

March 30, 2020

VIA EMAIL

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawaii State Capitol, Room 409
Honolulu, Hawaii 96813

VIA EMAIL

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawaii State Capitol, Room 431
Honolulu, Hawaii 96813

**RE: Financial and Compliance Audit of the Department of Transportation,
Administration Division**

Dear President Kouchi and Speaker Saiki:

The financial and compliance audit of the Department of Transportation, Administration Division for the fiscal year ended June 30, 2019, was issued on December 17, 2019. The Office of the Auditor retained Egami & Ichikawa, CPAs, Inc. to perform the financial and compliance audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial and compliance audit report.

You may view the financial and compliance audit report and Auditor's Summary on our website at:

http://files.hawaii.gov/auditor/Reports/2019Audit/DOT_Admin2019.pdf; and

http://files.hawaii.gov/auditor/Reports/2019_Audit/DOT_Admin_Summary_2019.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo
Enclosures

cc/attach (Auditor's Summary only): Senators

Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Financial and Compliance Audit of the Department of Transportation, Administration Division

Financial Statements, Fiscal Year Ended June 30, 2019



PHOTO: OFFICE OF THE AUDITOR

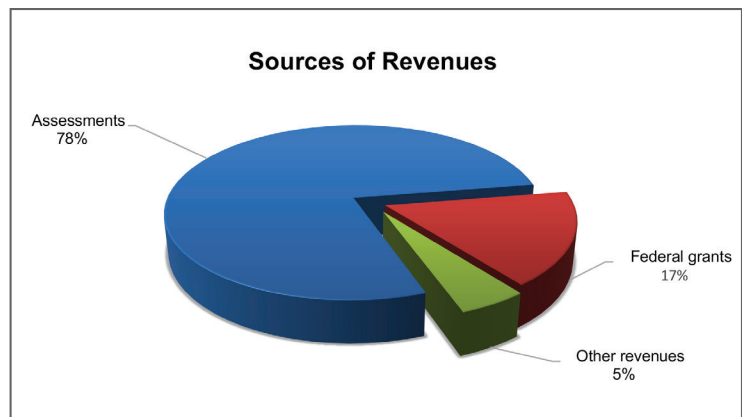
THE PRIMARY PURPOSE of the audit was to form an opinion on the fairness of the presentation of the financial statements of the Department of Transportation, Administration Division, as of and for the fiscal year ended June 30, 2019, and to comply with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Egami & Ichikawa, Certified Public Accountants, Inc.

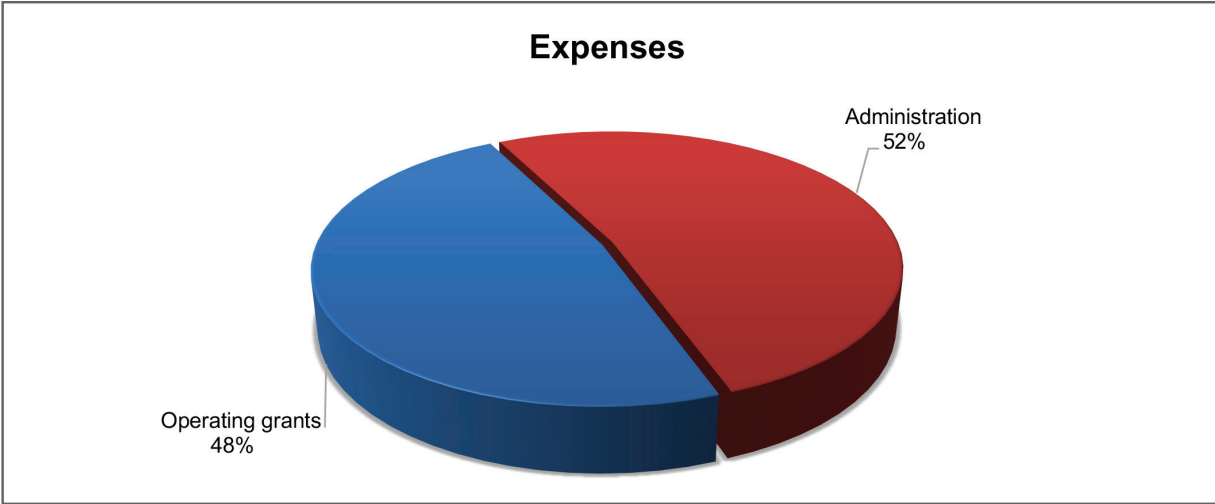
About the Division

Four divisions (Airports, Harbors, Highways, and Administration) make up the State's Department of Transportation. The Administration Division (DOT-Administration) consists of the Office of the Director of Transportation, the Statewide Transportation Planning Office, and Departmental Staff Services Offices. Collectively, these offices provide overall administrative support for the Department of Transportation. The financial statements for the Division reflect the financial activities of DOT-Administration and the Aloha Tower Development Corporation, which is attached to the Department for administrative purposes. DOT-Administration receives a percentage of the Airports, Harbors, and Highways Divisions' state-allotted appropriations to cover general administration expenses. The Department's Statewide Transportation Planning Office administers certain Federal Transit Administration and Federal Highway Administration grants.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2019, DOT-Administration reported total revenues of \$29.5 million, total expenses of \$21.4 million, and transfers to other DOT divisions of \$6 million, resulting in an increase in net position of \$2.1 million. The transfers relate to unencumbered cash balances related to assessment revenues from those divisions. Revenues consisted of \$23 million from assessments, \$5.1 million from federal grants, and \$1.4 million from other revenue sources.





Total expenses of \$21.4 million consisted of \$10.3 million for operating grants and \$11.1 million for administration.

As of June 30, 2019, total assets of \$21.4 million were comprised of (1) cash of \$18 million, (2) accounts receivable of \$1.8 million, and (3) net capital assets of \$1.6 million. Liabilities totaled \$12.5 million, including a \$2.6 million Aloha Tower Development Corporation note payable to the Harbors Division.

Auditors' Opinions

DOT—ADMINISTRATION RECEIVED AN UNMODIFIED OPINION that its financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DOT—Administration also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*.

Findings

THERE WERE NO REPORTED DEFICIENCIES in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

Audit reports for the Department's Airports Division, Harbors Division, and Highways Division are available on our website.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2019_Audit/DOT_Admin2019.pdf

State of Hawaii
Department of Transportation, Administration Division
Financial and Compliance Audit
June 30, 2019

Submitted By
Office of the Auditor
State of Hawaii

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PART I
TRANSMITTAL

Office of the Auditor
State of Hawaii

We have completed our financial audit of State of Hawaii Department of Transportation, Administration Division (the “Division”) as of and for the year ended June 30, 2019. The audit was performed in accordance with our agreement, dated July 12, 2019, with the Office of the Auditor, State of Hawaii.

OBJECTIVES

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Division’s financial statements as of and for the fiscal year ended June 30, 2019, and to comply with the requirements of the Uniform Guidance. More specifically, the objectives of our audit were as follows:

1. To provide a basis for an opinion on the fairness of the financial statements of the Division.
2. To ascertain whether or not expenditures have been made and all revenues and other receipts to which the Division is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the State and the Division the proper information to plan, evaluate, control, and correct program activities.
4. To evaluate the adequacy, effectiveness, and efficiency of the systems and procedures for financial accounting, reporting, operational and internal controls, and to recommend improvements to such systems and procedures.
5. To satisfy the audit requirements of the Federal grantor agency.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; the *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of the Uniform Guidance and *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of our audit included an examination of the transactions and accounting records of the Division for the fiscal year ended June 30, 2019.

ORGANIZATION OF THE REPORT

This report is organized into six parts:

- PART I - Presents the transmittal letter.
- PART II - Presents management's discussion and analysis.
- PART III - Presents the financial section which includes the Division's financial statements and the auditors' report on such statements and supplementary financial information.
- PART IV - Contains the reports on internal controls over financial reporting and compliance.
- PART V - Presents the schedules of audit findings and questioned costs.
- PART VI - Contains the corrective action plan.

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

Eganis + O'Keefe CPAs Inc

Honolulu, Hawaii
December 17, 2019

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019

This section of the annual financial report presents management's discussion and analysis of the Division's financial performance during the fiscal year ending June 30, 2019. It should be read in conjunction with the Division's financial statements which follows this section.

FINANCIAL HIGHLIGHTS

- The Division ended with a net position of \$8,901,000 at June 30, 2019, which was an increase of \$2,087,000 or 30.6% from the prior year. The increase is primarily attributable to net increase in grant operations and investment earnings.
- The Division's current assets were \$21,365,000 which increased by \$4,082,000 or 23.6% from the prior year. The increase was primarily attributable to increases in grant related accounts receivable, and increases in cash.
- The Division's investment in capital assets, net of depreciation were \$1,613,000 which increased by \$275,000 or 20.6% from the prior year. The increase is primarily attributable to additions of computer equipment.
- The Division's current liabilities were \$8,673,000 which increased by \$2,412,000 or 38.5% from the prior year. The increase is primarily attributable to increases in amounts due to other divisions.
- The Division's total revenues were \$29,573,000 which was a decrease of \$785,000 or 2.6% from the prior year. The decrease was primarily attributable to decreases in assessments.

OVERVIEW OF FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements reports information about the Division as a whole using accounting methods similar to those used by private sector companies. The *Statement of Net Position* provides both short-term and long-term information about the Division's financial position, which reflects the Division's financial condition at the end of the fiscal year.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

The *Statement of Net Position* presents the Division's assets and liabilities with the difference between the two reported as "net position". The *Statement of Activities* reflects the operations of the Division during the fiscal year and the resultant change in the net position. All of the current fiscal year's revenues and expenses are accounted for in the *Statement of Activities* on the accrual basis of accounting.

Fund Financial Statements

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

The Division has two types of funds:

- Governmental Fund:

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

- Fiduciary Fund:

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

Notes to Financial Statements

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Other Reports

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

Government-wide Financial Analysis

The Statement of Net Position reflects the Division's financial condition at the end of the fiscal year. As of June 30, 2019, the Division's total net position was \$8,901,000.

The following presents a summarized comparison of net position and changes in net position for the fiscal years ended June 30, 2019 and 2018.

STATEMENT OF NET POSITION
June 30, 2019 and 2018
(Rounded to nearest \$1,000)

	2019	2018
ASSETS		
Current	\$ 19,752,000	\$ 15,945,000
Capital assets net of depreciation	<u>1,613,000</u>	<u>1,338,000</u>
Total assets	<u>\$ 21,365,000</u>	<u>\$ 17,283,000</u>
LIABILITIES		
Current	\$ 8,673,000	\$ 6,261,000
Long-term	<u>3,791,000</u>	<u>4,208,000</u>
Total liabilities	<u>12,464,000</u>	<u>10,469,000</u>
NET POSITION		
Invested in capital assets, net of related debt	1,613,000	1,338,000
Restricted for transportation projects	5,954,000	4,180,000
Unrestricted	<u>1,334,000</u>	<u>1,296,000</u>
Total net position	<u>8,901,000</u>	<u>6,814,000</u>
Total liabilities and net position	<u>\$ 21,365,000</u>	<u>\$ 17,283,000</u>

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2019

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Investment in capital assets (i.e. furniture and fixtures) and restricted funds for transportation projects, represent a large portion of the Division's net position. The Division uses these capital assets for the benefit and use by government agencies; consequently, these assets are not available for future spending and cannot be used to liquidate any liabilities. The remaining restricted assets of \$5,954,000 and \$4,180,000 at June 30, 2019 and 2018 represents resources that are subject to external restrictions or enabling legislation on how they may be used. Unrestricted assets were \$1,334,000 and \$1,296,000 at June 30, 2019 and 2018, respectively.

The Statement of Activities reflect the Division's current fiscal year's revenues and expenses on the accrual basis of accounting.

STATEMENT OF ACTIVITIES
For the Years Ended June 30, 2019 and 2018
(Rounded to nearest \$1,000)

	<u>2019</u>	<u>2018</u>
Revenues:		
Assessments	\$ 22,984,000	\$ 26,156,000
Federal grant revenues	5,108,000	2,822,000
Other	<u>1,481,000</u>	<u>1,380,000</u>
Total revenues	<u>29,573,000</u>	<u>30,358,000</u>
Expenses:		
Administration	11,110,000	18,225,000
Operating grants	<u>10,348,000</u>	<u>3,494,000</u>
Total expenses	<u>21,458,000</u>	<u>21,719,000</u>
Excess before transfers	8,115,000	8,639,000
Transfers	<u>(6,028,000)</u>	<u>(4,773,000)</u>
Change in net position	2,087,000	3,866,000
Net position, beginning of the year	<u>6,814,000</u>	<u>2,948,000</u>
Net position, end of year	<u>\$ 8,901,000</u>	<u>\$ 6,814,000</u>

The Division's assessments decreased by \$3,172,000 or 12.1%; federal grant revenues increased by \$2,286,000 or 81.0%, and total revenues decreased by \$785,000 or 2.6% in 2019. Total expenses decreased by 261,000 or 1.2%.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
JUNE 30, 2019

SPECIAL FUND BUDGETARY ANALYSIS

The annual budget for the Division is based on assessments to the Harbors, Highways and Airport Divisions of the DOT, as detailed in the Notes to the Financial Statements. The significant differences between budgeted and actual revenues and expenditures in the Special Funds were primarily attributed to decreases in federal grant programs. Total revenues differed by \$10,993,000 or 27.6% below budget, and total expenditures were \$18,552,000 or 52.3% below budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2019 and 2018, the Division had \$1,613,000 and \$1,338,000 respectively, in capital assets, net of accumulated depreciation. The 2019 amount represents a net increase of \$275,000 or 20.6% from 2018. For the fiscal year ended June 30, 2019, there was \$366,000 in net additions, which consisted primarily of computer hardware and software. Net disposition of capital assets totaled \$91,000 for the fiscal year ended June 30, 2019.

Net capital assets (Rounded to nearest \$1,000) are as follows:

	<u>2019</u>	<u>2018</u>
Capital assets:		
Furniture and equipment	\$ 4,120,000	\$ 4,303,000
Less accumulated depreciation	<u>2,507,000</u>	<u>2,965,000</u>
Total capital assets, net of depreciation	<u>\$ 1,613,000</u>	<u>\$ 1,338,000</u>

Debt Administration

As of June 30, 2019 and 2018, the balance of a note payable to the Harbors Division (Harbors) approximated \$2,589,000 and \$2,981,000. The note is an existing liability payable to Harbors by ATDC (a blended component unit). The Division did not have any debt financing for 2019 and 2018.

CURRENTLY KNOWN DECISIONS AND FACTS

None

PART III
FINANCIAL SECTION

REPORT OF INDEPENDENT AUDITORS

Office of the Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of State of Hawaii Department of Transportation, Administration Division (the “Division”) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Division’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors’ judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Division as of June 30, 2019, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1, the financial statements present only the Division and do not purport to, and do not, present fairly the financial position of the State of Hawaii, or any other segment thereof, as of June 30, 2019, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 - 7 and 40 be presented to supplement the basic financial statements. Such information, although not 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 statement 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Division's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2019, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Division's internal control over financial reporting and compliance.

This report is intended solely for the information and use of the Office of the Auditor, management of the Division, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Egami + Ockerman CPAs Inc.

Honolulu, Hawaii
December 17, 2019

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES
JUNE 30, 2019

Current assets	
Cash and cash equivalents	\$ 17,971,019
Accounts receivable	1,781,054
Total current assets	<u>19,752,073</u>
Capital assets, net of depreciation	<u>1,613,399</u>
Total assets	<u>21,365,472</u>
Current liabilities	
Accounts payable	1,848,482
Accrued payroll	435,292
Accrued vacation	435,746
Due to other divisions and funds	5,953,869
Total current liabilities	<u>8,673,389</u>
Long-term liabilities	
Due to general fund	2,550
Accrued vacation	1,199,758
Note payable to Department of Transportation, Harbors Division	2,589,089
Total long-term liabilities	<u>3,791,397</u>
Total liabilities	<u>12,464,786</u>
Net position	
Invested in capital assets	1,613,399
Restricted for transportation projects	5,953,869
Unrestricted	1,333,418
Total net position	<u>\$ 8,900,686</u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
Governmental activities:			
Administration	\$ 11,110,575	\$ -	\$ (11,110,575)
Operating grants	<u>10,347,858</u>	-	<u>(10,347,858)</u>
Total governmental activities	<u>21,458,433</u>	<u>-</u>	<u>(21,458,433)</u>
General revenues:			
Assessments			22,983,547
Federal grant revenues			5,108,209
Investment earnings			158,543
Miscellaneous			<u>1,322,825</u>
Total general revenues			<u>29,573,124</u>
Excess revenues over expenses			8,114,691
Other financing uses - transfers, net			<u>(6,027,940)</u>
Change in net position			2,086,751
Net position, beginning of the year			<u>6,813,935</u>
Net position, end of year			<u>\$ 8,900,686</u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

	Restricted Funds			Admin Fund	Other Govern- mental Funds	Total Govern- mental Funds
	<u>S-222/230/231</u>	<u>S-241</u>	<u>S-253-258</u>			
ASSETS						
Cash and cash equivalents	\$ 22,040	\$ -	\$ 920,946	\$ 14,365,987	\$ 2,662,046	\$ 17,971,019
Accounts receivable	556,692	71,294	112,703	-	1,040,365	1,781,054
TOTAL ASSETS	<u>\$ 578,732</u>	<u>\$ 71,294</u>	<u>\$ 1,033,649</u>	<u>\$ 14,365,987</u>	<u>\$ 3,702,411</u>	<u>\$ 19,752,073</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 531,976	\$ 71,294	\$ 111,311	\$ 93,536	\$ 1,040,365	\$ 1,848,482
Accrued payroll	-	-	-	435,292	-	435,292
Due to general funds	-	-	-	2,550	-	2,550
Note payable to Department of Transportation, Harbors Division	-	-	-	-	2,589,089	2,589,089
Due to other divisions and funds	-	-	-	5,953,869	-	5,953,869
Total liabilities	<u>531,976</u>	<u>71,294</u>	<u>111,311</u>	<u>6,485,247</u>	<u>3,629,454</u>	<u>10,829,282</u>
FUND BALANCES (DEFICIT)						
Assigned	(35,372)	107,950	383,593	586,679	8,842	1,051,692
Unassigned	82,128	(107,950)	538,745	7,294,061	64,115	7,871,099
Total fund balances	<u>46,756</u>	<u>-</u>	<u>922,338</u>	<u>7,880,740</u>	<u>72,957</u>	<u>8,922,791</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 578,732</u>	<u>\$ 71,294</u>	<u>\$ 1,033,649</u>	<u>\$ 14,365,987</u>	<u>\$ 3,702,411</u>	<u>\$ 19,752,073</u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total fund balances - governmental funds	\$ 8,922,791
Amounts reported for governmental activities that are different in the Statement of Net Position due to:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds	1,613,399
Accrued employee benefits payable not reported in the governmental funds	<u>(1,635,504)</u>
Total net position - governmental activities	<u>\$ 8,900,686</u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Restricted Funds			Admin Fund	Other Govern- mental Funds	Total Govern- mental Funds
	<u>S-222/230/231</u>	<u>S-241</u>	<u>S-253-258</u>			
REVENUES						
Assessments	\$ -	\$ -	\$ -	\$ 22,983,547	\$ -	\$ 22,983,547
Federal grant revenues	1,726,666	316,166	2,025,012	-	1,040,365	5,108,209
Other	-	-	-	359,661	1,121,707	1,481,368
	<u>1,726,666</u>	<u>316,166</u>	<u>2,025,012</u>	<u>23,343,208</u>	<u>2,162,072</u>	<u>29,573,124</u>
EXPENDITURES						
Personal services	37,422	-	25,515	10,328,705	-	10,391,642
Other	1,689,821	316,166	1,999,497	5,408,905	1,971,172	11,385,561
	<u>1,727,243</u>	<u>316,166</u>	<u>2,025,012</u>	<u>15,737,610</u>	<u>1,971,172</u>	<u>21,777,203</u>
EXCESS OF REVENUES OVER EXPENDITURES	(577)	-	-	7,605,598	190,900	7,795,921
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	630,674	406,825	1,037,499
Transfers out	(102,539)	-	(123,623)	(6,839,277)	-	(7,065,439)
	<u>(102,539)</u>	<u>-</u>	<u>(123,623)</u>	<u>(6,208,603)</u>	<u>406,825</u>	<u>(6,027,940)</u>
NET CHANGE IN FUND BALANCES	(103,116)	-	(123,623)	1,396,995	597,725	1,767,981
Fund balances (deficit), beginning of year	149,871	-	1,045,961	6,483,745	(524,767)	7,154,810
Fund balances, end of year	<u>\$ 46,755</u>	<u>\$ -</u>	<u>\$ 922,338</u>	<u>\$ 7,880,740</u>	<u>\$ 72,958</u>	<u>\$ 8,922,791</u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Total net change in fund balances - governmental funds	\$	1,767,981
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Amounts reported for governmental activities that are different in the Statement of Net Assets due to:

Capital asset outlays, net transfers and disposals	\$	630,673	
Depreciation expense		<u>(355,688)</u>	
Excess of capital asset outlays over depreciation expense			274,985

The net change in obligations for accrued vested vacation benefits is reported in the Statement of Activities, but is not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.

		<u>43,785</u>
Change in net position of governmental activities	\$	<u><u>2,086,751</u></u>

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019

ASSETS

Cash and cash equivalents \$ 65,400

Total assets \$ 65,400

LIABILITIES

Bid bond payable \$ 62,400

Other Payable 3,000

Total liabilities \$ 65,400

See accompanying notes to the financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not included in program

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Division does not allocate general government (indirect) expenses to other functions.

Net position is restricted when legally enforceable enabling legislation places restrictions or are externally imposed by citizens and/or public interest groups. Additionally, restricted net position are re-evaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if the government has other cause for reconsideration. Internally imposed designations of resources are not presented as restricted components of net position. When both restricted and unrestricted resources are available for use, generally it is the Division's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Encumbrances are recorded obligations in the form of purchase orders or contracts. The Division records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end are reported as restrictions, assignments, or commitments of fund balances since they do not constitute expenditures or liabilities.

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

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

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

Governmental Fund Type

The Division reports the following major Governmental Fund:

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Fund Type

The Division reports the following Fiduciary Fund:

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

Net Position - In the government wide financial statements, net position is reported in three categories: net investment in capital assets, net of related debt; if any; restricted; and unrestricted. Restricted components are restricted by parties outside of the State (such as citizens, public interest groups or the judiciary) or imposed by law through enabling legislation.

Fund Balance Reporting - In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

In accordance with GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Division classifies fund balances based primarily on the extent to which it is bound to follow constraints on how resources can be spent. Classifications used by the Division are:

Restricted - Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments. Sources of these externally enforceable legal restrictions include creditors, grantors or other governments.

Committed - Balances that can only be used for specific purposes pursuant to constraints imposed by formal action (i.e., legislation) of the State's Legislature, the highest level of decision-making authority. Legislation is required to modify or rescind a fund balance commitment.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned - Balances that are constrained by management to be used for specific purposes, as authorized by the Hawaii Revised Statutes, but are not restricted or committed. For general fund only, encumbrance balances at fiscal year-end are classified as assigned.

Unassigned - Residual balances that are not contained in the other classifications. The General Fund is the only fund that reports a positive unassigned fund balance.

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

Assessment Revenues - In accordance with Section 30, Chapter 36, of the Hawaii Revised Statutes (HRS), the Division reports as assessment revenues a percentage of the Airports, Harbors, and Highways Divisions' State allotted appropriations for the cost of the general administration expenses of the DOT.

On a quarterly basis, the divisions of DOT transfer their pro-rata share of their budgetary appropriation to cover their share of the operation expenses incurred by the Division. The unencumbered cash balances at the end of each fiscal year are transferred back to the respective divisions in accordance with their pro-rata share percentage. *Due to Other Divisions and Funds* as of June 30, 2019 was \$5,953,869. The \$6,027,940 reflected as *Other financing sources - Transfers, net* is the amount of unencumbered cash balances transferred back to the other divisions and other funds during 2019.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Risk Management - The Division is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The Division is insured under the State of Hawaii (the State) as follows: The State generally retains the first \$1,000,000 per occurrence of property losses such as fires and 3% of a property's replacement cost value for catastrophic losses such as hurricanes, earthquakes and floods, the first \$4,000,000 with respect to general liability claims, and the first \$500,000 of losses due to crime and cyber liability. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$200,000,000, except for terrorism, which is \$100,000,000 per occurrence. The annual aggregate limit for general liability losses is \$9,000,000 per occurrence, \$50,000,000 for cyber liability losses and, for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of \$35,000,000 per occurrence and \$39,000,000 in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

The estimated reserve for losses and loss adjustment costs includes the accumulation of estimates for losses and claims reported prior to fiscal year-end, nonincremental estimates (based on projections of historical developments) of claims incurred but not reported, and nonincremental estimates of costs for investigating and adjusting all incurred and unadjusted claims. Amounts reported are subject to the impact of future changes in economic and social conditions. The State believes that, given the inherent variability in any such estimates, the reserves are within a reasonable and acceptable range of adequacy. Reserves are continually monitored and reviewed and, as settlements are made and reserves adjusted, the differences are reported in current operations. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

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

Compensated Absences - The 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. A liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

All Plan assets are held in a trust fund to protect them from claims of general creditors. The Division has no responsibility for loss due to the investment or failure of 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 Division's deferred compensation plan are not reported in the accompanying basic financial statements.

Cash and Cash Equivalents - Cash and cash equivalents include all cash, repurchase agreements, U.S. government securities and time certificates of deposits with original maturities of three months or less.

Investments - The State's investments are reported at fair value within the fair value hierarchy established by generally accepted accounting principles.

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 - Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets of the Division include furniture and equipment with estimated useful lives greater than one year and acquisition costs greater than the following amounts:

Furniture and equipment	\$5,000
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Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated fair market value at the date of donation. Transfers are recorded at cost, net of the depreciation which would have been charged had the asset been directly acquired by the Division. Major outlays for capital assets and improvements are capitalized as projects are constructed to the extent the State's capitalization thresholds are met. Interest incurred during the construction phase of the capital assets is reflected in the capitalized value of the asset constructed, net of interest earned, on the invested proceeds over the same period. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and the related accumulated depreciation, as applicable, are removed from the respective accounts, and any resulting gain or loss is recognized in the statement of activities.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Useful Lives</u>
Furniture and equipment	5 - 7 years

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 could differ from those estimates.

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

2. BUDGETING AND BUDGETARY CONTROL

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

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

All expenditures of appropriated funds are made pursuant to the appropriations in the biennial budget.

The General Fund and Special Revenue Funds have legally appropriated annual budgets. The Capital Projects Fund's appropriated budgets are for projects that may extend over several fiscal years.

The final legally adopted budget in the accompanying general fund statement of revenues and expenditures - budget and actual (budgetary basis) represents the original appropriations, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations acts. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Department of Accounting and General Services.

To the extent not expended or encumbered, the General Fund's appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

2. BUDGETING AND BUDGETARY CONTROL (Continued)

Budgets adopted by the State Legislature for the General Fund are presented in the general fund statement of revenues and expenditures - budget and actual (budgetary basis). The State's annual budget is prepared on the modified-accrual basis of accounting with several differences, acquired through long-term financing (basis difference) and (2) the accounting for transfers of principally related to (1) the encumbrance of purchase order and contract obligations and equipment debt service payments through the General Fund (perspective difference), which represent departures from GAAP.

Adjustments necessary to convert the results of operations and fund balances for the year ended June 30, 2019 from the GAAP basis to the budget basis are as follows:

Excess of revenues and expenditures over transfers, GAAP basis	\$ 1,767,981
Increase (decrease) in revenues:	
Current year receivables	(1,781,054)
Prior year receivables	<u>1,058,082</u>
	<u>(722,972)</u>
Increase (decrease) in expenditures:	
Current year accrued liabilities	(2,286,324)
Prior year accrued liabilities	1,628,884
Current year encumbrances, net of adjustments	(721,962)
Prior year encumbrances	<u>(3,475,358)</u>
	<u>(4,854,760)</u>
Excess of revenues over expenditures and transfers, budgetary basis	<u>\$ 5,899,769</u>

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury. The Director of Finance pools and invests any monies of the State, which in the Director of Finance's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Division based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, auction rate securities, and repurchase agreements with federally-insured financial institutions.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

4. CAPITAL ASSETS

Capital assets activities for the governmental activities of the Division for the year ended June 30, 2019, were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets:</u>				
Furniture & equipment	\$4,303,217	\$ 721,470	\$ 904,832	\$4,119,855
Less accumulated depreciation	<u>2,964,803</u>	<u>355,688</u>	<u>814,035</u>	<u>2,506,456</u>
Capital assets, net of depreciation	<u>\$1,338,414</u>	<u>\$ 365,782</u>	<u>\$ 90,797</u>	<u>\$1,613,399</u>

5. ACCRUED VACATION

Accrued vacation consists of the following:

Balance at June 30, 2018	\$1,679,289
Decreases	<u>(43,785)</u>
Balance at June 30, 2019	1,635,504
Less current portion	<u>(435,746)</u>
Total accrued vacation, long-term	<u>\$1,199,758</u>

6. CHANGES IN LONG-TERM LIABILITIES

Changes in non-current liabilities were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Due to general fund	\$ 2,550	\$ -	\$ -	\$ 2,550	\$ -
Accrued vacation	1,224,522	430,003	454,767	1,199,758	435,746
Note payable-DOT Harbors	<u>2,980,902</u>	<u>-</u>	<u>391,813</u>	<u>2,589,089</u>	<u>-</u>
	<u>\$4,207,974</u>	<u>\$ 430,003</u>	<u>\$ 846,580</u>	<u>\$3,791,397</u>	<u>\$ 435,746</u>

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

7. RETIREMENT BENEFITS

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost sharing multiple-employer defined benefit pension plan administered by 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 ERS's website: <http://www.ers.hawaii.gov>.

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

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

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

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 is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

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 is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- Death Benefits - For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or surviving 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 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 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.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

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 is required for ordinary disability.

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

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.
- Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

Contributions

Contributions are governed 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 rates for fiscal year 2019 were 19.00%. Contributions to the pension plan from the State was \$481,656,000 for the fiscal year ended June 30, 2019.

Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate increases to 19.00% on July 1, 2018; 22.00% on July 1, 2019; and 24.00% on July 1, 2020.

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

State Policy

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits and other aspects of the ERS is also not available on a departmental or agency basis. Accordingly, the State's policy on the accounting and reporting for pension benefits is to allocate a portion of the net pension liability, pension expense, and deferred inflows and outflows of resources required under GASB Statement No. 68 only to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's Comprehensive Annual Financial Report (CAFR). The basis for the allocation is the number of covered employees for each component unit and proprietary fund for pension benefits.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

7. RETIREMENT BENEFITS (Continued)

The State's policy is to fund its required contribution annually. The Division's share of the retirement system expense was included as an item to be expended by the Department of Budget and Finance and is not reflected in the Division's financial statements.

The ERS issues a publicly available financial report that included financial statements and required supplemental information. That report may be obtained from the ERS.

Post-Retirement Health Care and Life Insurance Benefits

Plan Descriptions

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

For employees hired before July 1, 1996, the State pays the entire monthly contribution for employees retiring with ten years or more 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 less 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.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

7. RETIREMENT BENEFITS (Continued)

Employees' Retirement System (Continued)

For employees hired on or after July 1, 2001, and who retire with less 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. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

State's Policy

The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's Annual Required Contribution funds ("ARC"), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's CAFR. The basis for the allocation is the proportionate share of the State's total covered employee headcount by each component unit or proprietary fund for retiree health benefits.

The State's CAFR includes the required footnote disclosures and required supplementary information on the State's OPEB plans. The State's CAFR can be found at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

The Division's share of the non-pension post-retirement benefits was included as an item to be expended by the Department of Budget and Finance and is not reflected in the Division's financial statements.

The State's CAFR also includes financial disclosure and required supplementary information on the State's pension and non-pension retirement benefits.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

8. COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

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, a state 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. The Division's accumulated sick leave as of June 30, 2019, was approximately \$4,478,000.

General Contingencies

The Division operates throughout the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of the Division, from such changes in economic conditions, if any, are not presently determinable.

9. BLENDED COMPONENT UNIT - ALOHA TOWER DEVELOPMENT CORPORATION

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

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

9. BLENDED COMPONENT UNIT - ALOHA TOWER DEVELOPMENT CORPORATION
(Continued)

The sublease between the ATDC and the developer requires the developer to construct, at the developer's cost, various facilities as designated in the developer's proposal, including a Marketplace, and to reimburse Harbors for all losses in revenue and increased expenses which may be incurred by Harbors. The lease was subsequently amended and requires ATDC to pay \$225,000 each year to Harbors as a minimum base payment for losses in revenue related to fiscal years beginning July 1, 2005, that, subject to approval, may be reduced for certain expenses incurred by ATDC. The Amendment also requires an equity participation payment to be made in an amount of 50% of the difference between the total revenues and total operating expenses of ATDC for a fiscal year (the equity payment), provided that if the equity payment exceeds two and one-half times the actual operating expenses of ATDC for such fiscal year, ATDC must make a supplemental payment equal to 75% of the difference between the equity payment and the product of two and one-half times the actual operating expenses of ATDC. These payments were to be applied to reduce the amount owed to the Harbors for losses in revenue by ATDC prior to July 1, 2004. During the year ended June 30, 2019, there were no equity payments made.

During the year ended June 30, 2015, the State of Hawaii entered into a successor memorandum of understanding with ATDC and Hawaii Lifestyle Retail Properties, LLC (HLRP) whereby ATDC agreed to abate rent in the amount of \$1 million under the lease between ATDC and HLRP for the period retroactive to July 1, 2014 to June 30, 2015 in consideration for the construction of HLRP improvements at Aloha Tower Marketplace to create student and faculty residences and various university spaces for Hawaii Pacific University and to memorialize the understanding of the parties with respect to various aspects of its agreement. ATDC did not receive any rent revenue during this period and was unable to make any equity participation payments to Harbors. Rent collection resumed for the year ended June 30, 2016, resulting in collections of \$1 million for that year.

The successor memorandum of understanding also amended the obligations owed to Harbors, which arose from the original Aloha Tower Marketplace construction. The obligations are valued at \$3.5 million, depending upon when actual payments are made by the operator of Aloha Tower Marketplace within a six year timeframe ending June 2016. The amendment provides that in consideration of ATDC's issuance of any renewed leases, HLRP shall pay the Harbors Division the sum of \$1,750,000 on or before December 31, 2021.

Rental income collected under the agreement was \$1,000,000 for the year ended June 30, 2019.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2019

9. BLENDED COMPONENT UNIT - ALOHA TOWER DEVELOPMENT CORPORATION
(Continued)

At June 30, 2019, future minimum lease rent receipts approximate the following:

Years ending June 30,	
2020	\$ 1,000,000
2021	1,000,000
2022	1,000,000
2023	1,000,000
2024-2028	5,000,000
2029-2033	5,000,000
2034-2038	5,000,000
2039-2043	5,000,000
2044-2048	5,000,000
2049-2053	5,000,000
2054-2058	5,000,000
2059	<u>750,000</u>
Total	<u>\$ 39,750,000</u>

10. NOTE PAYABLE TO DEPARTMENT OF TRANSPORTATION, HARBORS DIVISION

During the year ended June 30, 2012, the administration of ATDC was assigned to the Department of Transportation by Act 152, Session Laws of Hawaii (SLH) 2011. Accordingly, the balance of an outstanding note payable from ATDC to Harbors of \$4,923,067 was recognized as a transfer to the Division during the year ended June 30, 2012 (See Note 9). During the year ended June 30, 2019, a payment of \$391,813 was made on the balances of the outstanding note. As of June 30, 2019, the balance of the note amounted to \$2,589,089. The note does not require specific payments of interest. Supplemental payments to Harbors are required under an amendment to the sublease agreement between ATDC and the developer of land surrounded by Pier 10, which reduce the amount owed to the Harbors Division for losses in revenue by ATDC prior to July 1, 2004 (see Note 9).

**SUPPLEMENTARY FINANCIAL
INFORMATION**

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
BUDGETARY COMPARISON STATEMENT (NON-GAAP
BUDGETARY BASIS) - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
Revenues			
Assessments	\$ 22,567,622	\$ 22,983,547	\$ 415,925
Federal grant revenues	15,433,067	4,385,237	(11,047,830)
Other	<u>1,842,173</u>	<u>1,481,369</u>	<u>(360,804)</u>
 Total revenues	 <u>39,842,862</u>	 <u>28,850,153</u>	 <u>(10,992,709)</u>
 Expenditures			
Personal services	13,063,199	10,358,693	2,704,506
Other	<u>22,410,750</u>	<u>6,563,751</u>	<u>15,846,999</u>
Total expenditures	<u>35,473,949</u>	<u>16,922,444</u>	<u>18,551,505</u>
Excess of revenues over expenditures	4,368,913	11,927,709	7,558,796
Transfers to others	<u>(4,368,913)</u>	<u>(6,027,940)</u>	<u>(1,659,027)</u>
 Excess of revenues over expenditures and transfers	 \$ <u><u>-</u></u>	 \$ <u><u>5,899,769</u></u>	 \$ <u><u>5,899,769</u></u>

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
<u>Federal Transit Administration:</u>				
Federal Transit - Capital Investment Grants:				
Capital improvement grant to assist in financing the acquisition, construction, reconstruction, and improvement of facilities, rolling stock and equipment for use in mass transportation in urban areas				
	20.500			
10/01/09-09/30/10		HI-04-0004	\$ 5,699,400	\$ 7,181
10/01/12-09/30/13		HI-04-0013	3,440,000	287,591
			<u>9,139,400</u>	<u>294,772</u>
Formula Grant for Urbanized Areas:				
Provides funding to urbanized areas for transit capital and operating assistance and for transportation-related planning				
	20.507			
10/01/17-09/30/18		HI-2018-004	1,040,679	1,040,365
			<u>1,040,679</u>	<u>* 1,040,365</u>
Formula Grants for Rural Areas:				
Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas				
	20.509			
10/01/12-09/30/13		HI-18-X031	2,673,185	111,092
10/01/14-09/30/15		HI-18-X032	1,737,944	56,557
10/01/15-09/30/16		HI-2016-004	2,793,520	535,960
10/01/16-09/30/17		HI-2017-004	2,633,520	443,284
			<u>9,838,169</u>	<u>* 1,146,893</u>

* Denotes major program expenditures

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
<u>Federal Transit Administration (Continued):</u>				
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research:				
To assist in development of metropolitan and State transportation improvement programs, long-range transportation plans, and other technical studies in a program for a unified and officially coordinated Statewide Transportation system and Metropolitan Transportation system(s)				
	20.505			
10/01/13-09/30/14		HI-80-0021	\$ 605,588	\$ 70,002
10/01/16-09/30/17		HI-2016-005	963,242	316,166
			1,568,830	386,168
Enhanced Mobility of Seniors and Individuals with Disabilities:				
Capital assistance grant to assist in providing transportation services for elderly and the handicapped				
	20.513			
10/01/08-09/30/09		HI-16-0034	585,120	34,447
10/01/09-09/30/10		HI-16-0035	491,141	221,787
10/01/10-09/30/11		HI-16-0036	926,529	81,949
10/01/11-09/30/12		HI-16-0037	892,501	365,572
10/01/12-09/30/13		HI-16-0038	813,567	451,442
10/01/16-09/30/17		HI-2017-006	671,965	18,477
10/01/17-09/30/18		HI-2018-013	757,600	53,600
			5,138,423	* 1,227,274

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
<u>Federal Transit Administration (Continued):</u>				
Job Access and Reverse Commute Program:				
Capital planning and operating expenses for projects that transport low income individuals to and from jobs and activities related to employment, and for reverse commute projects				
	20.516			
10/01/11-09/30/12		HI-37-X008	\$ 353,164	\$ 105,261
			<u>353,164</u>	<u>105,261</u>
Bus and Bus Facilities Formula Program:				
Provides capital funding to replace, rehabilitate and purchase buses and related equipment and to construct bus-related facilities				
	20.526			
10/01/13-09/30/14		HI-34-0001	1,247,500	193,844
10/01/15-09/30/16		HI-2016-002	1,582,900	183,863
			<u>2,830,400</u>	<u>377,707</u>
Rail Fixed Guideway Public Transportation System State Safety Oversight:				
Provide funding for professional service contractors, purchase of office equipment and office furniture, travel required SSOP training, FTA meetings, and related professional dues & subscriptions				
	20.528			
10/01/16-09/30/17		HI-2017-005	652,971	223,985
			<u>652,971</u>	<u>223,985</u>
Total Federal Transit Administration			<u>30,562,036</u>	<u>4,802,425</u>

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
<u>Federal Highway Administration:</u>				
Highway Planning and Construction:				
Statewide and non-metropolitan planning process to establish a cooperative, continuous, and comprehensive framework for making transportation investment decisions throughout the State				
	20.205			
10/01/13-09/30/14		SPR-0010(36)	\$ 413,012	\$ 167,347
10/01/17-09/30/18		SPR-0010(41)	1,271,200	75,098
10/01/18-09/30/19		SPR-0010(44)	636,200	63,339
			<u>2,320,412</u>	<u>305,784</u>
Total Federal Highway Administration			<u>2,320,412</u>	<u>305,784</u>
Total Federal Financial Assistance			<u>\$ 32,882,448</u>	<u>\$ 5,108,209</u>

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

NOTE A - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal grant activity of the Department of Transportation, Administration Division and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

*Denotes major program expenditures, comprising 66% of total expenditure of federal awards of a low-risk auditee.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The expenditures are recognized following the cost principles contained in Title 2 CFR, Subtitle A, Chapter II, Part 225, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. In addition, pass-through entity identifying numbers are presented where available.

Of the federal expenditures presented in the Schedule, sub-recipients were provided federal awards as follows:

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures Passed-Through
<u>Federal Transit Administration:</u>			
Federal Transit - Capital Investment Grants:	20.500	HI-04-0004	\$ 7,181
Capital improvement grant to assist in financing the acquisition, construction, reconstruction, and improvement of facilities, rolling stock and equipment for use in mass transportation in urban areas		HI-04-0013	287,591
			<u>294,772</u>
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research:	20.505	HI-80-0021	70,002
To assist in development of metropolitan and State transportation improvement programs, long-range transportation plans, and other technical studies in a program for unified and officially coordinated Statewide Transportation system and Metropolitan Transportation system(s)		HI-2016-005	316,166
			<u>386,168</u>
Formula Grant for Urbanized Areas:	20.507	HI-2018-004	<u>1,040,365</u>
Provides funding to urbanized areas for transit capital and operating assistance and for transportation-related planning			* <u>1,040,365</u>
Formula Grants for Rural Areas:	20.509	HI-18-X031	111,092
Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas		HI-18-X032	1,869
		HI-2016-004	478,628
		HI-2017-004	443,284
			<u>1,034,873</u>

* Denotes major program expenditures

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures Passed-Through
<u>Federal Transit Administration:</u>			
Enhanced Mobility of Seniors and Individuals with Disabilities:	20.513	HI-16-0034	\$ 34,447
Capital assistance grant to assist in providing transportation services for elderly and the handicapped		HI-16-0035	221,787
		HI-16-0036	81,949
		HI-16-0037	365,572
		HI-16-0038	451,442
			<u>* 1,155,197</u>
Job Access and Reverse Commute Program:	20.516	HI-37-X008	98,407
Capital planning and operating expenses for projects that transport low income individuals to and from jobs and activities related to employment, and for reverse commute projects			<u>98,407</u>
Bus and Bus Facilities Formula Program:	20.526	HI-34-0001	193,844
Provides capital funding to replace, rehabilitate and purchase buses and related equipment and to construct bus-related facilities		HI-2016-002	<u>183,863</u>
			<u>377,707</u>

* Denotes major program expenditures

(Continued)

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2019

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures Passed-Through
<u>Federal Transit Administration:</u>			
Rail Fixed Guideway Public Transportation System State Safety Oversight:	20.528	HI-2017-005	\$ 220,829
Provide funding for professional service contractors, purchase of office equipment and office furniture, travel required SSOP training, FTA meetings, and related professional dues & subscriptions			<u>220,829</u>
Total Federal Transit Administration			<u>4,608,318</u>
<u>Federal Highway Administration:</u>			
Highway Planning and Construction:			
Statewide and non-metropolitan planning process	20.205	SPR-0010(36)	167,347
to establish a cooperative, continuous, and comprehensive framework for making transportation investment decisions throughout the State		SPR-0010(44)	<u>63,339</u>
			<u>230,686</u>
Total Federal Highway Administration			<u>230,686</u>
Total pass-through of federal financial assistance			<u>\$ 4,839,004</u>

PART IV

INTERNAL CONTROL AND COMPLIANCE SECTION

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

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of governmental activities, each major fund, and the aggregate remaining fund information of State of Hawaii Department of Transportation, Administration Division (the "Division") as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Division's basic financial statements, and have issued our report thereon dated, December 17, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

This report is intended solely for the information and use of the Office of the Auditor, management of the Division, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Egami + Okunuma CPAs Inc

Honolulu, Hawaii
December 17, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE

Office of the Auditor
State of Hawaii

Report on Compliance for Each Major Federal Program

We have audited the State of Hawaii Department of Transportation, Administration Division's (the "Division") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Division's major federal programs for the year ended June 30, 2019. The Division's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Division's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Division's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Division complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control over Compliance

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

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

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

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

This report is intended solely for the information and use of the Office of the Auditor, management of the Division, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Eganis + Johnson CPAs Inc.

Honolulu, Hawaii
December 17, 2019

PART V

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Status of Prior Year Comments

FINANCIAL STATEMENT FINDINGS

No matters were reported.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:	<u>Unmodified</u>
1. Internal control over financial reporting:	
2. Material weaknesses identified?	<u>No</u>
Reportable condition identified that is not considered to be material weakness	<u>None reported</u>
3. Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS:

1. Internal control over major program:	
Material weaknesses identified?	<u>No</u>
Reportable condition identified that is not considered to be material weakness	<u>None reported</u>
2. Type of auditors' report issued on compliance for major program:	<u>Unmodified</u>
3. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	<u>None reported</u>
4. Identification of major programs:	
a. Federal Transit Cluster: CFDA No. 20.507 - Urbanized Area Formula Program; CFDA No. 20.509 - Formula Grants for Rural Areas; CFDA No. 20.513 - Enhanced Mobility of Seniors and Individuals with Disabilities.	
b. Dollar threshold used to distinguish between type A and type B programs:	<u>\$750,000</u>
c. Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED JUNE 30, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PART VI
CORRECTIVE ACTION PLAN

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION
CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2019

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2019.