricted cash of \$63 million and due from U.S. Government of \$6 million, offset by an increase in cash and cash equivalents of \$54 million.

Capital assets, net increased by \$19 million, or 0.4%, from June 30, 2022 to June 30, 2023, primarily due to depreciation and amortization expense of \$206 million and losses on disposal of \$17 million, offset by additions of \$237 million and recognition of software subscription assets of \$5 million.

Current liabilities increased by \$44 million, or 41%, from June 30, 2022 to June 30, 2023, primarily due to a \$24 million increase in contracts payable, a \$7 million increase in unearned revenue, and a \$13 million increase in accounts payable.

Long-term liabilities decreased by \$31 million, or 5%, from June 30, 2022 to June 30, 2023, primarily due to a decrease in revenue bonds payable of \$36 million, offset by an increase in subscription liabilities of \$5 million.

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

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**Condensed Statements of Activities**

The following condensed financial information reflects how the Highways Division's net position changed during the years ended June 30, 2023 and 2022.

**Condensed Statements of Activities**  
**For the Years Ended June 30, 2023 and 2022**

	<b>2023</b>	<b>2022</b>
<b>Expenses</b>		
Depreciation and amortization expense	\$ 205,824,880	\$ 209,283,052
Operations and maintenance	145,438,879	138,246,834
Administration of Highways Division	156,993,491	138,790,398
Motor Vehicle Safety Office	16,455,547	14,999,562
Interest expense	12,169,220	18,586,533
Other	61,724,039	53,806,459
Total expenses	<u>598,606,056</u>	<u>573,712,838</u>
<b>Revenues</b>		
Program revenues		
Capital grants and contributions	213,911,645	143,549,475
Operating grants and contributions	42,145,584	115,481,319
Charges for services	57,411,481	55,954,084
Total program revenues	<u>313,468,710</u>	<u>314,984,878</u>
Net program expenses	<u>(285,137,346)</u>	<u>(258,727,960)</u>
General revenues		
Taxes	266,028,661	243,297,817
Investment income and other	8,542,335	9,933,076
Total general revenues	<u>274,570,996</u>	<u>253,230,893</u>
Change in net position	(10,566,350)	(5,497,067)
<b>Net position</b>		
Beginning of year	<u>4,735,257,801</u>	<u>4,740,754,868</u>
End of year	<u>\$4,724,691,451</u>	<u>\$4,735,257,801</u>

Total expenses increased by \$25 million, or 4%, from \$574 million in fiscal year 2022 to \$599 million in fiscal year 2023. The increase is due primarily to the increases in operations of maintenance of \$7 million, administration of \$18 million, surcharge on gross receipts of \$7 million, and Motor Vehicle Safety Office of \$1 million. The increase is offset by decreases in depreciation and amortization expense of \$3 million and interest expense of \$6 million.

Total revenues increased by \$20 million, or 3%, from \$568 million in fiscal year 2022 to \$588 million in fiscal year 2023, due primarily to an increase in general revenues of \$21 million, or 8%, offset by a decrease in program revenues of \$2 million, or 0.5%.

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Program revenues, which comprise charges for services, as well as capital and operating grants, accounted for 53% and 55% of total revenues in fiscal years 2023 and 2022, respectively. The largest components of program revenues were capital and operating grants and contributions primarily from the Federal Highway Administration for the maintenance and construction of roads and other infrastructure. Capital and operating grants and contributions decreased by \$3 million from \$259 million in fiscal year 2022 to \$256 million in fiscal year 2023 due primarily to a \$70 million increase in capital grants and contributions, offset by a \$73 million decrease in operating grants and contributions. These changes were due to the related changes in expenditures for capital expenditures and operating expenditures, respectively, both of which are primarily reimbursable arrangements per the related grant agreements.

General revenues, which consist of taxes, including state fuel taxes, vehicle weight taxes and penalties, and rental motor and tour vehicle surcharge taxes, as well as investment income, accounted for 47% and 45% of total revenues in fiscal years 2023 and 2022, respectively.

The decrease in net position was \$11 million in fiscal year 2023 as compared to the decrease in net position of \$5 million in fiscal year 2022.

A reconciliation on page 18 facilitates the comparison between governmental funds and governmental activities.

**Financial Analysis of the Highways Division's Governmental Funds**

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

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

At June 30, 2023, the Highways Division's governmental funds reported a combined ending fund balance of \$440 million, representing a decrease of \$60 million from the prior year. \$348 million of the fund balance is classified as committed to indicate that amounts can only be used for specific purposes pursuant to formal action of the Legislature. \$92 million of the fund balance is classified as restricted to indicate that amounts are restricted for specific purposes imposed by external parties.

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

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

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

At June 30, 2023 and 2022, the total fund balance of the SHF was \$348 million and \$380 million, respectively. SHF’s fund balance decreased by \$32 million in the current year compared to a \$67 million increase in the prior year. The current year decrease was mainly due to net transfers out of \$112 million offset by revenues over expenditures of \$80 million.

The Debt Service Fund (“DSF”) is used to track the revenue bond debt service for the Highways Division. Debt service requirements are primarily transferred from the SHF. The debt service expenditures were \$51 million and \$50 million for fiscal years 2023 and 2022, respectively.

The Capital Projects Fund (“CPF”) accounts for the Highways Division’s capital improvements program. At June 30, 2023, the CPF had a total fund balance of \$92 million. The CPF fund balance decreased by \$28 million in fiscal year 2023 as compared to a \$76 million decrease in the prior year. The decrease in the current year fund balance was mainly due to expenditures over revenues of \$89 million, offset by net transfers in of \$61 million.

**State Highway Fund Budgetary Highlights**

The final SHF budget had total revenues of \$316 million. The actual revenues on a budgetary basis were \$329 million, or 4%, more than the final budget, primarily due to higher than budgeted revenues for rental motor and tour vehicle surcharge taxes and investment income of \$9 million and \$5 million, respectively, offset by lower than budgeted revenues for state fuel taxes of \$2 million.

Expenditures on the budgetary actual basis were \$305 million, or 15%, lower than the final budgeted amounts. Most of the difference was due to actual expenditures being lower than final budgeted amounts for operations and maintenance and administration of the Highways Division of \$23 million and \$29 million, respectively. The lower-than-budgeted expenditures were primarily due to reductions in State maintenance projects during the year ended June 30, 2023. These reductions resulted from pandemic-related reductions in State Highway Fund revenues which resulted in reduced resources to fund budgeted activities.

**Capital Asset and Debt Administration**

***Capital Assets***

The Highways Division’s capital assets as of June 30, 2023 amounted to \$12 billion and accumulated depreciation and amortization of \$7 billion, resulting in net capital assets of \$5 billion. This investment in capital assets includes land and land improvements, buildings and building improvements, vehicles and equipment, infrastructure assets, software subscriptions, and construction in progress. Infrastructure assets consist of land, roadways, tunnels and bridges, and miscellaneous roadway components.

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

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***Long-Term Debt***

As of June 30, 2023, outstanding State of Hawaii Highway Revenue Bonds amounted to \$479 million, compared to \$506 million as of June 30, 2022. 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.

<b>Series</b>	<b>Interest Rates</b>	<b>Final Maturity Date (July 1)</b>	<b>Original Amount of Issue</b>	<b>Outstanding Amount</b>
2014	2.00 – 5.00 %	2034	\$ 135,660,000	\$ 80,500,000
2016	1.25 – 5.00 %	2036	204,485,000	159,710,000
2019A	3.00 – 5.00 %	2040	81,835,000	78,820,000
2019B	5.00 %	2032	23,130,000	23,130,000
2021	5.00 %	2041	137,205,000	137,205,000
			<u>\$ 582,315,000</u>	<u>\$ 479,365,000</u>

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

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

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

The Highways Division entered into a financed purchase agreement to fund the acquisition and installation of energy conservation measures at selected Highways Division locations. Lease payments commenced on August 1, 2017 and will continue through August 1, 2031 at an interest rate of 2.63%. See Note 18 to the financial statements for further information on this financed purchase obligation, which amounted to \$47 million and \$51 million at June 30, 2023 and 2022, respectively.

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

**Request for Information**

This financial report is designed to provide a general overview of the Highways Division’s finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Administrative Services Officer, State of Hawaii, Department of Transportation, Highways Division, 869 Punchbowl Street, Honolulu, Hawaii 96813.

**Highways Division**  
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**Statement of Net Position – Governmental Activities**  
**June 30, 2023**

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<b>Assets</b>	
Equity in cash and cash equivalents and investments in State Treasury	\$ 408,039,602
Receivables, net	
Due from U.S. government	27,933,070
Due from counties	13,183,219
Due from State of Hawaii	549,791
Other receivables	1,158,379
Restricted cash and cash equivalents and investments in State Treasury	
Capital projects	114,374,169
Security deposits	14,286,039
Other assets	2,994,196
Capital assets, net of accumulated depreciation and amortization	<u>4,936,312,722</u>
Total assets	<u>5,518,831,187</u>
<b>Deferred Outflows of Resources</b>	
Deferred charge on refunding, net	1,913,752
<b>Liabilities</b>	
Accounts payable	56,578,336
Accrued payroll	5,968,596
Accrued interest payable	1,262,456
Contracts payable	
Current portion	50,498,391
Retainage payable	4,834,001
Revenue bond interest payable	11,697,100
Security deposits	14,286,039
Unearned revenue	7,224,229
Long-term liabilities	
Due within one year	
Accrued vacation payable	3,692,248
Workers' compensation payable	1,458,726
Financed purchase	3,530,110
Revenue bonds payable	28,090,000
Subscription liability	2,241,866
Due after one year	
Accrued vacation payable	10,140,146
Workers' compensation payable	12,920,586
Financed purchase	43,899,096
Revenue bonds payable	532,287,710
Subscription liability	<u>2,588,645</u>
Total liabilities	<u>793,198,281</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflow of resources related to leases	2,855,207
<b>Net Position</b>	
Net investment in capital assets	4,397,232,564
Unrestricted	<u>327,458,887</u>
Total net position	<u>\$4,724,691,451</u>

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

**Highways Division**  
**Department of Transportation**  
**State of Hawaii**  
**Statement of Activities – Governmental Activities**  
**Year Ended June 30, 2023**

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**Expenses**

Operations and maintenance	
Oahu highways and services	\$ 71,281,765
Kauai highways and services	6,712,029
Hawaii highways and services	15,238,799
Maui highways and services	15,136,728
Molokai highways and services	1,446,948
Lanai highways and services	437,783
Pass-through for county highways and services	35,184,827
Depreciation and amortization expense	205,824,880
Administration	156,993,491
Interest expense	12,169,220
Repairs and maintenance	47,139,074
Surcharge on gross receipts	14,584,965
Motor Vehicle Safety Office	16,455,547
Total expenses	<u>598,606,056</u>

**Program revenues**

Capital grants and contributions	213,911,645
Operating grants and contributions	42,145,584
Charges for services	
Vehicle registration fees	47,079,155
Penalties and fines	4,812,511
Other fees and permits	4,454,587
Rentals	1,065,228
Total program revenues	<u>313,468,710</u>
Net program expenses	<u>(285,137,346)</u>

**General revenues**

Taxes	
Vehicle weight taxes	87,233,428
State fuel taxes	77,353,455
Rental motor and tour vehicle surcharge taxes	101,441,778
Investment income	6,184,468
Other revenues	2,357,867
Total general revenues	<u>274,570,996</u>
Change in net position	(10,566,350)

**Net position**

Beginning of year	<u>4,735,257,801</u>
End of year	<u>\$4,724,691,451</u>

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



**Highways Division**  
**Department of Transportation**  
**State of Hawaii**  
**Balance Sheet – Governmental Funds**  
**June 30, 2023**

	State Highway Fund	Capital Projects Fund	Total
<b>Assets</b>			
Equity in cash and cash equivalents and investments in State Treasury	\$ 356,136,537	\$ 51,903,065	\$ 408,039,602
Receivables			
Due from capital projects fund	50,908,029	-	50,908,029
Due from U.S. government	572,722	27,360,348	27,933,070
Due from counties	16,414,984	-	16,414,984
Due from State of Hawaii	757,268	-	757,268
Other receivables	611,017	547,361	1,158,378
Restricted cash and cash equivalents and investments in State Treasury			
Capital projects	-	114,374,169	114,374,169
Security deposits	14,286,039	-	14,286,039
Other assets	2,994,197	-	2,994,197
Total assets	<u>\$ 442,680,793</u>	<u>\$ 194,184,943</u>	<u>\$ 636,865,736</u>
<b>Liabilities</b>			
Accounts payable	\$ 37,228,562	\$ 19,242,383	\$ 56,470,945
Accrued payroll	5,968,596	-	5,968,596
Contracts payable			
Current portion	23,558,490	26,939,901	50,498,391
Retainage payable	3,455,122	1,378,879	4,834,001
Security deposits	14,286,039	-	14,286,039
Due to State Highway Fund	-	50,908,029	50,908,029
Due to State agencies	-	207,477	207,477
Due to counties	-	3,231,765	3,231,765
Unearned revenue	7,224,229	-	7,224,229
Total liabilities	<u>91,721,038</u>	<u>101,908,434</u>	<u>193,629,472</u>
<b>Deferred Inflows of Resources</b>			
Deferred inflows of resources related to leases	2,855,207	-	2,855,207
<b>Fund Balances</b>			
Restricted – Capital Projects Fund	-	92,276,509	92,276,509
Committed – State Highway Fund	348,104,548	-	348,104,548
Total fund balances	<u>348,104,548</u>	<u>92,276,509</u>	<u>440,381,057</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 442,680,793</u>	<u>\$ 194,184,943</u>	<u>\$ 636,865,736</u>

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

**Highways Division**  
**Department of Transportation**  
**State of Hawaii**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**June 30, 2023**

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Total fund balances – governmental funds		\$ 440,381,057
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds financial statements. These assets consist of		
Governmental capital assets	\$ 11,963,346,915	
Less: Accumulated depreciation and amortization	<u>(7,027,034,193)</u>	4,936,312,722
Deferred charges on refunding are recorded as expenditures in governmental funds financial statements when the corresponding debt is first issued. However, in government-wide financial statements, such amounts are recorded as a deferred outflow of resources and amortized over the term of the related bonds.		1,913,752
Accrued interest payable is not recognized in governmental funds		(12,959,556)
Other liabilities not recognized in governmental funds		(107,391)
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	(560,377,710)	
Financed purchase	(47,429,206)	
Accrued vacation payable	(13,832,394)	
Workers' compensation payable	(14,379,312)	
Subscription liability	<u>(4,830,511)</u>	<u>(640,849,133)</u>
Net position of governmental activities		<u>\$4,724,691,451</u>

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

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

**Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds**  
**Year Ended June 30, 2023**

	State Highway Fund	Debt Service Fund	Capital Projects Fund	Total
<b>Revenues</b>				
Charges for services				
Vehicle registration fees	\$ 47,079,155	\$ -	\$ -	\$ 47,079,155
Penalties and fines	4,812,511	-	-	4,812,511
Other fees and permits	4,454,587	-	-	4,454,587
Rentals	1,065,228	-	-	1,065,228
Capital grants and contributions	-	-	213,911,645	213,911,645
Operating grants and contributions	42,145,584	-	-	42,145,584
Taxes				
Vehicle weight taxes	87,233,428	-	-	87,233,428
State fuel taxes	77,353,455	-	-	77,353,455
Rental motor and tour vehicle surcharge taxes	101,441,778	-	-	101,441,778
Investment income	6,184,468	-	-	6,184,468
Other revenues	1,928,107	-	595,760	2,523,867
Total revenues	<u>373,698,301</u>	<u>-</u>	<u>214,507,405</u>	<u>588,205,706</u>
<b>Expenditures</b>				
Operations and maintenance				
Oahu highways and services	71,291,622	-	-	71,291,622
Hawaii highways and services	15,486,159	-	-	15,486,159
Kauai highways and services	6,732,699	-	-	6,732,699
Maui highways and services	15,136,728	-	-	15,136,728
Molokai highways and services	1,446,948	-	-	1,446,948
Lanai highways and services	437,783	-	-	437,783
Pass-through for grants	-	-	35,184,827	35,184,827
Administration	152,096,395	-	-	152,096,395
Surcharge on gross receipts	14,584,965	-	-	14,584,965
Motor Vehicle Safety Office	16,455,547	-	-	16,455,547
Capital outlay	-	-	268,428,202	268,428,202
Debt service				
Principal payments	-	26,955,000	-	26,955,000
Interest expense	-	24,411,425	-	24,411,425
Total expenditures	<u>293,668,846</u>	<u>51,366,425</u>	<u>303,613,029</u>	<u>648,648,300</u>
Revenues over (under) expenditures	80,029,455	(51,366,425)	(89,105,624)	(60,442,594)
<b>Other financing sources (uses)</b>				
Transfers in	-	51,366,425	60,649,453	112,015,878
Transfers out	<u>(112,015,878)</u>	<u>-</u>	<u>-</u>	<u>(112,015,878)</u>
Total other financing sources (uses)	<u>(112,015,878)</u>	<u>51,366,425</u>	<u>60,649,453</u>	<u>-</u>
Net change in fund balances	(31,986,423)	-	(28,456,171)	(60,442,594)
<b>Fund balances</b>				
Beginning of year	<u>380,090,971</u>	<u>-</u>	<u>120,732,680</u>	<u>500,823,651</u>
End of year	<u>\$ 348,104,548</u>	<u>\$ -</u>	<u>\$ 92,276,509</u>	<u>\$ 440,381,057</u>

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

**Highways Division**  
**Department of Transportation**  
**State of Hawaii**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances to the Statement of Activities**  
**Year Ended June 30, 2023**

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Net change in fund balances – total governmental funds		\$ (60,442,594)
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation and amortization expense		
Expenditures for capital assets	\$ 236,928,982	
Loss on disposals	(17,151,703)	
Less: Current fiscal year depreciation and amortization	<u>(205,824,880)</u>	13,952,399
Repayment of long-term debt and financed purchase is reported as expenditures in the governmental funds financial statements, but the repayment reduces long-term liabilities in the government-wide financial statements		
Bond principal repayment	\$ 26,955,000	
Financed purchase	3,179,770	
Change in revenue bonds interest payable	<u>508,613</u>	30,643,383
Governmental funds report the effect of original issue premium and deferred charge on refunding when the corresponding debt is first issued, whereas the amounts are amortized to expense over the remaining term of the related bond in the government-wide financial statements		
Amortization of bond premiums	\$ 9,407,259	
Amortization of deferred charge on refunding	<u>(862,652)</u>	8,544,607
Other revenues and expenditures in the government-wide financial statements do not provide or use current financial resources and therefore are not reported as revenues and expenditures in governmental funds financial statements		<u>(3,264,145)</u>
Change in net position – governmental activities		<u>\$ (10,566,350)</u>

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

**Highways Division**  
**Department of Transportation**  
**State of Hawaii**  
**Notes to Financial Statements**  
**June 30, 2023**

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**1. Financial Reporting Entity**

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

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

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

The financial statements of the Highways Division are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and governmental funds of the State of Hawaii that are attributable to the transactions of the Highways Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2023, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which includes the Highways Division’s financial activities.

**2. Summary of Significant Accounting Policies**

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

**Measurement Focus, Basis of Accounting, and Financial Position**

***Government-wide Financial Statements***

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

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**Department of Transportation**  
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**Notes to Financial Statements**  
**June 30, 2023**

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

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

***Governmental Funds Financial Statements***

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

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

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

- **State Highway Fund** – The State Highway Fund, which generally accounts for revenues and expenditures for highway operations, maintenance and administration is a special revenue fund of the State established by Section 248-8, Hawaii Revised Statutes ("HRS"). All fuel taxes collected under Section 243-4, HRS except county fuel taxes, aviation fuel taxes, and taxes on fuel sold for use by small boats are deposited in the State Highway Fund. Section 248-9, HRS provides that monies in the State Highway Fund shall be expendable by the Department of Transportation for the design, construction, reconstruction, repair and maintenance, and for acquisition of rights-of-way for public highways included in the State Highway Fund established under Section 264-41, HRS.

**Highways Division**  
**Department of Transportation**  
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**Notes to Financial Statements**  
**June 30, 2023**

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- **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, 2023.

**Equity in Cash and Cash Equivalents and Investments in State Treasury**

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

**Restricted Cash and Cash Equivalents**

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

**Receivables**

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

**Leases**

***Lessor***

The Highways Division is a lessor for leases of various properties. The Highways Division recognizes lease receivables and deferred inflows of resources in the financial statements. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease receivable.

At the commencement of a lease, the Highways Division initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the lease term in a systematic and rational method.

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

- The Highways Division uses its estimated incremental borrowing rate as the discount rate for leases.

**Highways Division**  
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**Notes to Financial Statements**  
**June 30, 2023**

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- The lease term includes the noncancelable period of the lease.
- Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The Highways Division monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

**Capital Assets**

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

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

<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 – 7 years	5,000
Infrastructure	28 – 75 years	100,000

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

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

**Subscription Based Information Technology Arrangements (“SBITA”)**

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

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



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

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

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

Upon adoption, the Highways Division elected to exclude the capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage that were incurred prior to the implementation of this Statement in the measurement of subscription assets as of July 1, 2022.

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

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

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

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

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

Deferred outflows of resources are a consumption of net assets by a government that is applicable to a future reporting period and deferred inflows of resources are an acquisition of net assets by a government that is applicable to a future reporting period. Both deferred outflows of resources and deferred inflows of resources are reported in the government-wide statement of net position but are

**Highways Division**  
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not recognized in the financial statements as revenues and expenses until the period(s) to which they relate occur. Deferred outflows of resources of the Highways Division represent the deferred charge of refunding revenue bonds. Deferred inflows of resources of the Highways Division represent revenues expected to be collected in the future under noncancelable lease agreements.

The difference between the reacquisition price of issued bonds and the net carrying amount of the old debt is deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. As of June 30, 2023, the deferred charge on refunding, net of accumulated amortization, amounted to approximately \$1,914,000.

The Highways Division defers recognition of lease income for lease receivables and recognizes revenue over the lease term. As of June 30, 2023, the deferred lease income amounted to approximately \$2,855,000.

**Long-Term Obligations**

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

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

**Bond Issuance Costs**

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

**Compensated Absences**

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

**Fund Balances**

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

- **Nonspendable** – Balances that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.
- **Restricted** – Balances that are restricted to specific purposes by external parties such as creditors, grantors, or other governments, which are sources of externally enforceable legal restrictions.

**Highways Division**  
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**Notes to Financial Statements**  
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- **Committed** – Balances that can only be used for specific purposes pursuant to formal action of the State Legislature, the highest level of decision-making authority. Legislation is required to modify or rescind a fund balance commitment.
- **Assigned** – Balances that are constrained by management for specific purposes as authorized by the Hawaii Revised Statutes, but are not restricted or committed.
- **Unassigned** – Residual balances that are not contained in the other classifications.

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

**Risk Management**

The Highways Division is exposed to various risks of loss from torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. The State is self-insured for workers' compensation as discussed in Note 19. Liabilities related to these losses are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

**Intrafund and Interfund Transactions**

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

**Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

**Recently Issued Accounting Pronouncements**

***GASB Statement No. 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 did not have any such arrangements as of June 30, 2023.

***GASB Statement No. 96***

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for SBITAs for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides that capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. Implementation of this Statement had a significant effect on the Highways Division's financial statements for the year ended June 30, 2023.

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Upon implementation of this Statement, the Highways Division recognized subscription liabilities and subscription assets. There was no effect on net position previously reported as of June 30, 2022. The adoption of Statement No. 96 resulted in an increase in capital assets and liabilities of approximately \$5,124,000 as of July 1, 2022. Refer to Note 10 for more information on the Highways Division’s SBITAs.

**GASB Statement No. 99**

The GASB issued Statement No. 99, *Omnibus 2022*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Certain requirements of this Statement are effective upon issuance, while other requirements are effective for periods beginning after June 15, 2022 and periods beginning after June 15, 2023. The Highways Division adopted the relevant provisions of the Statement effective in fiscal year 2023 with no material effect to its financial statements. The provisions adopted clarifies key terms relevant to previously issued Statements. Management has not determined the effect this Statement will have on the Highways Division’s financial statements for requirements effective beginning after June 15, 2023.

**GASB Statement No. 100**

The GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. This statement enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. This Statement is effective for fiscal years beginning after June 15, 2023. The Highways Division is currently evaluating the impact that this Statement will have on its financial statements.

**GASB Statement No. 101**

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

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

Cash and cash equivalents at June 30, 2023 consisted of amounts held in State Treasury and are reflected in the accompanying financial statements at June 30, 2023 as follows:

Cash and cash equivalents	\$ 408,039,602
Restricted cash and cash equivalents	
Capital projects	114,374,169
Security deposits	<u>14,286,039</u>
Total cash and cash equivalents	<u>\$ 536,699,810</u>

The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State

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which, in the Director’s judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury investment pool. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GAAP requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit, and custodial risk assumed by the Highways Division. However, as the governmental funds are held in the State investment pool, the Highways Division does not manage these investments and the types of investments, and related interest rate, credit, and custodial risk are not determinable at the Highways Division level. The risk and fair value disclosures related to the State’s investment pool are included in the State’s Annual Comprehensive Financial Report (“ACFR”), which may be obtained from the Department of Accounting and General Services website: <https://ags.hawaii.gov/reports/financial-reports>.

**4. Tax and Fee Revenues**

**State Fuel Tax**

For fiscal year 2023, the tax on liquid motor vehicle fuel imposed on each gallon of fuel was as follows:

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

**Vehicle Weight Tax and Penalties**

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

**Rental Motor and Tour Vehicle Surcharge Taxes**

The rental motor vehicle surcharge tax was \$6 a day that a rental motor vehicle is rented or leased.

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

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

The vehicle registration fee was \$46 per vehicle, of which \$5 is earmarked for deposit into the Emergency Medical Services (“EMS”) special fund. During the year ended June 30, 2023, the Highways Division collected approximately \$5,757,000 on behalf of the EMS special fund.

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

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**5. Federal Grants-in-Aid**

The Highways Division has projects in progress in which part of the funding is being provided by the Federal Highway Administration (“FHWA”) through grants-in-aid. Such projects are generally accounted for in the Capital Projects and State Highway Funds. At June 30, 2023, receivables totaling approximately \$27,933,000 from the U.S. government are comprised of billed costs, pending reimbursement, as well as unbilled costs, which are eligible for reimbursement.

In addition, the MVSO has projects in progress in which part of the funding is being provided through federal grants-in-aid. The grants contain various compliance requirements, which must be met by the MVSO, including a matching of the grant amounts with state and local highway safety expenditures as defined in a formula. MVSO’s matching requirement is met through the expenditures of the Division of Driver Education, The Judiciary, State of Hawaii. Cost reimbursement by the FHWA and National Highway Traffic Safety Administration (“NHTSA”) are subject to final audit by federal agencies. In addition, FHWA and NHTSA reserve the right to examine the Highways Division for economy, efficiency, and program results. The Highways Division’s management believes that any federal aid received as of June 30, 2023 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, 2023, or the results of operations of such funds for the year then ended.

**6. Capital Assets**

For the year ended June 30, 2023, capital assets activity, including subscription assets, for the Highways Division was as follows:

	Balance July 1, 2022 (As Restated)	Additions	Disposals	Transfers	Balance June 30, 2023
<b>Nondepreciable assets</b>					
Land	\$1,271,250,905	\$ 1,453,805	\$ (485,557)	\$ -	\$1,272,219,153
Construction in progress	302,484,748	232,523,545	(15,171,492)	(168,798,534)	351,038,267
Total nondepreciable assets	<u>1,573,735,653</u>	<u>233,977,350</u>	<u>(15,657,049)</u>	<u>(168,798,534)</u>	<u>1,623,257,420</u>
<b>Depreciable assets</b>					
Land improvements	2,215,473	-	-	-	2,215,473
Buildings and improvements	61,365,134	-	-	537,326	61,902,460
Vehicles and equipment	92,866,197	862,066	(2,382,133)	-	91,346,130
Infrastructure	10,009,150,800	2,089,566	-	168,261,208	10,179,501,574
Software subscriptions	5,123,858	-	-	-	5,123,858
Total depreciable assets	<u>10,170,721,462</u>	<u>2,951,632</u>	<u>(2,382,133)</u>	<u>168,798,534</u>	<u>10,340,089,495</u>
Less: Accumulated depreciation and amortization	<u>(6,822,096,792)</u>	<u>(205,824,880)</u>	<u>887,479</u>	<u>-</u>	<u>(7,027,034,193)</u>
Total depreciable assets, net	<u>3,348,624,670</u>	<u>(202,873,248)</u>	<u>(1,494,654)</u>	<u>168,798,534</u>	<u>3,313,055,302</u>
Total capital assets, net	<u>\$4,922,360,323</u>	<u>\$ 31,104,102</u>	<u>\$ (17,151,703)</u>	<u>\$ -</u>	<u>\$4,936,312,722</u>

The adoption of GASB Statement No. 96 resulted in an increase in capital assets of approximately \$5,124,000 as of July 1, 2022.

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**7. Net Position**

At June 30, 2023, net position consisted of the following:

<b>Net investment in capital assets</b>	
Net property, plant and equipment	\$4,936,312,722
Less: Revenue bonds payable	(560,377,710)
Add: Unspent revenue bond proceeds	114,374,169
Add: Deferred charge on refunding, net	1,913,752
Less: Financed purchase, net of unused proceeds and financed interest cost	(47,429,206)
Less: Capital-related accounts and contracts payable	<u>(47,561,163)</u>
Total net investment in capital assets	4,397,232,564
<b>Unrestricted</b>	<u>327,458,887</u>
Total net position	<u><u>\$4,724,691,451</u></u>

**8. General Long-Term Liabilities**

Changes in general long-term liabilities during the year ended June 30, 2023 were as follows:

	Balance June 30, 2022 (As Restated)	Additions	Reductions	Balance June 30, 2023	Amount Due Within One Year
Accrued vacation payable	\$ 13,024,668	\$ 5,425,109	\$ (4,617,383)	\$ 13,832,394	\$ 3,692,248
Workers' compensation payable	11,474,417	4,973,028	(2,068,133)	14,379,312	1,458,726
Financed purchase	50,608,976	-	(3,179,770)	47,429,206	3,530,110
Revenue bonds payable	506,320,000	-	(26,955,000)	479,365,000	28,090,000
Revenue bonds payable – unamortized premium	90,419,969	-	(9,407,259)	81,012,710	-
Subscription liability	<u>5,123,858</u>	<u>-</u>	<u>(293,347)</u>	<u>4,830,511</u>	<u>2,241,866</u>
Total governmental activities long-term liabilities	<u>\$ 676,971,888</u>	<u>\$ 10,398,137</u>	<u>\$ (46,520,892)</u>	<u>\$ 640,849,133</u>	<u>\$ 39,012,950</u>

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

**9. Revenue Bonds**

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

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

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

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

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

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

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

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

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



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

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

The following is a summary of revenue bonds issued and outstanding at June 30, 2023:

<b>Series</b>	<b>Interest Rates</b>	<b>Final Maturity Date (July 1)</b>	<b>Original Amount of Issue</b>	<b>Outstanding Amount</b>
2014	2.00 – 5.00 %	2034	\$ 135,660,000	\$ 80,500,000
2016	1.25 – 5.00 %	2036	204,485,000	159,710,000
2019A	3.00 – 5.00 %	2040	81,835,000	78,820,000
2019B	5.00 %	2032	23,130,000	23,130,000
2021	5.00 %	2041	<u>137,205,000</u>	<u>137,205,000</u>
			<u>\$ 582,315,000</u>	479,365,000
		Add: Unamortized premium		81,012,710
		Less: Current portion		<u>(28,090,000)</u>
		Noncurrent portion		<u>\$ 532,287,710</u>

During the year ended June 30, 2023, approximately \$51,367,000 was transferred from the State Highway Fund to the Debt Service Fund for repayment of revenue bonds principal of approximately \$26,955,000 on January 1, 2023, and interest of approximately \$12,206,000 and \$12,206,000 due on July 1, 2022 and January 1, 2023, respectively.

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>Years ending June 30,</b>			
2024	\$ 28,090,000	\$ 23,394,200	\$ 51,484,200
2025	29,120,000	22,020,750	51,140,750
2026	30,495,000	20,644,500	51,139,500
2027	32,145,000	19,169,100	51,314,100
2028	33,755,000	17,561,850	51,316,850
2029 – 2033	138,045,000	65,009,950	203,054,950
2034 – 2038	125,435,000	32,421,100	157,856,100
2039 – 2041	<u>62,280,000</u>	<u>6,329,250</u>	<u>68,609,250</u>
Total	<u>\$ 479,365,000</u>	<u>\$ 206,550,700</u>	<u>\$ 685,915,700</u>

A comparison of revenues pledged as collateral for debt service payments recognized for the year ended June 30, 2023 to the principal and interest requirements of the bonds for the period is as follows:

Pledged user taxes	\$ 323,440,000
Principal and interest requirements	\$ 51,367,000

**10. Subscription Liability**

The Highways Division has entered into SBITAs for various administrative and operational purposes. These subscriptions include services related to cloud-based software applications, data storage, and management services. Under the terms of these arrangements, the Highways Division does not take possession of the software at any time and the vendor provides ongoing services for the software's operation. The subscription periods vary, with initial noncancellable terms ranging from five to seven years. The calculated interest rate used was 3.926%.

As of June 30, 2023, the capitalized right-of-use assets related to SBITA was approximately \$4,751,000 and the total subscription liability was approximately \$4,831,000, of which approximately \$2,242,000 is classified as current liability representing the portion due within the next fiscal year.

For the year ended June 30, 2023, the Highways Division recognized approximately \$74,000 of interest expense related to these arrangements.

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Principal and interest payments to maturity are as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
<b>Years ending June 30,</b>			
2024	\$ 2,241,866	\$ 133,854	\$ 2,375,720
2025	755,064	94,729	849,793
2026	785,250	64,449	849,699
2027	816,643	32,958	849,601
2028	231,688	2,717	234,405
Total	<u>\$ 4,830,511</u>	<u>\$ 328,707</u>	<u>\$ 5,159,218</u>

**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>
Funding of revenue bond and financed purchase debt service	\$ (51,366,425)	\$ 51,366,425	\$ -
Funding of highway capital projects	<u>(60,649,453)</u>	<u>-</u>	<u>60,649,453</u>
	<u>\$ (112,015,878)</u>	<u>\$ 51,366,425</u>	<u>\$ 60,649,453</u>

**12. Pension Plan**

**Plan Description**

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

**Benefits Provided**

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971.

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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 ten years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- Death Benefits – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

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

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Contributory Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- *Death Benefits* – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Contributory Class for Members Hired After June 30, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.
- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service are required for ordinary disability.

Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

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Hybrid Class for Members Hired Prior to July 1, 2012

- *Retirement Benefits* – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- *Disability Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- *Death Benefits* – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

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

Hybrid Class for Members Hired After June 30, 2012

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

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**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 2023 was 24% for general employees. Contributions to the pension plan from the Highways Division were approximately \$12,554,000 for the year ended June 30, 2023.

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

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

Detailed information about the pension plan's fiduciary net position is available in the separately-issued ERS financial report. The ERS complete financial statements are available at <https://ers.hawaii.gov/resources/financials>.

**Payables to the Pension Plan**

The Highways Division's contribution payable to the ERS at June 30, 2023 approximated \$510,000.

**Disclosures and Required Supplementary Information**

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

**13. Postemployment Healthcare and Life Insurance Benefits**

**Plan Description**

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports>.

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

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

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

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

**Contributions**

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

The governor’s Fourteenth Supplementary (emergency) Proclamation, issued on October 13, 2020, suspended specific provisions of law. Included were Sections 87A-42(b) – (f), HRS, *other postemployment benefits trust*, 87A-43, HRS, *payment of public employer contributions to the other postemployment benefits trust*, and 237-31(3), HRS, *remittances*, related to the requirement for public employers to pay the annual required contribution to the EUTF in the fiscal years 2020-2021. This relief provision related to OPEB funding was extended to fiscal years 2022 and 2023 by Act 229, SLH 2021. The Highways Division did not make any contributions to the OPEB plan for the year ended June 30, 2023.

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



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**Payables to the OPEB Plan**

The Highways Division did not have any contribution payable to EUTF at June 30, 2023.

**Disclosures and Required Supplementary Information**

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

**14. Deferred Compensation Plan**

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

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

**15. Transactions with Other State Agencies**

The State assesses a surcharge of 5% for central service expenses on all receipts of the State Highway Fund, after deducting any amounts pledged, charged or encumbered for the payment of bonds and interest during the year. During fiscal year 2023, the assessment amounted to approximately \$14,585,000, which is included as the caption surcharge on gross receipts expense/expenditures in the accompanying financial statements.

The Highways Division is also assessed a percentage of the cost of the general administration expenses of the Department of Transportation. During fiscal year 2023, assessments net of amounts refunded amounted to approximately \$6,363,000, which is included in administration expense/expenditures in the accompanying financial statements.

**16. Commitments and Contingencies**

**Construction Contracts**

At June 30, 2023, construction contracts outstanding amounted to approximately \$255,791,000 for various infrastructure projects and approximately \$555,895,000 for operations and maintenance projects.

**Condemnation Proceedings**

The Highways Division occasionally finds it necessary to condemn property for construction of highways. These proceedings require the Highways Division to compensate existing property owners for the fair market value of their real property. Prior to the determination of fair value, the Highways Division is required to deposit funds in State courts for these proceedings. The amount of funds deposited in the State courts was approximately \$204,000 at June 30, 2023. 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

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financial statements of the Highways Division. The funds deposited in the State courts are reflected in capital projects expenditures in the governmental funds statement of revenue, expenditures, and changes in fund balances and in capital assets on the government-wide statement of net position in the year in which the deposits were made.

**Accumulated Sick Leave**

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2023, accumulated sick leave was approximately \$29,765,000.

**Defeased Bonds**

At various dates in prior years, the Highways Division has placed proceeds from bond issuances in irrevocable refunding escrow accounts for the purpose of providing sufficient funds to pay all principal and interest refunded bond issues and remaining payment dates (defeased bonds). The likelihood of the earnings and principal not being sufficient to pay the defeased bonds appears remote and accordingly, the escrow accounts and defeased bonds are not included in the accompanying financial statements. There was no defeased bonds principal outstanding at June 30, 2023.

**Litigation**

The State is the defendant in lawsuits seeking damages allegedly related to State highways and highway construction contracts. While the ultimate liabilities, if any, in the disposition of these matters are presently difficult to estimate, it is management's belief that the outcomes are not likely to have a material adverse effect on the Highways Division's financial position. In addition, the State has not determined whether the ultimate liabilities, if any, will be imposed on the State Highway Fund. Accordingly, no provision for any liabilities that might result from the lawsuits have been made in the accompanying financial statements.

**Environmental Issues**

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

The remediation alternative selected involves the management of the contamination in place with limited extraction, plume monitoring, active institutional controls including education/awareness and outreach of landowners, potential developers, and utility operators, and reimbursement of future incremental project costs attributable to the contamination. However, the project has not yet advanced to the stage where total costs to the IDPP can reasonably be 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

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amount of the potential cost to the IDPP and allocable share of the Highways Division, and if there would be a material impact to the Highways Division's financial statements. Accordingly, no estimate of loss has been recorded in the accompanying financial statements.

**17. Leases**

The Highways Division is a lessor of various properties under noncancelable lease agreements that expire through fiscal year 2045. At June 30, 2023, lease receivables of approximately \$2,918,000 were reported in other assets. For the year ended June 30, 2023, lease revenue and interest revenue of approximately \$293,000 and \$88,000, respectively, were reported in charges for services – rentals.

Scheduled annual minimum revenues are as follows:

<b>Years ending June 30,</b>		
2024		\$ 346,000
2025		346,000
2026		346,000
2027		346,000
2028		346,000
2029 – 2033		650,000
2034 – 2038		592,000
2039 – 2043		580,000
2044 – 2045		68,000
Total		<u>\$ 3,620,000</u>

**18. Financed Purchase**

On July 8, 2015, the Highways Division entered into an equipment purchase agreement for the acquisition and installation of energy conservation measures at selected Highways Division locations. Annual financing payments commenced on August 1, 2017 and will continue through August 1, 2032 at an interest rate of 2.63%.

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

<b>Years ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2024	\$ 3,530,110	\$ 1,247,388	\$ 4,777,498
2025	3,903,401	1,154,546	5,057,947
2026	4,300,946	1,051,887	5,352,833
2027	4,724,116	938,772	5,662,888
2028	5,174,358	814,528	5,988,886
2029 – 2032	25,796,275	1,767,306	27,563,581
Total	<u>\$ 47,429,206</u>	<u>\$ 6,974,427</u>	<u>\$ 54,403,633</u>

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**19. Risk Management**

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

**Property Insurance**

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

**Crime Insurance**

The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10,000,000 per occurrence with a \$500,000 deductible per occurrence, except for clients property which has a \$5,000,000 limit per occurrence and a \$500,000 deductible and claims expense coverage, supplemental funds transfer coverage, and social engineering which has a \$100,000 limit per occurrence and a \$500,000 deductible. Losses under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services, and losses not covered by insurance are paid from the State's General Fund.

**Casualty and Professional Liability**

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

**Cyber Liability Insurance**

The State is insured for various types of cyber-related activities with a loss limit of \$5,000,000 with a deductible of \$5,000,000 per claim. This policy includes (with sub-limits) system failure business interruption, dependent business interruption and system failure, bricking of hardware, consequential reputation loss, and voluntary shutdown.

**Self-Insured Risks**

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

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**Reserve for Losses and Loss Adjustment Costs**

A liability for workers' compensation claims and general liability claims is established if information indicates that a loss has been incurred as of June 30, 2023, and the amount of the loss can be reasonably estimated. The liability also includes an estimate for amounts incurred but not reported. The amount of the estimated loss is recorded in the accompanying government-wide statement of net position, as those losses will be liquidated with future expendable resources. The estimated losses are generally paid from the State Highway Fund.

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

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**Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2023**

	<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	\$ 79,496,000	\$ 79,496,000	\$ 77,353,455	\$ (2,142,545)
Vehicle weight taxes	86,491,000	86,491,000	86,215,782	(275,218)
Rental motor and tour vehicle surcharge taxes	92,823,000	92,823,000	101,441,778	8,618,778
Vehicle registration fees	46,788,000	46,788,000	46,579,149	(208,851)
Investment income	1,380,609	1,380,609	6,096,832	4,716,223
Other fees and penalties	8,834,537	8,834,537	11,114,943	2,280,406
Total revenues	<u>315,813,146</u>	<u>315,813,146</u>	<u>328,801,939</u>	<u>12,988,793</u>
<b>Expenditures</b>				
Operations and maintenance				
Oahu highways and services	86,146,507	86,672,005	78,072,311	8,599,694
Hawaii highways and services	19,601,930	19,792,184	16,230,490	3,561,694
Maui highways and services	22,226,092	22,390,889	15,897,885	6,493,004
Kauai highways and services	1,860,728	1,875,476	1,336,286	539,190
Molokai highways and services	539,501	544,964	419,459	125,505
Lanai highways and services	11,857,512	11,967,439	7,880,166	4,087,273
Administration including debt service	190,461,593	189,147,658	160,549,127	28,598,531
Surcharge on gross receipts	13,076,116	15,128,520	15,128,520	-
Motor Vehicle Safety Office	9,637,901	9,786,633	9,121,780	664,853
Total expenditures	<u>355,407,880</u>	<u>357,305,768</u>	<u>304,636,024</u>	<u>52,669,744</u>
Revenues over (under) expenditures	<u>\$ (39,594,734)</u>	<u>\$ (41,492,622)</u>	<u>\$ 24,165,915</u>	<u>\$ 65,658,537</u>

See report of independent auditors.

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**Note to Schedule of Revenues and Expenditures – Budget and Actual**  
**(Non-GAAP Budgetary Basis)**  
**Year Ended June 30, 2023**

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**Budget and Budgetary Accounting**

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

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

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

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

Revenues over expenditures, non-GAAP budgetary basis	\$ 24,165,915
Federal grants in aid – not included in budgeted revenues but included in GAAP basis revenues	39,369,813
Miscellaneous differences in revenues based on budgetary basis and GAAP basis	5,526,548
Debt service payments budgeted as part of Administration of Highways Division, but not shown as an expenditure in State Highway Fund	51,366,425
Differences in operations and maintenance expenditures between budgetary basis and GAAP basis	9,304,659
Differences in Highways Division administrative expenditures between allotted expenditures on budgetary basis and expenditures on GAAP basis (less budgeted debt service payment)	(42,370,138)
Differences in Motor Vehicle Safety Office expenditures and gross receipts surcharge between allotted expenditures on budgetary basis and expenditures on GAAP basis	<u>(7,333,767)</u>
Revenues over expenditures, GAAP basis	<u>\$ 80,029,455</u>

See report of independent auditors.