

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

FINANCIAL AND COMPLIANCE AUDIT

For the Year Ended June 30, 2010

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

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PART I
TRANSMITTAL

CW Associates

A Hawaii Certified Public Accounting Corporation

CARLETON L. WILLIAMS, MANAGING PARTNER

March 28, 2011

The Auditor
State of Hawaii

We have completed our financial audit of the State of Hawaii Department of Transportation, Administration Division (the "Division") as of and for the fiscal year ended June 30, 2010. The audit was performed in accordance with our agreement, dated June 28, 2010, with the Auditor, State of Hawaii, 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

The primary purpose of our audit was to form an opinion on the fair presentation of the Division's financial statements as of and for the fiscal year ended June 30, 2010, and to comply with the requirements of OMB Circular A-133. More specifically, the objectives of our audit were as follows:

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

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; the *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The scope of our audit included an examination of the transactions and accounting records of the Division for the fiscal year ended June 30, 2010.

ORGANIZATION OF THE REPORT

This report is organized into six parts:

PART I – presents the transmittal letter

PART II – presents management’s discussion and analysis

PART III – presents the financial section which includes the Division’s financial statements and the auditors’ report on such statements and supplementary financial information

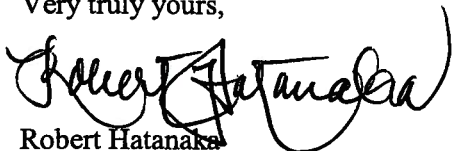
PART IV – contains the reports on internal controls over financial reporting and compliance.

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

PART VI – contains the corrective action plan

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

Very truly yours,



Robert Hatanaka
Partner

PART II
MANAGEMENT'S DISCUSSION AND ANALYSIS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2010

This section of the annual financial report presents management's discussion and analysis of the Division's financial performance during the fiscal year ended June 30, 2010. It should be read in conjunction with the Division's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The Division's total net assets were \$2,505,000 at June 30, 2010, which was an increase of \$1,290,000 or 106.2% above the prior year. The increase is primarily attributable to a decrease in administrative costs of \$1,308,000.
- The Division's investment in capital assets of \$1,030,000 at June 30, 2010 decreased by \$461,000 or 30.9% for the year primarily due to the annual depreciation provision.
- The Division's current liabilities were \$7,349,000 at June 30, 2010 which was a decrease of \$173,000 or 2.3% for the year primarily due to decreases in accounts payable as of June 30, 2010.
- Total revenues were \$21,118,000 for the year ended June 30, 2010 which was an increase of \$4,008,000 or 23.4% above the prior year primarily attributable to an increase in Federal grant revenues.

OVERVIEW OF FINANCIAL STATEMENTS

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

The *Statement of Net Assets* presents the Division's assets and liabilities, with the difference between two reported as "net assets". This statement reflects the financial position of the Division as of its fiscal year.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2010

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

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

The Division has two types of funds:

- **Governmental Funds:**

Special Revenue Funds – 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).

- **Fiduciary Funds:**

Agency Funds – 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 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 financial statements.

Other Reports

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2010

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Government-wide Financial Analysis

The Statement of Net Assets reflects the Division's financial condition at the end of the fiscal year. As of June 30, 2010, the Division's total net assets were \$2,505,000.

The following presents a summarized comparison of net assets and changes in net assets for the fiscal years ended June 30, 2010 and 2009 rounded to the nearest \$1,000.

	<u>2010</u>	<u>2009</u>
ASSETS		
Current	\$ 9,853,000	\$ 8,179,000
Capital assets net of depreciation	<u>1,030,000</u>	<u>1,491,000</u>
 Total assets	 <u>\$ 10,883,000</u>	 <u>\$ 9,670,000</u>
 LIABILITIES		
Current	\$ 7,349,000	\$ 7,522,000
Long-term	<u>1,029,000</u>	<u>933,000</u>
Total liabilities	<u>8,378,000</u>	<u>8,455,000</u>
 NET ASSETS		
Invested in capital assets, net of related debt	1,030,000	1,491,000
Restricted	3,358,000	4,779,000
Unrestricted (deficit)	<u>(1,883,000)</u>	<u>(5,055,000)</u>
Total net assets	<u>2,505,000</u>	<u>1,215,000</u>
 Total liabilities and net assets	 <u>\$ 10,883,000</u>	 <u>\$ 9,670,000</u>

The Net Assets of the Division increased by \$1,290,000 in 2010 or 106.2%. Investment in capital assets (such as furniture and fixtures) and restricted funds for transportation projects, represent 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 settle any liabilities. The remaining restricted assets of \$3,358,000 and \$4,779,000 at June 30, 2010 and 2009, respectively, represents resources that are subject to external restrictions or enabling legislation on how they may be used. Unrestricted assets reflect deficits of \$1,883,000 and \$5,055,000 at June 30, 2010 and 2009, respectively.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2010

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

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

	<u>2010</u>	<u>2009</u>
Revenues		
Assessments	\$ 13,905,000	\$ 13,995,000
Federal grant revenues	6,642,000	3,301,000
Other	571,000	243,000
Total	<u>21,118,000</u>	<u>17,539,000</u>
Expenses		
Administration	11,635,000	13,372,000
Operating grants	6,642,000	3,301,000
Total	<u>18,277,000</u>	<u>16,673,000</u>
Excess before transfers	2,841,000	866,000
Transfers	<u>(1,551,000)</u>	<u>(2,558,000)</u>
Change in net assets	1,290,000	(1,692,000)
Net assets - beginning of year	1,215,000	3,144,000
Adjustments	<u>-</u>	<u>(237,000)</u>
Net assets - end of year	<u>\$ 2,505,000</u>	<u>\$ 1,215,000</u>

The Division's federal grant revenues increased by \$3,341,000 or 101.2% and total revenues increased by \$3,579,000 or 20.4% in 2010. Total expenses increased by \$1,604,000 or 9.6%. The significant changes in revenues and expenses during 2010 were primarily attributable to increases in grant revenues and related expenses.

SPECIAL FUND BUDGETARY ANALYSIS

The annual budget for the Division is based on assessments to the Harbors, Highways, and Airport Divisions, as detailed in the Notes to the Financial Statements. The significant differences between budgeted and actual revenues and expenditures in the Special Funds were primarily attributed to increases in federal grant programs. Total revenues differed by \$22,600,000 or 53.8% below budget, and total expenditures were \$26,100,000 or 62.2% below budget.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2010 and 2009, the Division had \$1,030,000 and \$1,491,000, respectively, in capital assets, net of accumulated depreciation. The 2010 amount represents a net decrease of approximately \$461,000 or 30.9% from 2009. There were \$6,000 in additions, which consisted primarily of an air conditioner unit. Disposition and transfers of capital assets totaled \$128,000 for the current year.

Net Capital Assets (Rounded to nearest \$1,000) are as follows:

	<u>2010</u>	<u>2009</u>
Capital assets:		
Furniture and equipment	\$ 4,428,000	\$ 4,549,000
Less accumulated depreciation	<u>3,398,000</u>	<u>3,058,000</u>
 Total capital assets, net	 <u>\$ 1,030,000</u>	 <u>\$ 1,491,000</u>

Debt Administration

The Division did not have any debt financing for 2010 and 2009.

CURRENTLY KNOWN DECISIONS AND FACTS

None

PART III
FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii

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 (the "Division") as of and for the year ended June 30, 2010, 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 an opinion 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 A, 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 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, 2010, 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Division as of June 30, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2011, on our consideration of the Division's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis pages 6 to 10, and budgetary comparison information on page 34 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 inquiries of management regarding the methods 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 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 schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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.

CW ASSOCIATES, CPAs

March 28, 2011

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

STATEMENT OF NET ASSETS – GOVERNMENTAL ACTIVITIES

As of June 30, 2010

Current Assets	
Cash and cash equivalents	\$ 6,731,710
Accounts receivable	<u>3,121,526</u>
Total current assets	<u>9,853,236</u>
Capital assets, net of depreciation	<u>1,029,879</u>
Total assets	<u>10,883,115</u>
Current Liabilities	
Accounts payable	3,162,390
Accrued payroll	293,273
Accrued vacation	537,640
Due to other divisions and funds	<u>3,355,675</u>
Total current liabilities	<u>7,348,978</u>
Long-term liabilities	
Due to general fund	2,550
Accrued vacation	<u>1,026,012</u>
Total long-term liabilities	<u>1,028,562</u>
Total liabilities	<u>8,377,540</u>
Net Assets	
Invested in capital assets	1,029,879
Restricted for transportation projects	3,358,225
Unrestricted (deficit)	<u>(1,882,529)</u>
Total net assets	<u>\$ 2,505,575</u>

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expenses) Revenues and Changes in Net Assets</u>
Governmental activities			
Administration	\$ 11,634,792	\$ -	\$ (11,634,792)
Operating grants	<u>6,641,922</u>	-	<u>(6,641,922)</u>
Total governmental activities	<u>18,276,714</u>	-	<u>(18,276,714)</u>
General revenues			
Assessments			13,905,419
Federal grant revenues			6,641,924
Investment earnings			364,236
Miscellaneous			<u>207,140</u>
Total general revenues			<u>21,118,719</u>
Excess revenues over expenses			2,842,005
Other financing uses – transfers, net			<u>(1,551,147)</u>
Change in net assets			1,290,858
Net assets – beginning of year			<u>1,214,717</u>
Net assets – end of year			<u>\$ 2,505,575</u>

See accompanying notes to financial statements.

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

BALANCE SHEET -- GOVERNMENTAL FUNDS

As of June 30, 2010

	Admini- stration Fund	S-210	Restricted Funds		S-257	S-258	Other Govern- mental Funds	Total Govern- mental Funds
			S-256	S-257				
ASSETS								
Cash and cash equivalents	\$ 5,932,196	\$ 100,001	\$ 501,567	\$ 898	\$ 661		\$ 196,387	\$ 6,731,710
Accounts receivable	<u>3,121,526</u>	-	-	-	-		-	<u>3,121,526</u>
TOTAL ASSETS	<u>\$ 9,053,722</u>	<u>\$ 100,001</u>	<u>\$ 501,567</u>	<u>\$ 898</u>	<u>\$ 661</u>		<u>\$ 196,387</u>	<u>\$ 9,853,236</u>
LIABILITIES								
Accounts payable	\$ 3,162,390	-	-	-	-		-	\$ 3,162,390
Accrued payroll	293,273	-	-	-	-		-	293,273
Due to general funds	2,550	-	-	-	-		-	2,550
Due to other divisions	3,355,675	-	-	-	-		-	3,355,675
Total liabilities	<u>6,813,888</u>	-	-	-	-		-	<u>6,813,888</u>
FUND BALANCES								
Reserved for encumbrances	1,424,650	243,599	374,514	785,547	531		196,387	3,025,228
Unrestricted	815,184	(143,598)	127,053	(784,649)	130		-	14,120
Total fund balances	<u>2,239,834</u>	<u>100,001</u>	<u>501,567</u>	<u>898</u>	<u>661</u>		<u>196,387</u>	<u>3,039,348</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,053,722</u>	<u>\$ 100,001</u>	<u>\$ 501,567</u>	<u>\$ 898</u>	<u>\$ 661</u>		<u>\$ 196,387</u>	<u>\$ 9,853,236</u>

See accompanying notes to financial statements.

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS**

As of June 30, 2010

Total fund balances—governmental funds	\$ 3,039,348
Amounts reported for governmental activities that are different in the Statement of Net Assets due to:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds	1,029,879
Accrued employee benefits payable not reported in the governmental funds	<u>(1,563,652)</u>
Total net assets – governmental activities	<u>\$2,505,575</u>

See accompanying notes to 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, 2010

	Admini- stration Fund	S-210	Restricted Funds		S-257	S-258	Other Govern- mental Funds	Total Govern- mental Funds
			S-256	-				
REVENUES								
Assessments	\$ 13,905,419	-	-	-	-	-	-	\$ 13,905,419
Federal grant revenues	430	74,604	742,456	120	3,941,017	-	1,883,297	6,641,924
Other	374,989	-	-	-	-	-	196,387	571,376
Total	<u>14,280,838</u>	<u>74,604</u>	<u>742,456</u>	<u>120</u>	<u>3,941,017</u>	<u>-</u>	<u>2,079,684</u>	<u>21,118,719</u>
EXPENDITURES								
Personal services	7,370,368	-	-	-	38,073	-	-	7,408,441
Other	3,712,218	133,689	731,496	-	3,850,488	-	1,890,676	10,318,567
Total	<u>11,082,586</u>	<u>133,689</u>	<u>731,496</u>	<u>-</u>	<u>3,888,561</u>	<u>-</u>	<u>1,890,676</u>	<u>17,727,008</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	3,198,252	(59,085)	10,960	120	52,456	-	189,008	3,391,711
OTHER FINANCING SOURCES (USES)								
Transfers in	-	159,086	89,397	-	-	-	5,413	253,896
Transfers out	(1,514,942)	-	-	(14,617)	(275,484)	-	-	(1,805,043)
Total	<u>(1,514,942)</u>	<u>159,086</u>	<u>89,397</u>	<u>(14,617)</u>	<u>(275,484)</u>	<u>-</u>	<u>5,413</u>	<u>(1,551,147)</u>
NET CHANGE IN FUND BALANCES	1,683,310	100,001	100,357	(14,497)	(223,028)	-	194,421	1,840,564
FUND BALANCES AT BEGINNING OF YEAR	556,524	-	401,210	15,395	223,689	-	1,966	1,198,784
FUND BALANCES AT END OF YEAR	<u>\$ 2,239,834</u>	<u>\$ 100,001</u>	<u>\$ 501,567</u>	<u>\$ 898</u>	<u>\$ 661</u>	<u>\$</u>	<u>\$ 196,387</u>	<u>\$ 3,039,348</u>

See accompanying notes to 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, 2010

Total net change in fund balances-governmental funds	\$ 1,840,564
Amounts reported for governmental activities that are different in the Statement of Net Assets due to:	
Net transfers and disposals	\$ 2,946
Depreciation expense	<u>(464,211)</u>
Excess of depreciation expense over capital asset outlays	(461,265)
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>(88,441)</u>
Change in net assets of governmental activities	<u>\$ 1,290,858</u>

See accompanying notes to financial statements.

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

STATEMENT OF FIDUCIARY NET ASSETS

As of June 30, 2010

ASSETS	
Cash and cash equivalents	\$352,857
Accounts receivable – other	<u>29,702</u>
TOTAL ASSETS	<u>\$382,559</u>
LIABILITIES	
Bid bond payable	\$167,127
Amtrak Funds payable	<u>215,432</u>
TOTAL LIABILITIES	<u>\$382,559</u>

See accompanying notes to financial statements.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Division's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements and pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the Division are discussed below.

Reporting entity – the financial statements reflect only the Division's financial activities. 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 assets and the statement of activities report information for all of the nonfiduciary activities of the Division. In general, the effect of interfund activity has been removed from these government-wide statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues. The Division does not allocate general government (indirect) expenses to other functions.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net assets are restricted when legally enforceable enabling legislation places restrictions or are externally imposed by citizens and/or public interest groups. Additionally, restricted net assets are reevaluated 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 net assets. When both restricted and unrestricted resources are available for use, generally it is the Division's policy to use restricted resources first, then unrestricted resources as they are needed.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Governmental Fund Type

The Division reports the following major Governmental Fund:

Special Revenue Fund – this fund is used to account for 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.

Fiduciary Fund Type

The Division reports the following Fiduciary Fund:

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets and Fund Equity – in the government wide financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt, if any; restricted net assets; and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the State or imposed by law through enabling legislation.

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. Portions of fund balances are reserved in the fund financial statement for continuing appropriations which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

Portions of the unreserved fund balances are designated for future capital and operating expenditures. Those designated fund balances represent appropriations which have not been allotted and are established to reflect tentative plans for future use of financial resources.

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

Assessment Revenues – In accordance with Section 30, Chapter 36, of the Hawaii Revised 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, 2010 was \$3,358,225. The \$1,551,147 reflected as *Other financing sources – Transfers, net* is the amount of unencumbered cash balances transferred back to the other divisions and other funds during 2010.

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE A – 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 State generally retains the first \$1,000,000 per occurrence of property losses, and the first \$4 million with respect to general liability claims, and the first \$500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$175 million, except for flood and earthquake which individually is a \$175 million aggregate loss, and terrorism which is \$50 million per occurrence. The annual aggregate for general liability losses and losses due to crime per occurrence is \$10 million each. The State also has an insurance policy to cover medical malpractice risk in the amount of \$25 million per occurrence and \$29 million in the aggregate. The State is generally self-insured for workers' compensation and automobile claims.

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

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

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

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

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

STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents – Cash and cash equivalents includes all cash, repurchase agreements, and U.S. government securities with original maturities of three months or less, and certificates of deposit.

Investments – Investments in U.S. government securities and certificates of deposit are carried at fair value based on quoted market prices. Investments in repurchase agreements are carried at cost. Investments in student loan auction rate securities are reported at fair value, which is generally calculated using the present value of projected cash flows methodology.

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

Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Furniture and equipment	5 – 7 years
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Grants – Revenues for all federal reimbursement-type grants are recorded as receivables when costs are incurred.

NOTE B – BUDGETING AND BUDGETARY CONTROL

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE B – BUDGETING AND BUDGETARY CONTROL (Continued)

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

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

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

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

Budgets adopted by the State Legislature for the General Fund are presented in the general fund statement of revenues and expenditures – budget and actual (budgetary basis). The State's annual budget is prepared on the modified-accrual basis of accounting with several differences, acquired through long-term financing (basis difference) and the accounting for transfers principally related to 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, 2010 from the GAAP basis to the budget basis are as follows:

Excess of revenues over expenditures and transfers, GAAP basis	\$ 1,840,564
Increase (decrease) in revenues:	
Current year receivables	(3,121,526)
Prior year receivables	<u>1,856,835</u>
Total decrease in revenues	<u>(1,264,691)</u>
Increase (decrease) in expenditures:	
Current year accrued liabilities	(3,458,213)
Prior year accrued liabilities	2,200,767
Current year encumbrances, net of adjustments	3,025,227
Prior year encumbrances	<u>(3,152,322)</u>
Total decrease in expenditures	<u>(1,384,541)</u>
Excess of revenues over expenditures and transfers, budgetary basis	<u>\$ 1,960,414</u>

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

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE C – CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury. The Director of Finance pools and invests any monies of the Division, which in the Director's judgment, are in excess of the amounts necessary for meeting the specific requirements of the State. Investment earnings are allocated to the Division based on its equity interest in the pooled monies. Legally authorized investments include obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, certificates of deposits, auction rate securities, and repurchase agreements with federally-insured financial institutions. Pooled invested cash balances included auction rate securities for which an unrealized gain of \$239,093 at June 30, 2010 has been recognized in the accompanying financial statements.

NOTE D – CAPITAL ASSETS

Capital assets activities of the governmental fund financial statements fund for the year ended June 30, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets:</u>				
Furniture and equipment	\$4,548,985	\$ 6,432	\$ 127,689	\$4,427,728
Less accumulated depreciation	<u>3,057,841</u>	<u>464,211</u>	<u>124,203</u>	<u>3,397,849</u>
Capital assets, net of depreciation	<u>\$ 1,491,144</u>	<u>\$ (457,779)</u>	<u>\$ 3,486</u>	<u>\$ 1,029,879</u>

NOTE E – ACCRUED VACATION

At June 30, 2010, accrued vacation consisted of the following:

Balance at June 30, 2009	\$ 1,475,211
Increases	<u>88,441</u>
Balance at June 30, 2010	1,563,652
Less current portion	<u>(537,640)</u>
Total accrued vacation, long-term	<u>\$ 1,026,012</u>

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

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE F – RETIREMENT BENEFITS

Employees' Retirement System

Plan Description

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

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

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

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan will be eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Most of the new employees hired from July 1, 2006 will be required to join the hybrid plan.

Funding Policy

Most covered employees of the contributory plan 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. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE F – RETIREMENT BENEFITS (Continued)

The State's contribution requirements as of June 30, 2009, 2008, and 2007, based on the most recent information available, were approximately, \$387,748,000, \$377,475,000, and \$356,916,000 respectively. The State contributed 100% of its required contributions for those years, respectively. The Division's covered payroll was approximately \$7,501,000 in 2010. The retirement plan contributions charged to the Division's operations were \$815,000 in 2010.

Post-Retirement Health Care and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

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

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Funding Policy and Annual OPEB Cost

On July 1, 2006, the Hawaii Employer-Union Health Benefits Trust (EUTF) implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* (GASB 43). GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires defined benefit OPEB plans that are administered as trust or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE F – RETIREMENT BENEFITS (Continued)

Funding Policy and Annual OPEB Cost (Continued)

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retiree healthcare benefits. Accordingly, the EUTF reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB 10), as amended.

On July 1, 2007, the State of Hawaii adopted GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions* (GASB 45), which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State's base contribution levels to EUTF are established by statutes. The retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The State's base contribution levels are currently tied to the pay-as-you-go amount necessary to provide current benefits to retirees. The State's annual OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters in GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial over a period not to exceed 30 years. The actuarial methods and assumptions used to compute the ARC are disclosed in the notes to the financial statements of the State of Hawaii's comprehensive annual financial report. The Division's contributions for the years ended June 30, 2010, 2009, and 2008 were \$364,000, \$518,000, and \$431,000, respectively.

For the year ended June 30, 2010, the estimated total annual required contribution of \$890,510,000 was recognized for post-retirement health care and life insurance benefits by the State of which an estimated \$224,625,000 was paid in 2010 and an estimated net OPEB obligation of \$1,028,854,000 remained at June 30, 2010. The Division's estimated share of the total annual required contribution was \$1,278,900, of which an estimated \$364,000 was paid in 2010 and an estimated net obligation of \$2,555,000 remained at June 30, 2010.

The estimated amounts were provided to the Division by the State of Hawaii Department of Accounting and General Services. The final amounts for post-retirement health care and life insurance benefits for the year ended June 30, 2010 for the annual required contribution, the annual required contribution paid, and the net OPEB obligation remaining are included in the State of Hawaii's Comprehensive Annual Financial Report.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended June 30, 2010

NOTE G COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarter working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves the government service in good standing with 60 days of more of unused sick leave is entitled to additional service credit in the ERS. The Division's accumulated sick leave as of June 30, 2010, was approximately \$5,379,000.

NOTE H – FINANCIAL STATEMENT PRESENTATION

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued. The State of Hawaii, Department of Transportation Administration 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 State of Hawaii, Department of Transportation Administration Division, from such changes in economic conditions, if any, are not presently determinable.

**SUPPLEMENTARY FINANCIAL
INFORMATION**

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

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

For the Year Ended June 30, 2010

	<u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
REVENUES			
Assessments	\$ 14,669,319	\$ 13,905,419	\$ (763,900)
Federal grant revenues	26,972,992	4,938,316	(22,034,676)
Other	<u>396,437</u>	<u>571,376</u>	<u>174,939</u>
TOTAL REVENUES	<u>42,038,748</u>	<u>19,415,111</u>	<u>(22,623,637)</u>
EXPENDITURES			
Personal services	9,747,564	7,227,399	2,520,165
Other	<u>32,291,184</u>	<u>8,676,151</u>	<u>23,615,033</u>
TOTAL EXPENDITURES	<u>42,038,748</u>	<u>15,903,550</u>	<u>26,135,198</u>
EXCESS OF REVENUES OVER EXPENDITURES	-	3,511,561	3,511,561
TRANSFERS TO OTHERS	<u>-</u>	<u>(1,551,147)</u>	<u>(1,551,147)</u>
EXCESS OF REVENUES OVER EXPENDITURES AND TRANSFERS	<u>\$ -</u>	<u>\$ 1,960,414</u>	<u>\$ 1,960,414</u>

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2010

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>
<u>Federal Transit Administration:</u>				
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			
09/30/04 - 10/31/05		HI-03-0034	\$ 12,613,841	\$ 168,258
09/30/05 - 10/31/06		HI-03-0038	14,684,170	258,601
09/30/05 - 10/31/06		HI-03-0039	6,281,494	192,954
09/30/06 - 10/31/07		HI-03-0044	4,800,000	627,287
01/01/09 - 06/30/10		HI-04-0002	1,920,800	510,400
09/30/06 - 10/31/07		HI-04-0003	3,960,000	796,481
			<u>44,260,305</u>	<u>2,553,981</u>
Planning programs	20.505			
10/01/09 - 09/30/10		HI-80-0018	259,115	74,603
			<u>259,115</u>	<u>74,603</u>
Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas	20.509			
09/29/00 - 10/31/01		HI-18-X020	710,639	25,154 *
09/30/02 - 10/31/03		HI-18-X021	1,493,939	-
09/30/03 - 10/31/04		HI-18-X022	2,034,065	76,215 *
09/30/05 - 10/31/06		HI-18-X024	1,118,873	-
09/30/06 - 10/31/07		HI-18-X025	1,719,756	44,176 *
09/30/07 - 10/31/08		HI-18-X026	1,810,778	426,874 *
09/30/08 - 10/31/09		HI-18-X027	3,986,978	768,636 *
ARRA		HI-86-X001	2,933,435	1,883,297 *
			<u>15,808,463</u>	<u>3,224,352</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, 2010

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Current Year Expenditure Amount</u>
<u>Federal Transit Administration (Continued):</u>				
Capital assistance grant to assist in providing transportation services for elderly and the handicapped 09/29/06 - 10/31/07	20.513	HI-16-0033	\$ 558,579	\$ 224
10/02/09 - 09/30/11		HI-16-0034	<u>585,120</u>	<u>40,767</u>
			<u>1,143,699</u>	<u>40,991</u>
Job Access and Reverse Commute Program for capital planning and operating expenses for projects that transport low income individuals to and from jobs and activities related to employment, and for reverse commute projects	20.516	HI-37-X003	<u>238,729</u>	<u>3,447</u>
			<u>238,729</u>	<u>3,447</u>
New Freedom Program for capital and operating expenses for new public transportation services and new public transportation alternatives beyond those required by the Americans with Disabilities Act of 1990 (ADA), that are designed to assist individuals with disabilities	20.521	HI-57-X003	<u>134,582</u>	<u>2,092</u>
			<u>134,582</u>	<u>2,092</u>
<u>Federal Highway Administration:</u>				
Grant to assist in the development of an integrated, interconnected transportation system	20.205			
10/01/06 - 09/30/07		SPR-0010(29)	764,927	215,896 *
10/01/07- 09/30/08		SPR-0010(30)	521,400	357,260 *
10/01/07- 09/30/08		SPR-0010(31)	488,108	155,276 *
10/01/08- 09/30/09		SPR-0010(32)	<u>72,800</u>	<u>14,024 *</u>
			<u>1,847,235</u>	<u>742,456</u>
Total Federal Financial Assistance			<u>\$ 63,692,128</u>	<u>\$ 6,641,922</u>

* Denotes major program expenditures

PART IV
INTERNAL CONTROL AND COMPLIANCE SECTION

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

The Auditor
State of Hawaii

We have audited the financial statements of State of Hawaii Department of Transportation, Administration Division (the "Division") as of and for the year ended June 30, 2010, and have issued our report thereon dated March 28, 2011. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Division's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Division's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over financial reporting.

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 misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*.

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.

CW ASSOCIATES, CPAs

March 28, 2011

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

The Auditor
State of Hawaii

Compliance

We have audited the compliance of State of Hawaii Department of Transportation, Administration Division (the "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, 2010. The Division's major federal programs are identified in the summary of audit 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 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.

As described in item 2010-1 in the accompanying schedule of findings and questioned costs, the Division did not comply with requirements regarding timely filing of required reports that are applicable to its *Grant To Assist In The Development Of An Integrated, Interconnected Transportation System* (CFDA No. 20.205). Compliance with such requirement is necessary, in our opinion, for the Division to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2010.

Internal Control over Compliance

The management of the Division is responsible for establishing and maintaining effective internal control 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 the 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 internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Division's internal control over compliance.

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 deficiencies, significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as *Item #2010-1* to be a deficiency in internal control.

The Division's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Division's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and used 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.

CW ASSOCIATES, CPAs

March 28, 2011

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, 2010

Status of Prior Year Comments

There were no audit findings and questioned costs reported for the year ended June 30, 2009.

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

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2010

SECTION I- SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

Type of auditors' report issued:

- | | |
|--|----------------------|
| 1. Internal control over financial reporting: | <u>Unqualified</u> |
| 2. Material weakness 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 programs:
Material weakness identified?
Reportable condition identified that is not considered to be material weakness? | <u>No</u>

<u>None reported</u> |
| 2. Type of auditors; report issued on compliance for major programs: | <u>Unqualified</u> |
| 3. Any audit findings disclosed that are required to be reported in accordance with section 501(a) of Circular A-133? | <u>See below</u> |
| 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: 20.205 – Federal Highway Administration: Grant to assist in the development of an integrated, interconnected transportation system | |
| b. Dollar threshold used to distinguish between type A and type B programs: | <u>\$300,000</u> |
| c. Auditee qualified as low-risk auditee? | <u>Yes</u> |

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

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

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

For the Year Ended June 30, 2010

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

In the current year, the auditors expressed an unqualified opinion on compliance for the major federal award programs. No deficiencies or combinations of deficiencies material to internal control over compliance were reported by the auditors in the current year.

Compliance

Grant To Assist In The Development Of An Integrated, Interconnected Transportation System CFDA No. 20.205

Reference Number – Item #2010-1

Criteria – The Department of Transportation, Administration Division is required to comply with the reporting requirements of the grant provisions. Financial status reports are due thirty days after the reporting period.

Statement of Condition – Quarterly performance reports for the grants in this program were neither completed nor filed in a timely manner. The reports for the period April – September 2009 were filed in June 2010. The reports for the period October – December 2009 were filed in June 2010. The reports for the period January – March 2010 were not filed as of date of fieldwork in November 2010.

Questioned Costs – none.

Cause and Effect – Management indicated that the delinquent filings were due to lack of staffing and greater workloads resulting in difficulty in complying with established procedures. The effect of failing to comply with the reporting requirements may impact the low-risk auditee status of the Division.

Recommendation – Consider monitoring reporting dates for all grants to comply with grant reporting requirements.

Response – Meeting the reporting requirements has failed due to lack of staffing and greater workloads. The State Transportation Planning Office (STP) will continue to monitor the reporting requirements for all grants to ensure the timeliness of its report filings.

PART VI
CORRECTIVE ACTION PLAN



STATE OF HAWAII
DEPARTMENT OF TRANSPORTATION
869 PUNCHBOWL STREET
HONOLULU, HAWAII 96813-5097

IN REPLY REFER TO:
BUS 6.9447

CORRECTIVE ACTION PLAN

March 28, 2011

The Department of Transportation, Administration Division respectfully submits the following corrective action plan for the year ended June 30, 2010.

Name and address of independent public accounting firm: CW Associates CPAs

Audit period: Year ended June 30, 2010

The findings from the year ended June 30, 2010 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FINANCIAL STATEMENT AUDIT

None noted

SIGNIFICANT DEFICIENCY

None noted

MATERIAL WEAKNESS

None noted

FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDITS

Federal Highway Administration:

- 2010-1 Grant to assist in the development of an integrated, interconnected transportation system
- CFDA No. 20.205; Grant No. SPR- 0010(32) and Grant No. SPR-0010(29)

Recommendation:

To avoid delinquent filing of reports to the Federal Highway Administration, the Department of Transportation, Administration Division should consider appointing a monitor who oversees the timely preparation and submission of reports required by grant agreements

Action Taken:

Since the date of the exit conference, we noted quarterly reports being submitted however timely submission has not been achieved. We have met with the officials and employees responsible for completion and the filing of the performance reports. We discussed with the officials and employees the importance of not only completing the documentation, but also the importance of its timely filing.

If the Federal Highway Administration has questions regarding this plan, please call Dean Nakagawa at 808-831-7968.

Sincerely yours,



GLENN M. OKIMOTO, Ph.D.
Director of Transportation