



Financial and Compliance Audit of the
Oahu Metropolitan Planning Organization
July 1, 2004 to June 30, 2005

Submitted by:
The Auditor
State of Hawaii

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PART I
TRANSMITTAL

November 16, 2005

The Auditor
State of Hawaii

We have completed our financial audit of Oahu Metropolitan Planning Organization (OMPO) as of and for the year ended June 30, 2005. The audit was performed in accordance with our agreement with OMPO dated February 5, 2004, our supplemental agreement with the Office of the Auditor dated June 8, 2005, 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 fairness of the presentation of OMPO's financial statements as of and for the fiscal year ended June 30, 2005, and to comply with the requirements of OMB Circular A-133. More specifically, the objectives of our audit were as follows:

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

SCOPE OF THE AUDIT

Our audit was performed in accordance with U.S. generally accepted auditing standards as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of OMPO for the fiscal year ended June 30, 2005.

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 OMPO's financial statements and the auditors' report on such statements and supplementary financial information.

PART IV - contains the reports on internal controls and compliance.

PART V - presents the schedule of findings and questioned costs.

PART VI - contains the corrective action plan.

At this time, we wish to thank OMPO's personnel for their cooperation and assistance extended to us. We will be happy to respond to any questions that you may have on this report.

Very truly yours,

Michael Y. Ichikawa
Principal

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the annual financial report presents an analysis of OMPO's financial performance during the fiscal year ending June 30, 2005. Please read it in conjunction with the financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- OMPO's net assets increased by \$20,000.
- During the fiscal year, OMPO's revenues increased by \$476,000, and expenses increased by \$476,000.

OVERVIEW OF ANNUAL REPORT

This annual report consists of six parts: Transmittal letter; management's discussion and analysis; financial statements, notes to the financial statements and supplementary information that explain in more detail some of the information in the financial statements; the reports on internal controls and compliance; schedules of findings and questioned costs; and the Organization's corrective action plan.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of OMPO present combined information about the Organization as a whole and the activities of its special revenue fund. The financial statements begin with the presentation of fund financial statements which explains how government activities were financed in the short term as well as what resources remain for future spending. These statements were prepared on the modified accrual basis of accounting which reports revenues when both measurable and available and expenditures when the related liabilities are incurred. The fund financial statements were then adjusted to the accrual basis of accounting to present the Organization's activities as a whole. The accrual basis of accounting, which is similar to the accounting used by most private-sector companies, recognizes revenues and expenses regardless of when cash is paid or received.

The Statement of Net Assets includes all of the Organization's asset and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Organization creditors (liabilities). The Statement of Activities reports the Organization's activities and the changes in its net assets as a result of its activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Tables 1 and 2 present a comparative view of net assets and changes in net assets from 2004 to 2005.

TABLE 1
NET ASSETS
(Rounded to nearest \$1,000)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current	\$ 732,000	\$ 883,000
Capital assets, net of accumulated depreciation	<u>4,000</u>	<u>5,000</u>
Total assets	<u>736,000</u>	<u>888,000</u>
LIABILITIES		
Current	526,000	694,000
Long-term	<u>72,000</u>	<u>76,000</u>
Total liabilities	<u>598,000</u>	<u>770,000</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,000	5,000
Unrestricted	<u>134,000</u>	<u>113,000</u>
Total net assets	<u>\$ 138,000</u>	<u>\$ 118,000</u>

Net assets of OMPO in 2005 increased by 16.95% (\$138,000 as compared to \$118,000). Unrestricted net assets, the part of net assets that can be used to finance day to day operations increased by 18.58% (\$134,000 as compared to \$113,000) in 2005.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

TABLE 2
CHANGES IN NET ASSETS
 (Rounded to nearest \$1,000)

	<u>2005</u>	<u>2004</u>
EXPENDITURES/EXPENSES		
Regional transportation forecasting & long-range planning	\$ 621,000	\$ 270,000
Short-range transportation system management/ transportation demand management planning	444,000	219,000
Coordination of planning program	315,000	290,000
Regional transportation monitoring analysis	<u>129,000</u>	<u>254,000</u>
Total expenditures/expenses	<u>1,509,000</u>	<u>1,033,000</u>
REVENUES		
Federal grant contributions	1,126,000	800,000
State and City contributions	383,000	233,000
Interest income	<u>20,000</u>	<u>20,000</u>
Total revenues	<u>1,529,000</u>	<u>1,053,000</u>
INCREASE IN NET ASSETS	<u>\$ 20,000</u>	<u>\$ 20,000</u>

OMPO's total revenues increased by 45.20% in 2005 and total expenses increased by 46.08%. The significant changes in revenue and expenses during 2005 were attributed primarily to increased activity in the Regional transportation forecasting and Short-range planning program and an increase in Federal grant contributions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2005 and 2004, OMPO had \$4,000 and \$5,000 in capital assets, net of accumulated depreciation. There were no dispositions or additions of capital assets for the current year.

Debt

OMPO did not have any outstanding debt for 2005 and 2004.

PART III
FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

The Auditor
State of Hawaii

We have audited the accompanying financial statements of Oahu Metropolitan Planning Organization (OMPO) as of and for the year ended June 30, 2005, as listed in the table of contents. These financial statements are the responsibility of OMPO'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 1, the financial statements of OMPO 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 OMPO. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2005, and the changes in its financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of OMPO as of June 30, 2005, and the respective changes in financial operations, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

COPY

**Original document signed by
Egami & Ichikawa CPAs, Inc.**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2005, on our consideration of OMPO's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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 considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 3 – 5 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 opinions on the financial statements taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the 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 financial statements of OMPO. 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Office of the Auditor, management of OMPO, 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.

Honolulu, Hawaii
November 16, 2005

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 STATEMENT OF NET ASSETS AND
 GOVERNMENTAL FUND BALANCE SHEET
 JUNE 30, 2005

	<u>Special Revenue</u>	<u>Adjustments (Note 1)</u>	<u>Statement of Net Assets</u>
CURRENT ASSETS			
Cash and cash equivalents	\$ 663,786	\$ -	\$ 663,786
Receivable from Federal government	<u>68,260</u>	<u>-</u>	<u>68,260</u>
Total current assets	732,046	-	732,046
NONCURRENT ASSETS			
Capital assets, net of accumulated depreciation	<u>-</u>	<u>3,857</u>	<u>3,857</u>
Total assets	<u>\$ 732,046</u>	<u>\$ 3,857</u>	<u>\$ 735,903</u>
CURRENT LIABILITIES			
Vouchers payable	\$ 123,361	\$ -	\$ 123,361
Advances from other agencies	377,201	-	377,201
Accrued liabilities	<u>20,440</u>	<u>4,377</u>	<u>24,817</u>
Total current liabilities	<u>521,002</u>	<u>4,377</u>	<u>525,379</u>
NONCURRENT LIABILITIES			
Accrued liabilities	<u>-</u>	<u>72,240</u>	<u>72,240</u>
Total noncurrent liabilities	<u>-</u>	<u>72,240</u>	<u>72,240</u>
Total liabilities	<u>521,002</u>	<u>76,617</u>	<u>597,619</u>
FUND BALANCES/NET ASSETS			
Unreserved	<u>\$ 211,044</u>	<u>(211,044)</u>	<u>-</u>
NET ASSETS			
Invested in capital assets, net of related debt		3,857	3,857
Unrestricted		<u>134,427</u>	<u>134,427</u>
Total net assets		<u>\$ 138,284</u>	<u>\$ 138,284</u>

See accompanying notes to financial statements

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
STATEMENT OF ACTIVITY AND GOVERNMENTAL FUND
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
YEAR ENDED JUNE 30, 2005

	<u>Special Revenue</u>	<u>Adjustments (Note1)</u>	<u>Statement of Activity</u>
EXPENDITURES/EXPENSES			
Regional transportation forecasting and long-range planning	\$ 621,485	\$ -	\$ 621,485
Short-range transportation system management/ transportation demand management planning	443,792	-	443,792
Coordination of planning program	315,392	(140)	315,252
Regional transportation monitoring and analysis	128,729	-	128,729
Total expenditures/expenses	<u>1,509,398</u>	<u>(140)</u>	<u>1,509,258</u>
REVENUES			
Federal grant contributions	1,126,538	-	1,126,538
Local contributions:			
City and County of Honolulu	235,816	-	235,816
State of Hawaii	147,042	-	147,042
Interest income	19,748	-	19,748
Total revenues	<u>1,529,144</u>	<u>-</u>	<u>1,529,144</u>
Change in net assets	19,746	140	19,886
FUND BALANCE/NET ASSETS:			
BEGINNING OF THE YEAR	<u>191,298</u>	<u>(72,900)</u>	<u>118,398</u>
END OF THE YEAR	<u>\$ 211,044</u>	<u>\$ (72,760)</u>	<u>\$ 138,284</u>

See accompanying notes to financial statements

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Oahu Metropolitan Planning Organization (OMPO) was established in 1975 by the State Legislature to serve in an advisory capacity to the State Legislature, the City and County of Honolulu (City) Council, and appropriate state and county agencies in carrying out continuing comprehensive and cooperative transportation planning and programming for the island of Oahu as required by federal law.

OMPO's financial statements are prepared in accordance with U.S. generally accepted accounting principals (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements (Statements and Interpretations). Governments are required to follow the 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 OMPO are discussed below.

Reporting entity – the financial statements reflect only OMPO'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 OMPO's financial activities.

Financial statement presentation – OMPO's financial statements include a combined government-wide and fund financial statement. The financial statements begin with the fund financial statements and include an adjustment column that reconciles amounts reported in the fund to an accrual basis of accounting under the government-wide financial statements.

Government-wide – financial statements focus on the sustainability of OMPO as an entity and the change in its net assets resulting in current year's activities. Both the government-wide and fund financial statements categorize the primary activities of OMPO as governmental. All costs are charged directly to programs of OMPO based on use of resources.

Governmental Fund - are those funds through which the acquisition, use and balances of OMPO's expendable financial resources and the related liabilities are accounted. The measurement focus is upon determination of changes in financial position rather than upon net income determination. The following describes OMPO's governmental fund type:

Special Revenue Fund – is used to account for the proceeds of specific revenue sources (other than expendable trusts) 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 OMPO with the U.S. Department of Transportation, Federal Highways Administration (FHWA), Federal Transit Administration (FTA) and those between OMPO and FTA prior to enactment of the Intermodal Surface Transportation Efficiency Act of 1991.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting

Accrual - Government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual - The governmental fund financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

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

Accumulated Vacation and Sick Leave – Employees' vested annual vacation and sick leave are recorded as expenditures when actually taken. The employees of OMPO are entitled to receive cash payment for accumulated vacation leave upon termination. The liability for such accumulated vacation leave pay is reflected in the "adjustment column" of the combined government-wide and fund financial statement. Sick leave is not convertible to pay upon termination of employment and is recorded as an expenditure when taken.

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. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. Other costs incurred for repairs and maintenance are expensed as incurred. 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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STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 JUNE 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. FEDERAL GRANTS

FHWA-PL Grants – The FHWA-PL grants represent apportionments under 23 USC Section 104(f) made to OMPO through the State Department of Transportation – Highways Division. The FHWA-PL grants reimburse 80% of allowable expenditures claimed by OMPO, and the remaining 20% is contributed by OMPO and the participating state and county agencies.

FTA Grants – The FTA grants became effective on the following dates:

<u>Grant No.</u>	<u>Date</u>
HI-80-2013	July 13, 2004
HI-80-9013	July 13, 2004
HI-80-2012	February 18, 2004
HI-80-9012	February 18, 2004
HI-80-2011	July 8, 2003
HI-80-9011	July 8, 2003
HI-80-2010	July 18, 2002
HI-80-9010	July 18, 2002
HI-80-2009	July 10, 2000
HI-80-9009	July 10, 2000
HI-80-2008	September 08, 1999
HI-80-9008	September 08, 1999

The grants provide for the undertaking of (1) metropolitan planning activities pursuant to 49 USC Section 5303 (previously known as Section 8 of the Federal Transit Act), and (2) state planning and research activities pursuant to 49 USC Section 5313(b) (previously known as Section 26(a)(2) of the Federal Transit Act). Under Sections 5303 and 5313(b) grants, FTA participates in 80% of allowable costs claimed by OMPO. The remaining 20% is contributed by OMPO and the participating state and county agencies.

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 JUNE 30, 2005

3. BUDGETING AND BUDGETARY CONTROL

A budget, known as the overall work program (OWP) is prepared by OMPO on an annual basis. The budget and any additions thereto, are approved by OMPO's Policy Committee. The OWP encompasses several projects (work elements), which are worked on over a multi-year period. Amounts shown in the OWP include amounts budgeted for in prior fiscal years and for the current fiscal year. Because OMPO does not operate under a legally adopted budget, as defined by GASB Statement No. 34, budgetary comparison information is not included in the supplementary information.

The portion of the OMPO budget representing amounts allowable under specific FTA grants are financed by current and prior fiscal years' annual grant agreements which were approved, executed, and obligated to OMPO through the State Department of Transportation. At the end of each fiscal year, the unexpended portion of these obligated funds are carried forward to the following fiscal year.

The FTA apportions funds annually for Section 5303 Metropolitan Planning Program and for Section 5313(b) State Planning and Research Program. The apportionment is based on the State's urbanized area population as defined by the U.S. Census Bureau.

The portion of the OMPO budget representing work elements to be fully or partially funded by FHWA is financed by current and prior fiscal years' FHWA apportionments, which were obligated by the State. An obligation is a commitment – the Federal government's promise to pay the State for the Federal share of a project's eligible cost. This commitment occurs when the project is approved and the project agreement is executed. Unobligated FHWA apportionments are available for reprogramming for a period of three years following the federal fiscal year for which it is apportioned.

As of June 30, 2005, the estimated balance of unused FHWA obligated funds amounted to:

<u>Fiscal Year of Apportionment</u>	<u>Balance of Unused Obligation</u>
2000	\$ 127
2001	5,550
2003	4,463
2004	86,991
2005	<u>275,820</u>
	<u>\$ 372,951</u>

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 JUNE 30, 2005

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are held in the State Treasury. The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury (cash pool). The Hawaii Revised Statutes (HRS) authorizes the Director of Finance to invest in obligations of or guaranteed by the U. S. Government, obligations of the State of Hawaii (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 OMPO, which in the Director's judgment, are in excess of the amounts necessary for meeting the specific requirements of the OMPO. Investment earnings are allocated to the OMPO based on its equity interest in the pooled monies. For purposes of the financial statements, OMPO considers all cash held in the State Treasury and investments with a maturity of three months or less when purchased to be cash equivalents.

5. CAPITAL ASSETS

Capital asset activity of the governmental fund for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets:</u>				
Furniture & Equipment	\$ <u>12,000</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>12,000</u>
Total capital assets	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>12,000</u>
Less accumulated depreciation for:				
Furniture & Equipment	<u>7,286</u>	<u>857</u>	<u>-</u>	<u>8,143</u>
Total accumulated depreciation	<u>7,286</u>	<u>857</u>	<u>-</u>	<u>8,143</u>
Capital assets, net of depreciation	\$ <u>4,714</u>	\$ <u>857</u>	\$ <u>-</u>	\$ <u>3,857</u>

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)
 JUNE 30, 2005

6. CHANGES IN NON-CURRENT LIABILITIES

Changes in non-current liabilities were as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within one year</u>
Accrued liabilities	\$ 77,614	\$ 1,176	\$ 2,173	\$ 76,617	\$ 4,377
Total non-current liabilities	<u>\$ 77,614</u>	<u>\$ 1,176</u>	<u>\$ 2,173</u>	<u>\$ 76,617</u>	<u>\$ 4,377</u>

7. RETIREMENT BENEFITS

Employees' Retirement System

All eligible employees of the Fund 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.

Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a non-contributory option for members of the ERS who are also covered under Social Security. Persons who are 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 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.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2005

7. RETIREMENT BENEFITS (Continued)

Most covered employees of the contributory option are required to contribute 7.8% of their salary. Measurement of assets and actuarial valuations are made for the entire ERS and are not separately computed for individual participating employers such as OMPO. 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 27 years from June 30, 2002.

The State's contribution requirement as of June 30, 2004, 2003 and 2002, based on the most recent information available, was approximately \$181,614,000, \$158,622,000, and \$113,984,000 respectively. The State contributed 100% of its required contributions for those years.

Changes in salary growth assumptions and investment earnings pursuant to Act 100, Session Laws of Hawaii (SLH) 1999, decreased the June 30, 2002 and 2001 required contributions. Act 233, SLH of 2002, increased the 2003 contribution by providing a one-time lump-sum pensioner bonus to retirees who were 70 years and older with at least 20 years of credited service as of June 30, 2002. Also Act 284, SLH of 2001, provided an increase in pension benefits effective 2003 to retirees with military service. Contributions by OMPO for the fiscal years ended June 30, 2005, 2004 and 2003 were approximately \$34,000, \$33,000, and \$30,500, at the rates of 13.75%, 9.14%, and 8.87% of annual covered payroll, respectively, which were equal to the required contributions for each fiscal year.

Post-Retirement Health Care and Life Insurance 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% 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% 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% 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.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2005

Contributions are financed on a pay-as-you-go basis. OMPO's share of the expense for post-retirement benefits for the year ended June 30, 2005 was approximately \$26,000.

Effective July 1, 2003, the Hawaii Employer-Union Health Benefit Trust Fund (EUTF) replaced the Hawaii Public employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees, and their dependents.

8. COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit. Sick leave can be taken only in the event of illness and is not convertible to pay upon termination of employment. However, an OMPO 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. The Fund's accumulated sick leave pay is 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*. Accumulated sick leave as of June 30, 2005, amounted to approximately \$392,000.

Deferred Compensation Plan

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

Governmental Accounting Standards Board Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, which was issued October 1997, requires deferred compensation plans to be reported as an expendable trust if they meet the fiduciary fund criteria defined in National Council on Governmental Accounting Statement 1. The State's deferred compensation plan does not meet those criteria. Accordingly, the assets and liabilities of the deferred compensation plan are not reported in the State's or OMPO's financial statements.

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 investment losses, but does have the duty of due care that would be required of an ordinary prudent investor.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)
JUNE 30, 2005

Lease

OMPO leases its office space situated at 707 Richards Street, Oceanview Center, Suite 200, Honolulu, Hawaii. The lease expired September 30, 2003. As of the date of this report, OMPO exercised its option to renew the lease, however, terms have not been finalized and OMPO has continued renting on a month-to-month basis.

Total rent expense for OMPO for the fiscal year ended June 30, 2005, amounted to \$46,792.

9. RISK MANAGMENT

OMPO 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 \$250,000 per occurrence of property losses and the first \$4 million with respect to general liability claims. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence for property losses is \$100 million except for flood and earthquake which is \$25 million and the annual aggregate for general liability losses per occurrence is \$10 million. The State also has an insurance policy to cover medical malpractice risk in the amount of \$20 million per occurrence and 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 estimate 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 combined financial statements and the amount of the loss is reasonably estimable.

SUPPLEMENTARY FINANCIAL
INFORMATION

STATE OF HAWAII
 OAHU METROPOLITAN PLANNING ORGANIZATION
 SCHEDULE OF EXPENDITURES BY AGENCY
 YEAR ENDED JUNE 30, 2005

	<u>DOT</u>	<u>City</u>	<u>OMPO</u>	<u>Total</u>
Regional Transportation Forecasting and Long-Range Planning:				
Forecasting Model Development	-	-	92,454	92,454
Forecasting Model Analysis	-	-	8,121	8,121
Update of the Oahu Regional Transportation Plan	-	-	472,091	472,091
Update of the Transportation Improvement Plan	-	-	31,413	31,413
Multimodal Travel Forecasting Training	-	-	17,385	17,385
Selection of Enhancement Project for Oahu	-	-	21	21
	<u>-</u>	<u>-</u>	<u>621,485</u>	<u>621,485</u>
Short-Range Transportation System Management/ Transportation Demand Management Planning:				
Signal Timing Review	-	1,984	-	1,984
Kaneohe Town Traffic Circulation Study	-	11,181	-	11,181
Manana Sub-Area Traffic Study	-	8,000	-	8,000
Livable Waikiki: Linking Transportation, Land Use and Environment	-	55,300	-	55,300
The Bus Systemwide Survey & Data Collection Prgm	-	171,776	-	171,776
Transit Service Plan, Phase III	-	195,551	-	195,551
	<u>-</u>	<u>443,792</u>	<u>-</u>	<u>443,792</u>
 SUBTOTAL	 \$ -	 \$ 443,792	 \$ 621,485	 \$ 1,065,277

SUBTOTAL	\$	<u>-</u>	\$	<u>443,792</u>	\$	<u>621,485</u>	\$	<u>1,065,277</u>
Coordination of the Planning Program:								
Program Support and Administration		-		-		160,371		160,371
Planning Resource		-		-		37,873		37,873
Overall Work Program		-		-		38,293		38,293
Support for Citizen Advisory Committee		-		-		35,682		35,682
Single audit		-		-		30,817		30,817
Single audit		-		-		5,197		5,197
Disadvantaged Business Enterprise and Private Sector Participation		-		-		7,019		7,019
		<u>-</u>		<u>-</u>		<u>315,252</u>		<u>315,252</u>
Regional Transportation Monitoring and Analysis:								
Investigation of ITS Technology, Collecting CMS Data		-		-		20,934		20,934
2000 Census Data		-		-		1,545		1,545
TEA21 Planning Requirements		-		-		10,109		10,109
Title VI and Environmental Justice Monitoring		-		-		7,874		7,874
Title VI and Environmental Justice Monitoring		-		-		7,237		7,237
Integration of 2000 Census Data in Plng Process		-		29,999		-		29,999
Simulation of Westbound Interstate H-1 Freeway		48,673		-		-		48,673
Maintenance of the Oahu ITS Regional Architecture		-		-		2,358		2,358
		<u>48,673</u>		<u>29,999</u>		<u>50,057</u>		<u>128,729</u>
TOTAL EXPENDITURES BY AGENCY	\$	<u>48,673</u>	\$	<u>473,791</u>	\$	<u>986,794</u>	\$	<u>1,509,258</u>

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/Pass-through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal Expenditure</u>
U.S. Department of Transportation			
Pass-through State Department of Transportation			
Highway Planning and Construction			
FY 2004 OMPO Work Program	20.205	PL-0052(26)	\$ 396,758
FY 2005 OMPO Work Program		PL-0052(27)	<u>500,496</u>
			* <u>897,254</u>
Federal Transit Technical Studies Grant:			
FTA, Section 5303	20.505	HI-80-2008	1,972
FTA, Section 5303		HI-80-2009	30,304
FTA, Section 5303		HI-80-2010	19,892
FTA, Section 5303		HI-80-2011	28,358
FTA, Section 5303		HI-80-2012	<u>142,969</u>
			<u>223,495</u>
Federal Transit Technical Studies Grant:			
FTA, Section 5313 (b)	20.515	HI-80-9013	<u>5,789</u>
			<u>5,789</u>
TOTAL FEDERAL EXPENDITURES			\$ <u><u>1,126,538</u></u>

Note: The accompanying schedule of expenditures of Federal awards is prepared on the modified accrual basis of accounting.

* Denotes major program.

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 Oahu Metropolitan Planning Organization (OMPO) as of and for the year ended June 30, 2005, and have issued our report dated November 16, 2005. 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 OMPO's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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 operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether OMPO'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*.

COPY

**Original document signed by
Egami & Ichikawa CPAs, Inc.**

This report is intended solely for the information and use of the Office of the Auditor, management of OMPO, 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.

Honolulu, Hawaii
November 16, 2005

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

The Auditor
State of Hawaii

Compliance

We have audited the compliance of the State of Hawaii Oahu Metropolitan Planning Organization (OMPO) 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 its major federal program for the year ended June 30, 2005. OMPO's major federal program is 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 its major federal program is the responsibility of the OMPO's management. Our responsibility is to express an opinion on OMPO'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 OMPO'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 on OMPO's compliance with those requirements.

In our opinion, OMPO complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

COPY

**Original document signed by
Egami & Ichikawa CPAs, Inc.**

Internal Control Over Compliance

The management of OMPO 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 OMPO'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 reportable 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 caused by error or fraud 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 functions. 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 Office of the Auditor, management of OMPO, 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.

Honolulu, Hawaii
November 16, 2005

PART V

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

Status of Prior Year Comments

There were no audit findings and questioned costs reported for the year ended June 30, 2004.

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2005

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS:

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

FEDERAL AWARDS:

Internal control over major program:	
Material weaknesses identified?	<u>No</u>
Reportable condition identified that is not considered to be material weakness	<u>None reported</u>

Type of auditors' report issued on compliance for major program:	<u>Unqualified</u>
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Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u>No</u>
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Identification of major program:
20.205 - Federal Highway Administration: Grant to assist in highway planning and construction.

Dollar threshold used to distinguish between type A and type B programs:	<u>\$500,000</u>
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Auditee qualified as low-risk auditee?	<u>Yes</u>
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STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
YEAR ENDED JUNE 30, 2005

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PART VI
CORRECTIVE ACTION PLAN

STATE OF HAWAII
OAHU METROPOLITAN PLANNING ORGANIZATION
CORRECTIVE ACTION PLAN
JUNE 30, 2005

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2005.