

**FINANCIAL AND COMPLIANCE
AUDIT OF THE STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

FOR THE YEAR ENDED JUNE 30, 2004



CERTIFIED
PUBLIC
ACCOUNTANTS

November 8, 2004

Mr. Rodney K. Haraga, Director
State of Hawaii
Department of Transportation
Administration Division
869 Punchbowl Street
Honolulu, Hawaii 96813

Dear Mr. Haraga:

Herein we submit our report on the financial statements of the State of Hawaii, Department of Transportation - Administration Division (Division) as of and for the year ended June 30, 2004. The audit was performed in accordance with our agreement with the Division dated June 8, 2004 and with the requirements of the U. S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Objectives of the Audit

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 year ended June 30, 2004, and in accordance with the requirements of OMB Circular A-133.

More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the financial statements of the Division.
2. To determine whether expenditures and other disbursements 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 determine whether the Division's internal control is adequate in assuring that there is effective control over and proper accounting of revenues, expenditures, assets, and liabilities.

1357 Kapiolani Boulevard Suite 1005 Honolulu, Hawaii 96814 Phone (808) 941-4811 Fax (808) 941-5035	94-239 Waipahu Depot Street Suite 201B Waipahu, Hawaii 96797 Phone: (808) 676-2344 Fax: (808) 676-2323
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4. To determine, whether the Division has established sufficient internal controls to properly manage federal financial assistance programs and to comply with applicable federal laws and regulations.
5. To determine whether the Division has complied with the laws, regulations, contracts, and grants that may have a material effect on the financial statements and, on each major federal financial assistance program.

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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the Division for the year ended June 30, 2004.

Organization of the Report

This report is presented in three parts as follows:

- The Management's Discussion and Analysis

The financial statements and related notes of the Division as of and for the year ended June 30, 2004, and our opinion on the financial statements.

- Our report on compliance and on internal control over financial reporting.

The schedule of finding and questioned costs

Corrective action plan.

We would like to express our appreciation to the personnel of the Division and in particular to Mr. Alvin Itaki and his staff, for the assistance and cooperation we received during the course of our audit.

Yours truly,

ENDO & COMPANY



MANAGEMENT'S DISCUSSION AND ANALYSIS

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

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**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

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**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2004

This section of the State of Hawaii, Department of Transportation - Administration Division's (Division) annual financial report presents management's discussion and analysis of the Division's financial performance during the fiscal year that ended on June 30, 2004. It should be read in conjunction with the Division's financial statements, which follows this section.

Financial Highlights

- The Division's total net assets increased by \$619,000 or 72.8% over of June 30, 2003. The increase is mainly attributable to an decrease in expenditures over the prior year.
- The Division's long-term liabilities decreased \$320,000 over 2003 principally as a result of a decrease in accrued vacation pay. Current liabilities decreased by \$465,000 or 14% over June 30, 2003 principally as a result of a decrease in amounts due to other divisions of the D.O.T.
- Revenues decreased by \$700,000, from \$14.8 million in fiscal year ended June 30, 2003 to \$14.1 million in fiscal year ended June 30, 2004. The decline was primarily attributable to decreases in investment earnings and assessments.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2004

Overview of the Financial Statements

The financial statements consist of three parts: management's discussion and analysis, the financial statements and notes to financial statements and other reports, including a schedule 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 report information about the Division as a whole using accounting methods similar to those used by private sector companies. The *Statement of Net Assets* provides both short-term and long-term information about the Division's financial position, which reflects the Division's financial condition at the end of the fiscal year. All of the current year's revenues and expenditures are accounted for in the *Statement of Activities* regardless of when cash is received or paid, i.e., on an accrual basis.

The *Statement of Net Assets* presents all of the Division's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the Division's net assets may serve as a useful indicator of whether the financial position of the Division is improving or deteriorating.

The *Statement of Activities* present information reflecting how the Division's net assets changed during the fiscal year.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2004

Overview of the Financial Statements (continued)

Fund Financial Statements

The fund financial statements provide more detailed information about the Division's significant funds and not the Division as a whole. 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 Governmental Accounting Standard Board (GASB) issued Statement 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major fund is in a column in the fund financial statements entitled "Other Governmental Funds".

The Division has two types of funds:

- Governmental Funds:

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), Federal Transit Administration (FTA), and those between the Division and FTA prior to enactment of the Intermodal Surface Transportation Efficiency Act of 1991.

- Fiduciary Funds:

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 and restricted AMTRAK funds in accordance with the Taxpayer Relief Act of 1997. These assets can only be used or applied if certain requirements are met. The Division's fiduciary activities are reported in a separate "Statement of Fiduciary Net Assets". These activities are excluded from the Division's other financial statements because the Division cannot use these assets to finance its operations.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2004

Overview of the Financial Statements (continued)

Notes to Financial Statements

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

Other Reports

Following the *Notes to Financial Statements* is the *Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* and a *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB A-133*.

Government-Wide Financial Analysis

As previously mentioned, the *Statement of Net Assets* reflects the Division's financial condition at the end of the fiscal year. As of June 30, 2004, the Division's total net assets was approximately \$1,469,000. The following presents a summarized comparison of net assets and the changes in net assets between 2003 and 2004.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2004

Overview of the Financial Statements (continued)

Statement of Net Assets
June 30, 2004 and 2003
(Rounded to nearest \$1,000)

	<u>2004</u>	<u>2003 (As Restated)</u>
Assets:		
Current assets	\$ 4,006,000	\$ 4,246,000
Capital assets, net of depreciation	<u>1,400,000</u>	<u>1,326,000</u>
Total Assets	<u>\$ 5,406,000</u>	<u>\$ 5,572,000</u>
Liabilities:		
Current liabilities	2,946,000	3,411,000
Long-term liabilities	<u>991,000</u>	<u>1,311,000</u>
Total Liabilities	<u>3,937,000</u>	<u>4,722,000</u>
Net Assets:		
Invested in capital assets	1,400,000	1,325,000
Restricted	2,132,000	2,974,000
Unrestricted (deficit)	<u>(2,063,000)</u>	<u>(3,449,000)</u>
Total Net Assets	<u>1,469,000</u>	<u>850,000</u>
Total Liabilities and Net Assets	<u>\$ 5,406,000</u>	<u>\$ 5,572,000</u>

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2004

Overview of the Financial Statements (continued)

Net assets of the Division increased by \$619,000 or 72.8% over fiscal year ended June 30, 2003. Investment in capital assets (e.g. furniture and fixtures) and restricted funds for transportation projects, represents a large portion of the Division's net assets. 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 approximately \$2.1 million in fiscal year ended June 30, 2004 and approximately \$3.0 million in fiscal year ended June 30, 2003 represents resources that are subject to external restrictions or enabling legislation on how they may be used. Unrestricted assets reflected a deficit of approximately \$2.1 million.

The changes in net assets reflect the Division's current fiscal year's revenues and expenses regardless of when cash is received or paid, i.e., on an accrual basis of accounting.

Changes in Net Assets
For the Years Ended June 30, 2004 and 2003
(Rounded to nearest \$1,000)

	2004	2003 (As Restated)
Revenues		
Program Revenues:		
Federal grants revenues	\$ 2,014,000	\$ 2,155,000
Investment earnings and others	135,000	318,000
Assessments	11,925,000	12,292,000
Total Revenues	14,074,000	14,765,000

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2004

Overview of the Financial Statements (continued)

Changes in Net Assets
For the Years Ended June 30, 2004 and 2003
(Rounded to nearest \$1,000)

	<u>2004</u>	<u>2003 (As Restated)</u>
Total Expenses	<u>11,668,000</u>	<u>12,339,000</u>
Excess Before Transfers	2,406,000	2,426,000
Transfers	<u>(1,787,000)</u>	<u>(3,236,000)</u>
Change in Net Assets	619,000	(810,000)
Net Assets, beginning of year	<u>850,000</u>	<u>1,660,000</u>
Net Assets, end of year	<u>\$ 1,469,000</u>	<u>\$ 850,000</u>

Approximately 84.7% and 83.3% in fiscal years ended June 30, 2004 and 2003, respectively, of the Division's revenues came from assessments for the operations of the administration of DOT's various divisions.

Budgetary Analysis

The annual budget for the Division is based on assessments to the Harbors, Highways and Airports Divisions. The significant differences between budgeted and actual revenues and expenditures in the Special Funds were primarily attributed to the federal grant programs. Total revenues differed by \$12,939,199 or 48.1% below budget, and total expenditures were \$14,806,453 or 55.0% below budget.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Management's Discussion and Analysis

June 30, 2004

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2004, the Division had invested approximately \$1.4 million, net of accumulated depreciation of approximately \$2.8 million, in furniture and fixtures. Net capital assets increased by approximately \$75,000 over 2003.

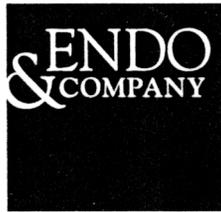
Net capital assets are accounted for as follows:

	<u>2004</u>	<u>2003</u>
Capital assets:		
Furniture and Equipment	\$ 4,242,059	\$ 4,013,342
Vehicle	-	<u>10,764</u>
Total capital assets	4,242,059	4,024,106
Less accumulated depreciation	<u>2,841,608</u>	<u>2,698,595</u>
Total capital assets, net	<u>\$ 1,400,451</u>	<u>\$ 1,325,511</u>

Debt Administration

The Division did not have any debt financing during the fiscal years ended June 30, 2004 and 2003, respectively.

REPORT ON THE FINANCIAL STATEMENTS



CERTIFIED
PUBLIC
ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Director of Transportation
State of Hawaii
Department of Transportation
Administration Division

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the

**STATE OF HAWAII,
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION (Division),**

as of and for the year ended June 30, 2004, which collectively comprise the Division's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Division's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note (1) to the financial statements, the financial statements of the Division are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the

1357 Kapiolani Boulevard
Suite 1005
Honolulu, Hawaii 96814
Phone (808) 941-4811
Fax (808) 941-5035

94-239 Waipahu Depot Street
Suite 201B
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Fax: (808) 676-2323

State of Hawaii that is attributable to the transactions of the Division. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2004, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Division as of June 30, 2004 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 8, 2004, on our consideration of the Division's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 1 to 9 and 32, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Division's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Division. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



November 8, 2004
Honolulu, Hawaii

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Statement of Net Assets - Governmental Activities

June 30, 2004

ASSETS

Current assets	
Cash and cash equivalents	\$ 3,852,113
Accounts receivable	153,198
Total current assets	<u>4,005,311</u>
Capital assets, net of depreciation	<u>1,400,451</u>
Total Assets	<u>5,405,762</u>

LIABILITIES

Current liabilities	
Accounts payable	196,936
Accrued payroll	263,315
Accrued vacation	353,256
Due to other divisions and funds	2,131,887
Total current liabilities	<u>2,945,394</u>
Long-term liabilities	
Due to General Fund	2,550
Accrued vacation	988,690
Total long-term liabilities	<u>991,240</u>
Total Liabilities	<u>3,936,634</u>

NET ASSETS

Invested in capital assets	,400,451
Restricted for:	
Transportation projects	2,131,887
Unrestricted (deficit)	<u>(2,063,210)</u>
Total Net Assets	<u>\$ 1,469,128</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Statement of Activities

For the Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental activities:			
Administration	\$ 9,660,633	\$	\$ (9,660,633)
Operating grants	<u>2,007,297</u>		<u>(2,007,297)</u>
Total governmental activities	<u>11,667,930</u>		<u>(11,667,930)</u>
General revenues:			
Assessments			11,925,143
Federal grant revenues			2,014,454
Investment earnings			130,377
Miscellaneous			<u>4,367</u>
Total general revenues			<u>14,074,341</u>
			2,406,411
Other financing sources - Transfers, net			<u>(1,787,125)</u>
Change in net assets			619,286
Net assets, beginning of year			<u>849,842</u>
Net assets, end of year			<u>\$ 1,469,128</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
ADMINISTRATION DIVISION**

Balance Sheet - Governmental Funds

June 30, 2004

	<u>Admin Fund</u>	<u>Restricted Funds</u>			<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
		<u>S - 256</u>	<u>S - 257</u>	<u>S - 258</u>		
ASSETS						
Cash and cash equivalents	\$ 3,216,657	\$ 405,794	\$ 6,325	\$ 222,123	\$,214	\$ 3,852,113
Accounts receivable	<u>153,198</u>	-	-	-		<u>153,198</u>
TOTAL ASSETS	<u>\$ 3,369,855</u>	<u>\$ 405,794</u>	<u>\$ 6,325</u>	<u>\$ 222,123</u>	<u>\$ 1,214</u>	<u>\$ 4,005,311</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	196,936					196,936
Accrued payroll	263,315					263,315
Due to General Fund	2,550					2,550
Due to other divisions	<u>2,131,887</u>					<u>2,131,887</u>
TOTAL LIABILITIES	<u>2,594,688</u>					<u>2,594,688</u>
FUND BALANCES						
Reserved:						
Encumbrances	1,402,089	145,077		149,409	576	1,697,151
Transportation projects	2,131,887	-		-		2,131,887
Unrestricted	<u>(2,758,809)</u>	<u>260,717</u>	<u>6,325</u>	<u>72,714</u>	<u>638</u>	<u>(2,418,415)</u>
TOTAL FUND BALANCES	<u>775,167</u>	<u>405,794</u>	<u>6,325</u>	<u>222,123</u>	<u>1,214</u>	<u>1,410,623</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,369,855</u>	<u>\$ 405,794</u>	<u>\$ 6,325</u>	<u>\$ 222,123</u>	<u>\$ 1,214</u>	<u>\$ 4,005,311</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

**Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets**

June 30, 2004

Total Fund Balance- Governmental Funds	\$ 1,410,623
 Amounts reported for governmental activities are different in the <i>Statement of Net Assets</i> because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	1,400,451
Accrued employee benefits payable are not reported in the governmental funds	<u>(1,341,946)</u>
Net Assets of Governmental Activities	<u>\$ 1,469,128</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**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, 2004

	Admin Fund	Restricted Funds			Other Governmental Funds	Total Governmental Funds
		S - 256	S - 257	S - 258		
REVENUES						
Assessments	\$11,922,643	\$ -	\$ -	\$ -	\$	\$ 11,922,643
Federal grant revenues	-	326,683	5,418	1,682,353		2,014,454
Other	134,744	-	-	-	9,657	144,401
	<u>12,057,387</u>	<u>326,683</u>	<u>5,418</u>	<u>1,682,353</u>	<u>9,657</u>	<u>14,081,498</u>
EXPENDITURES						
Personal Services	5,702,264	285,457		177,008	-	6,164,729
Others	<u>3,566,635</u>	<u>41,226</u>	<u>5,418</u>	<u>1,505,345</u>	<u>1,286</u>	<u>5,119,910</u>
	<u>9,268,899</u>	<u>326,683</u>	<u>5,418</u>	<u>1,682,353</u>	<u>1,286</u>	<u>11,284,639</u>
EXCESS OF REVENUES OVER EXPENDITURES	2,788,488				8,371	2,796,859
OTHER FINANCING SOURCES(USES)						
Transfer in	-	343,297	6,325	215,640	-	565,262
Transfer out	(1,785,180)	(343,297)	(6,325)	(215,640)	(1,946)	(2,352,388)
Others	<u>(447,385)</u>	<u>13,469</u>	<u>-</u>	<u>6,483</u>	<u>(7,157)</u>	<u>(434,590)</u>
NET CHANGE IN FUND BALANCES	555,923	13,469		6,483	(732)	575,143
FUND BALANCES, at July 1, 2003	<u>219,244</u>	<u>392,325</u>	<u>6,325</u>	<u>215,640</u>	<u>1,946</u>	<u>835,480</u>
FUND BALANCES at June 30, 2004	<u>\$ 775,167</u>	<u>\$ 405,794</u>	<u>\$ 6,325</u>	<u>\$ 222,123</u>	<u>\$ 1,214</u>	<u>\$ 1,410,623</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**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, 2004

Total Net Change in Fund Balances - Governmental Funds **\$ 575,143**

Amounts reported for governmental activities in the *Statement of Activities* are different because:

Governmental funds report capital asset outlays as expenditures. However, in the *Statement of Activities* the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital asset outlays net of reimbursements exceeded depreciation expense in the current period.

Capital asset outlays	\$	561,341	
Less disposals		<u>(133,908)</u>	
		427,433	
Depreciation expense		<u>(352,493)</u>	
Excess of capital asset outlays over depreciation expense			74,940

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. (30,797)

Change in Net Assets of Governmental Activities **\$ 619,286**

The accompany Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Statement of Fiduciary Net Assets

June 30, 2004

ASSETS

Cash and cash equivalents	<u>\$ 11,225,981</u>
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TOTAL ASSETS	<u>\$ 11,225,981</u>
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LIABILITIES

Bid Bonds Deposits	\$ 17,761
Amtrak Funds Payable	<u>11,208,220</u>

TOTAL LIABILITIES	<u>\$ 11,225,981</u>
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The accompanying Notes to Financial Statements are an integral part of this statement.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(1) Organization and Reporting Entity

Background - The State of Hawaii, Department of Transportation was formed shortly after Hawaii became a state in 1959. It has three division, Airports, Harbors and Highways, which are supported by 10 departmental staff offices. The State of Hawaii, Department of Transportation - Administration Division (Division) also known as the office of business management, consist 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 Office (STP) is responsible for the administration of certain Federal Transit Administration (FTA) and Federal Highway Administration (FHWA) federal grants awarded to the Department of Transportation.

Reporting Entity - The Division's financial statements reflect only its portion of the fund type categories. The State Comptroller maintains the central accounts for all of the State's funds and publishes financial statements for the State annually, which includes the Division's financial activities.

(2) Summary of Significant Accounting Policies

The accompanying financial statements are presented in accordance with the pronouncements of the Governmental Accounting Standards Board (GASB). The following is a summary of the significant accounting policies followed by the Division:

Measurement Focus and Basis of Accounting

Government - Wide Financial Statements - The economic resources measurement focus and the accrual basis of accounting are used to present the government - wide financial

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(2) Summary of Significant Accounting Policies (continued)

statements (*Statement of Net Assets and Statement of Activities*). Under the accrual basis of accounting revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Statement of Net Assets - The *Statement of Net Assets* includes capital assets and long-term liabilities that are excluded from the governmental funds financial statements. The net assets are reported in three categories: invested in capital assets, net of related debt; restricted; and unrestricted.

Statement of Activities - The *Statement of Activities* reports expenses and revenues in a format that focuses on the cost of the Division's programs. Revenues are classified as either program revenues or general revenues. Program revenues include grants and contributions that are restricted to meeting the operational and capital requirements of a particular function. Revenues that are not classified as program revenues are presented as general revenues.

Governmental Funds Financial Statements - The current financial resources measurement focus and the modified accrual basis of accounting are used by the governmental funds and the Agency Fund. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they are measurable and available. *Measurable* means that the amount of the transaction can be determined and *available* means that the amount is collected within the current period or soon enough thereafter to be used 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.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(2) Summary of Significant Accounting Policies (continued)

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

Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures and expenditures related to claims and judgments, are recorded only when payment is due.

Fund Accounting - The accounts of the Division are organized on the basis of funds, each of which are considered to be separate accounting entities. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The financial activities of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures, as appropriate.

The Division's funds are classified into two broad categories: *Governmental and Fiduciary*. Each category is subdivided into *fund type*.

Governmental Fund Type

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 Highways Administration (FHWA), Federal Transit Administration (FTA) and those between the Division and FTA prior to the enactment of the Intermodal Surface Transportation Efficiency Act of 1991.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(2) Summary of Significant Accounting Policies (continued)

Fiduciary Fund Type

Agency Fund - The 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 DOT and restricted AMTRAK fund in accordance with the Taxpayer Relief Act of 1997. These assets can only be used or applied if certain requirements are met. The Division's fiduciary activities are reported in a separate "Statement of Fiduciary Net Assets". These activities are excluded from the Division's other financial statements because the Division cannot use these assets to finance its operations.

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Encumbrances - Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. The Division reports encumbrances outstanding at fiscal year-end as reservations of fund balances since they do not constitute expenditures or liabilities. The commitments will be honored in the subsequent fiscal year.

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.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(2) Summary of Significant Accounting Policies (continued)

On a quarterly basis, the divisions of DOT transfers their pro-rata share of their budgetary appropriation to cover their share of the operating expenses incurred by the Division. The unencumbered cash balances at the end of each fiscal year is transferred back to the respective divisions in accordance with their pro-rata share percentage. Included in the Statement of Net Assets, *Due to Other Divisions and funds* of \$2,131,887 is \$848,147 of unencumbered cash balances due to the other divisions of the D.O.T. as of June 30, 2004. The \$1,787,125 reflected as *Other financing sources - Transfers, net* is the amount of unencumbered cash balances transferred back to the other divisions and other funds during 2004.

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.

Cash and Cash Equivalents - Cash and cash equivalents include cash held in the State Treasury. The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury (cash pool). The HRS authorizes the Director of Finance to invest in obligations of or guaranteed by the U. S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

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

For purposes of the financial statements, the Division considers all cash held in the State Treasury and investments with a maturity of three months or less when purchased to be cash equivalents.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(2) Summary of Significant Accounting Policies (continued)

Capital Assets - Capital assets are defined by the Division as furniture and equipment and those assets with estimated useful lives greater than one year and acquisition costs greater than \$5,000.

Purchased and constructed assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts with any resulting gain or loss reflected in operations.

Depreciation - Depreciation expense is recorded in the *Statement of Activities*. The Division utilizes the straight-line method over the assets' estimated useful lives. No depreciation is recorded for land and construction in progress. The estimated useful lives for furniture and equipment is 7 years.

Vacation Pay - The Division's employees, with certain exceptions, earn vacation leave at the rate of one and three-quarters working days for each month of service. Employees who are entitled to annual vacation may accumulate, for the succeeding year or years, up to fifteen working days of their annual vacation allowance to a maximum of ninety days. Accumulated vacation leave, earned but not taken, is reflected as an accrued liability based on current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in the *Statement of Net Assets*, in accordance GASB Statement No. 16, *Accounting for Compensated Absences*. When termination of employment takes place, employees are paid their vacation allowance in a lump sum.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(3) Budgeting and Budgetary Control

The Division follows these procedures in establishing the budgetary data reflected in the financial statements:

Budget - Not less than 20 days before the Legislature convenes in every odd-numbered year, the Governor submits to the Legislature, and to each member thereof, a budget which contains the program and budget recommendations of the Governor for the succeeding two fiscal years. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next two fiscal years to carry out the recommended programs; a summary of the State receipts and revenue in the last completed fiscal year; a revised estimate for the fiscal year in progress, and an estimate for the succeeding biennium.

- **Legislative Review** - The Legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's proposed recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance (B&F) and any agency to conduct such analysis of programs and finances as well as assist in determining the State's program and financial plan and budget.

Program Execution - Except as limited by policy decisions of the Governor, appropriations by the Legislature, and other provisions of law, the several agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the Legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriation act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the Legislature.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(3) Budgeting and Budgetary Control (continued)

The budgets are prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The actual results of operations are presented on the budgetary basis in budgetary comparison statement (non-GAAP budgetary basis) to provide a meaningful comparison of actual results to the budget.

The major differences between the budgetary and GAAP basis are: encumbrances are recorded as the equivalent of expenditures as opposed to a reservation of fund balance; federal grant revenues are recognized when received; and expenditures relating to accrued liabilities are recognized when paid.

Adjustments necessary to convert the results of operations and fund balances for the year ended June 30, 2004 from the GAAP basis to the budget basis are as follows:

Excess of revenues over expenditures and transfers- GAAP basis	\$ 575,143
Increase (decrease) in revenues:	
Current year's receivables	(153,198)
Prior year's receivables	14,160
Prior year's deferred revenues	(8)
	436,097
Increase(decrease) in expenditures:	
Current year's accrued liabilities	(462,801)
Prior year's accrued liabilities	436,820
Current year's encumbrance	1,697,151
Prior year's encumbrance, net of adjustments	(1,315,201)
	355,969
Excess of revenues over expenditures and transfers, budgetary basis	\$ 80,128

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(4) Capital Assets

Capital assets activity for the fiscal year ended June 30, 2004 was as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2004</u>
Capital assets:				
Furniture and equipment	\$ 4,013,342	\$ 561,341	\$ 332,624	\$ 4,242,059
Vehicles	<u>10,764</u>		<u>10,764</u>	<u>-</u>
Total capital assets	<u>4,024,106</u>	<u>561,341</u>	<u>343,388</u>	<u>4,242,059</u>
Less accumulated depreciation for:				
Furniture and equipment	2,687,831	352,493	198,716	2,841,608
Vehicles	<u>10,764</u>	<u>-</u>	<u>10,764</u>	<u>-</u>
Total accumulated depreciation	<u>2,698,595</u>	<u>352,493</u>	<u>209,480</u>	<u>2,841,608</u>
Total capital assets, net	<u>\$ 1,325,511</u>	<u>\$ 208,848</u>	<u>\$ 133,908</u>	<u>\$ 1,400,451</u>

(5) Retirement Benefits

All eligible employees of the Division are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

The ERS issues a comprehensive annual financial report that is available to the public. The report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION-
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(5) Retirement Benefits (continued)

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new non-contributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the non-contributory option. The non-contributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new non-contributory option and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory options, respectively.

Both options provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 19 years from July 1, 1997.

The State's contribution requirement as of June 30, 2003, the most recent information available, was approximately \$158,622,334. The State contributed 100% of its required contribution for 2003. The Division's covered payroll for the fiscal year ended June 30, 2004 was approximately \$1,381,500.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(6) Post-Retirement Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50 percent of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50 percent of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care premium.

Also, free life insurance coverage for retired employees and free dental coverage for dependents under age 19 are available. Retirees covered by medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are financed on a pay-as-you-go basis. The Division's share of the expense for post-retirement benefits for the fiscal year ended June 30, 2004 is \$335,563.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Notes to Financial Statements

For the Year Ended June 30, 2004

(7) Contingencies

Accumulated Sick Leave

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2004, accumulated sick leave, based on current salary rates, including additional amounts for certain salary-related payments associated with the payment of compensated absences, in accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, was \$4,117,210.

Reserve for Losses

The Division has retained all risks of loss for unemployment and workers' compensation claims. An estimate of the expense for such claims, if any, is not included in the financial statements, since the amounts of loss cannot be reasonably estimated. Claims are expensed when incurred. There were no payments for unemployment and workers' compensation claims during the fiscal year ended June 30, 2004.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all state employees, permits employees to defer a portion of their compensation 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 the State's general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the Plan, but does have the duty of due care that would be required of an ordinary prudent investor.

SUPPLEMENTARY FINANCIAL INFORMATION

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

**Budgetary Comparison Statement (Non-GAAP
Budgetary Basis) - Special Revenue Fund**

Year Ended June 30, 2004

	<u>Budget</u>	<u>Actual</u>	Variance - Favorable <u>(Unfavorable)</u>
Revenues			
Assessments	\$ 11,922,643	\$ 11,922,643	\$ -
Federal grant revenue	14,658,141	1,918,502	(12,739,639)
Other	<u>343,961</u>	<u>144,401</u>	<u>(199,560)</u>
Total revenues	<u>26,924,745</u>	<u>13,985,546</u>	<u>(12,939,199)</u>
Expenditures			
Personal services	7,383,151	6,188,926	1,194,225
Other	<u>19,541,594</u>	<u>5,929,366</u>	<u>13,612,228</u>
Total expenditure	<u>26,924,745</u>	<u>12,118,292</u>	<u>14,806,453</u>
Excess of revenues Over expenditures		1,867,254	1,867,254
Transfers to other DOT Divisions		<u>(1,787,126)</u>	<u>(1,787,126)</u>
Excess of revenues over expenditures and transfers	<u>\$ _____</u>	<u>\$ 80,128</u>	<u>\$ 80,128</u>

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Schedule of Expenditures of Federal Awards

June 30, 2004

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>
Federal Transit Administration:				
Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas:				
	20.509			
10/01/91 - 09/30/92		HI-18-X009	\$ 267,819	\$ 34,419
10/01/92 - 09/30/93		HI-18-X010	475,519	50,127
10/01/93 - 09/30/94		HI-18-X011	1,704,732	38,848
10/01/94 - 09/30/95		HI-18-X012	2,950,903	116,859
10/01/95 - 09/30/96		HI-18-X013	1,555,297	90,923
10/01/97 - 09/30/00		HI-18-X015	3,010,000	286,761
10/01/97 - 09/30/00		HI-18-X016	513,066	5,829
03/30/99 - 12/31/03		HI-18-X017	588,653	37,902
09/01/99 - 12/31/00		HI-18-X019	770,187	132,963
09/29/00 - 10/31/01		HI-18-X020	710,639	160,009
09/30/02 - 10/31/05		HI-18-X021	1,493,939	151,893
09/30/02 - 10/31/06		HI-18-X022	<u>2,034,065</u>	<u>575,544</u>
			<u>16,074,819</u>	<u>1,682,077*</u>
Capital assistance grants to assist in providing transportation services for elderly and the handicapped				
	20.513			
10/01/98 - 09/30/99		HI-16-0025	335,013	1,034
10/01/99 - 09/30/00		HI-16-0026	353,839	2,837
09/30/00 - 10/30/01		HI-16-0027	<u>376,045</u>	<u>1,547</u>
			<u>1,064,897</u>	<u>5,418</u>

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
ADMINISTRATION DIVISION**

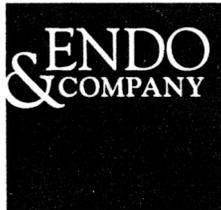
Schedule of Expenditures of Federal Awards

June 30, 2004

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>
Federal Highway Administration:				
Grant to assist in the development of an integrated, interconnected transportation system:	20.205			
10/01/93 - 09/30/94		CM-1500(8)	2,804,438	3,300
10/01/01 - 09/30/02		SPR-0010(24)	2,661,639	8,554
10/01/02 - 09/30/03		SPR-0010(25)	2,379,738	122,506
10/01/03 - 09/30/04		SPR-0010(26)	<u>4,837,312</u>	<u>188,230</u>
			<u>12,683,127</u>	<u>322,590</u>
Total Federal Financial Assistance			<u>\$ 29,822,843</u>	<u>\$ 2,014,085</u>

*Denotes major program expenditures

**REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING**



CERTIFIED
PUBLIC
ACCOUNTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Director of Transportation
State of Hawaii
Department of Transportation
Administration Division

We have audited the financial statements of the

**STATE OF HAWAII,
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION (Division),**

as of and for the year ended June 30, 2004, and have issued our report thereon dated November 8, 2004. 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.

Compliance

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 grants, 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 instance of noncompliance that is required to be reported under *Government Audit Standards*.

1357 Kapiolani Boulevard
Suite 1005
Honolulu, Hawaii 96814
Phone (808) 941-4811
Fax (808) 941-5035

94-239 Waipahu Depot Street
Suite 201B
Waipahu, Hawaii 96797
Phone: (808) 676-2344
Fax: (808) 676-2323

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Division's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

This report is intended solely for the information and use of the management of the Division, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Euro & Company

November 8, 2004
Honolulu, Hawaii

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A- 133**



CERTIFIED
PUBLIC
ACCOUNTANTS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A- 133**

To the Director of Transportation
State of Hawaii
Department of Transportation
Administration Division

Compliance

We have audited the compliance of the

**STATE OF HAWAII,
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION (Division),**

with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Division's management. Our responsibility is to express an opinion on the Division's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB

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Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Division's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Division's compliance with those requirements.

In our opinion, the Division complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Division is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Division's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned function. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, 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.



Endo & Company
Honolulu, Hawaii
November 8, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Schedule of Prior Year Audit Findings and Questioned Cost

Year Ended June 30, 2004

Status of Prior Year Comments

There were no audit findings and questioned costs reported for the year ended June 30, 2003.

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Schedule of Audit Findings and Questioned Cost

Year Ended June 30, 2004

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued

- | | |
|--|-----------------------------------|
| 1. Internal control over financial reporting: | <u>Unqualified</u> |
| 2. Material weaknesses identified?
Reportable condition identified that is not considered
to be material weakness? | <u>No</u>
<u>None reported</u> |
| 3. Noncompliance material to financial statements noted? | |

Federal Awards:

- | | |
|--|-----------------------------------|
| 1. Internal control over major program:
Material weaknesses identified?
Reportable condition identified that is not considered
to be material weakness? | <u>No</u>
<u>None reported</u> |
| 2. Type of auditor's report issued on compliance for
major program: | <u>Unqualified</u> |
| 3. Any audit findings disclosed that are required to be
reported in accordance with Section 510(a) of
Circular A-133? | |

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION
Schedule of Audit Findings and Questioned Cost**

Year Ended June 30, 2004

Section I - Summary of Auditor's Results (continued)

4. Identification of major program:

a. 20.509 - Federal Transit Administration: Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas; 20.513 - Federal Transit Administration: Capital assistance grants to assist in providing transportation services for the elderly and the handicapped; 20.500 - Federal Transit Administration: Financial, operating, and technical assistance in providing mass transportation service in urban areas.

b. Dollar threshold used to distinguish between type A and type B programs:

\$300,000

c. Auditee qualified as low-risk auditee?

Yes

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Findings and Questioned Costs

No matters were reported.

CORRECTIVE ACTION PLAN

**STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION -
ADMINISTRATION DIVISION**

Corrective Action Plan

June 30, 2004

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2004.