

State of Hawaii  
Department of Transportation, Administration Division  
Financial and Compliance Audit  
June 30, 2007

Submitted By  
The Auditor  
State of Hawaii

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**PART I**  
**TRANSMITTAL**

December 28, 2007

The Auditor  
State of Hawaii

We have completed our financial audit of State of Hawaii Department of Transportation, Administration Division (the “Division”) as of and for the year ended June 30, 2007. The audit was performed in accordance with our agreement, dated June 15, 2007, 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 fairness of the presentation of the Division’s financial statements as of and for the fiscal year ended June 30, 2007, 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 the Division.
2. To ascertain whether or not expenditures have been made and all revenues and other receipts to which the Division is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the State and the Division the proper information to plan, evaluate, control, and correct program activities.
4. To evaluate the adequacy, effectiveness, and efficiency of the systems and procedures for financial accounting, operational and internal controls, and to recommend improvements to such systems and procedures.
5. To satisfy the audit requirements of the Federal grantor agency.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *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 the Division for the fiscal year ended June 30, 2007.

ORGANIZATION OF THE REPORT

This report is organized into six parts:

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

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

Very truly yours,

Michael Y. Ichikawa  
Principal

**PART II**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

This section of the annual financial report presents management's discussion and analysis of the Division's financial performance during the fiscal year ending June 30, 2007. It should be read in conjunction with the Division's financial statements which follows this section.

**FINANCIAL HIGHLIGHTS**

- The Division's total net assets were \$3,974,000 for the year ended June 30, 2007, which was an increase of \$1,946,000 or 96.0% over the prior year. The increase is attributable to the decrease of net transfers by \$1.4 million made to the other divisions in the year ended June 30, 2007, as compared to the year ended June 30, 2006.
- The Division's investment in capital assets was \$1,797,000 for the year ended June 30, 2007, which was a decrease of \$29,000 or (0.4)% over the prior year.
- The Division's current liabilities were \$7,443,000 for the year ended June 30, 2007, which was an increase of \$2,814,000 or 49.5% over the prior year. The increase was principally a result of a \$3.0 million increase in federal grant payables of which \$1.8 million is due to Department of Land and Natural Resources for various construction projects, \$0.9 million is due to Maui County for the purchase of buses and \$0.3 million payable to Soderholm Sales and Leasing for the purchase of various non-profit organizations' vehicles.
- Total revenues were \$22,382,000 for the year ended June 30, 2007, which was a decrease of \$5,663,000 or (20.2%) over the prior year. The decrease was primarily attributed to the prior year in which federal grant revenues were received for a one-time grant for the purchase of boats for the Arizona Memorial Ferry of \$4.9 million.

**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 compliance and internal controls; schedule of prior audit findings and questioned costs; schedules of findings and questioned costs; and the Division's corrective action plan. These components are described below:

*Government-Wide Financial Statements*

The government-wide financial statements reports information about the Division as a whole using accounting methods similar to those used by private sector companies. The *Statement of Net 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.

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

**OVERVIEW OF FINANCIAL STATEMENTS (Continued)**

The *Statement of Net Assets* presents the Division's assets and liabilities, with the difference between the 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.

*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 Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major fund is in a column in the funds financial statements entitled "*Other Governmental 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), Federal Transit Administration (FTA), and those between the Division and FTA prior to enactment of the Intermodal Surface Transportation Efficiency Act of 1991.

- Fiduciary Funds:

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



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

**OVERVIEW OF FINANCIAL STATEMENTS (Continued)**

*Notes to Financial Statements*

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

*Other Reports*

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

**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, 2007, the Division's total net assets were \$3,974,000.

The following presents a summarized comparison of net assets and changes in net assets between the fiscal years ended June 30, 2007 and 2006.

STATEMENT OF NET ASSETS  
June 30, 2007 and 2006  
(Rounded to nearest \$1,000)

	<u>2007</u>	<u>2006</u>
ASSETS:		
Current	\$ 10,708,000	\$ 5,884,000
Capital assets net of depreciation	<u>1,797,000</u>	<u>1,826,000</u>
Total assets	<u>\$ 12,505,000</u>	<u>\$ 7,710,000</u>
LIABILITIES:		
Current	7,443,000	4,629,000
Long-term	<u>1,088,000</u>	<u>1,053,000</u>
Total liabilities	<u>8,531,000</u>	<u>5,682,000</u>
NET ASSETS:		
Invested in capital assets, net of related debt	1,797,000	1,826,000
Restricted	3,147,000	3,339,000
Unrestricted (deficit)	<u>(970,000)</u>	<u>(3,137,000)</u>
Total net assets	<u>3,974,000</u>	<u>2,028,000</u>
Total Liabilities and Net Assets	<u>\$ 12,505,000</u>	<u>\$ 7,710,000</u>

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

**OVERVIEW OF FINANCIAL STATEMENTS (Continued)**

Net assets of the Division increased by \$1,946,000 in 2007 or 96.0%. Investment in capital assets (i.e. 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 liquidate any liabilities. The remaining restricted assets of \$3,147,000 and \$3,339,000 in 2007 and 2006 represents resources that are subject to external restrictions or enabling legislation on how they may be used. Unrestricted assets reflect a deficit of \$970,000 and \$3,137,000 in 2007 and 2006.

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

CHANGES IN NET ASSETS  
For the Years Ended June 30, 2007 and 2006  
(Rounded to nearest \$1,000)

	<u>2007</u>	<u>2006</u>
Revenues:		
Allocated appropriations	\$ 13,322,000	\$ 12,949,000
Federal grant revenues	8,574,000	14,896,000
Other	486,000	200,000
Total revenues	<u>22,382,000</u>	<u>28,045,000</u>
Expenses:		
Administration	11,096,000	10,860,000
Operating grants	<u>8,629,000</u>	<u>14,895,000</u>
Total expenses	<u>19,725,000</u>	<u>25,755,000</u>
Excess before transfers	2,657,000	2,290,000
Transfers	<u>(711,000)</u>	<u>(2,145,000)</u>
Change in net assets	1,946,000	145,000
Net assets, beginning of the year	<u>2,028,000</u>	<u>1,883,000</u>
Net assets, end of year	<u>\$ 3,974,000</u>	<u>\$ 2,028,000</u>

The Division's federal grant revenues decreased by \$6,322,000 or 42.4% and total revenues decreased by \$5,663,000 or 20.2% in 2007. Total expenses decreased by \$6,030,000 or 23.4%. The significant changes in revenue and expenses during 2007 were attributed primarily to decrease in grant revenues and related expenses.

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

**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 federal grant programs. Total revenues differed by \$18,080,000 or 48.4% below budget, and total expenditures were \$20,110,000 or 53.8% below budget.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

As of June 30, 2007 and 2006, the Division had \$1,797,000 and \$1,826,000 in capital assets, net of accumulated depreciation. This amount represents a net decrease of approximately \$29,000 from 2006. There were \$407,000 in additions, which consisted primarily of computer hardware and software. Disposition and transfers of capital assets totaled \$22,000 for the current year.

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

	<u>2007</u>	<u>2006</u>
Capital assets:		
Furniture and equipment	\$ 4,290,000	\$ 3,905,000
Less accumulated depreciation	<u>2,493,000</u>	<u>2,079,000</u>
Total capital assets, net	<u>\$ 1,797,000</u>	<u>\$ 1,826,000</u>

Debt Administration

The Division did not have any debt financing for 2007 and 2006.

**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 State of Hawaii Department of Transportation, Administration Division (the "Division") as of and for the year ended June 30, 2007, 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 opinions.

As discussed in Note 1, 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, 2007, 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Division as of June 30, 2007, and the respective changes in financial position, and cash flows, 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 a report dated, on our consideration of 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 considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 - 7 and 28 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 taken as a whole. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and are 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 the Division. The schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other supplementary information have 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 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.

Honolulu, Hawaii  
December 28, 2007

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES  
June 30, 2007

Current assets	
Cash and cash equivalents	\$ 6,837,302
Accounts receivable	3,870,498
Total current assets	<u>10,707,800</u>
Capital assets, net of depreciation	<u>1,797,129</u>
Total Assets	<u>12,504,929</u>
Current liabilities	
Accounts payable	3,601,085
Accrued payroll	266,094
Accrued vacation	297,978
Deferred revenue	130,658
Due to other divisions and funds	3,147,470
Total current liabilities	<u>7,443,285</u>
Long-term liabilities	
Due to General Fund	2,550
Accrued vacation	1,084,848
Total long-term liabilities	<u>1,087,398</u>
Total Liabilities	<u>8,530,683</u>
Invested in capital assets	1,797,129
Restricted for :	
Transportation projects	3,147,470
Unrestricted (deficit )	<u>(970,353)</u>
Total Net Assets	<u>\$ 3,974,246</u>

See accompanying notes to financial statements.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net ( Expense ) Revenue and Changes in Net Assets</u>
Governmental activities :			
Administration	\$ 11,095,453	\$ -	\$ (11,095,453)
Operating grants	<u>8,629,060</u>	<u>-</u>	<u>(8,629,060)</u>
Total governmental activities	<u>19,724,513</u>	<u>-</u>	<u>(19,724,513)</u>
General revenues :			
Assessments			13,321,621
Federal grant revenues			8,574,056
Investment earnings			286,205
Miscellaneous			<u>200,011</u>
Total general revenues			<u>22,381,893</u>
			2,657,380
Other financing sources - transfers, net			<u>(711,212)</u>
Change in net assets			1,946,168
Net assets - beginning of the year			<u>2,028,078</u>
Net assets - end of year			<u>\$ 3,974,246</u>

See accompanying notes to financial statements.



STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2007

ASSETS	Admin Fund	Restricted Funds		Other Governmental Funds	Total Governmental Funds		
		S-210	S-256 S-257 S-258				
Cash and cash equivalents	\$ 5,348,840	\$ 667,112	\$ 399,512	\$ 12,227	\$ 199,795	\$ 209,816	\$ 6,837,302
Accounts receivable	3,870,498	-	-	-	-	-	3,870,498
Total Assets	\$ 9,219,338	\$ 667,112	\$ 399,512	\$ 12,227	\$ 199,795	\$ 209,816	\$ 10,707,800

LIABILITIES AND FUND BALANCES

LIABILITIES							
Accounts payable	\$ 3,523,574	\$ -	\$ -	\$ -	\$ -	\$ 77,511	\$ 3,601,085
Accrued payroll	266,094	-	-	-	-	-	266,094
Deferred revenue	-	-	-	-	-	130,658	130,658
Due to General Funds	2,550	-	-	-	-	-	2,550
Due to other divisions	3,147,470	-	-	-	-	-	3,147,470
Total Liabilities	6,939,688	-	-	-	-	208,169	7,147,857

FUND BALANCES

Reserved for encumbrances	1,148,521	-	832,683	68,692	52	2,049,948
Unrestricted	1,131,129	667,112	399,512	(820,456)	1,595	1,509,995
Total Fund Balances	2,279,650	667,112	399,512	12,227	1,647	3,559,943

TOTAL LIABILITIES AND

FUND BALANCES	\$ 9,219,338	\$ 667,112	\$ 399,512	\$ 12,227	\$ 199,795	\$ 209,816	\$ 10,707,800
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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  
June 30, 2007

Total Fund Balances - Governmental Funds	\$ 3,559,943
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	1,797,129
Accrued employee benefits payable not reported in the governmental funds	<u>(1,382,826)</u>
Net Assets of Governmental Activities	\$ <u>3,974,246</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, 2007

	Admin Fund	Restricted Funds		Other Governmental Funds	Total Governmental Funds
		S-210	S-256 S-257		
<b>REVENUES</b>					
Assessments	\$ 13,321,621	\$ -	\$ -	\$ -	\$ 13,321,621
Federal grant revenues	-	7,341,102	2,405	986,764	8,574,056
Other	287,423	-	-	-	287,423
	<u>13,609,044</u>	<u>7,341,102</u>	<u>2,405</u>	<u>986,764</u>	<u>22,381,893</u>
<b>EXPENDITURES</b>					
Personal services	6,395,017	-	26,075	9,754	6,449,417
Other	4,438,114	7,341,102	3,007	986,764	13,212,420
	<u>10,833,131</u>	<u>7,341,102</u>	<u>29,082</u>	<u>996,518</u>	<u>19,661,837</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	2,775,913	-	(26,677)	(9,754)	2,720,056
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	509,145	1,000,000	426,189	219,215	2,286,994
Transfers out	(925,535)	(1,332,888)	(399,988)	(203,559)	(3,000,706)
Other	-	-	-	-	2,500
	<u>(416,390)</u>	<u>(332,888)</u>	<u>26,201</u>	<u>15,656</u>	<u>(711,212)</u>
<b>NET CHANGE IN FUND BALANCES</b>	2,359,523	(332,888)	(476)	5,902	2,008,844
Fund balances, at July 1, 2006	(79,873)	1,000,000	399,988	6,325	1,551,099
Fund balances at June 30, 2007	<u>\$ 2,279,650</u>	<u>\$ 667,112</u>	<u>\$ 399,512</u>	<u>\$ 12,227</u>	<u>\$ 3,559,943</u>

See accompanying notes to the financial statements.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT  
OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2007

Total Net Change in Fund Balances - Governmental Funds \$ 2,008,844

Amounts reported for governmental activities that are different in the  
Statement of Net Assets due to:

Governmental funds report capital asset outlays as expenditures.

However, in the Statement of Activities the cost of capital assets  
are allocated over their estimated useful lives and reported as  
depreciation expense in the current period.

Capital asset outlays and transfers, net	\$	402,093	
Net transfers and disposals		35,481	
Depreciation expense		<u>(466,892)</u>	
Excess of depreciation expense over capital asset outlays			(29,318)

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>(33,358)</u>
Change in Net Assets of Governmental Activities			<u><u>\$ 1,946,168</u></u>

See accompanying notes to the financial statements.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
STATEMENT OF FIDUCIARY NET ASSETS  
June 30, 2007

ASSETS

Cash and cash equivalents	\$ <u>10,007,254</u>
Total Assets	\$ <u><u>10,007,254</u></u>

LIABILITIES

Bid bond deposits	\$ 15,821
Amtrak Funds payable	<u>9,991,433</u>
Total Liabilities	\$ <u><u>10,007,254</u></u>

See accompanying notes to financial statements.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The Division's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local Governments through its pronouncements (Statements and Interpretations). 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 the Division is 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 – financial statements (the statement of net assets and the statement of activities) report information of all of the nonfiduciary activities of the Division. For the most part, 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.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. 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.

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. Designation of fund balance represents tentative management plans that are subject to change.

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

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

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Fiduciary Fund - financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

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 - 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.



STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Agency Fund - is used to account for assets held by the Division in an agency capacity. These assets include the receipt of bid deposits for contracts with the Department of Transportation (DOT) 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.

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 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 - the Division's employees, with certain exceptions, earn vacation leave at the rate of one and three-quarters working days for each month of service. Vacation days may be accumulated to a maximum of ninety days. When termination of employment takes place, employees are paid their vacation allowance in a lump sum. The Division records all vacation pay at 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*. Sick leave is not convertible to pay upon termination of employment and is recorded as an expenditure when taken.

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. Included in the Statement of Net Assets, *Due to Other Divisions and Funds* of \$3,147,470 as of June 30, 2007 is a short-term advance from the Highway division of \$1,000,000. The \$711,212 reflected as *Other financing sources – Transfers, net* is the amount of unencumbered cash balances transferred back to the other divisions and other funds during 2007.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Cash and Cash Equivalents - cash and cash equivalents 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 guaranteed by the U.S. Government, obligations of the State of Hawaii, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

The Director of Finance pools and invests any monies of the Division, which in the Director's judgment, are in excess of the amounts necessary for meeting the specific requirements of the Fund. Investment earnings are allocated to the Fund based on its equity interest in the pooled monies. For the purposes of the financial statements, the Division considers all cash held in the State Treasury and investments with a maturity of three months or less when purchased to be cash equivalents. Total cash and cash equivalents of the Division at June 30, 2007 were \$6,837,302.

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

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2007

2. BUDGETING AND BUDGETARY CONTROL

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

- The Budget - not less than 20 days before the legislature convenes in every odd-numbered year, the Governor submits to the legislature, and to each member thereof, a budget which contains the program and budget recommendations of the Governor for the succeeding two fiscal years. The budget in general contains: the State program structure; statements of statewide objectives; financial requirements for the next two fiscal years to carry out the recommended programs; a summary of State receipts and revenue in the last completed fiscal year; a revised estimate for the fiscal year in progress, and an estimate for the succeeding biennium.
- Legislative Review - the legislature considers the Governor's proposed program and financial plan and budget, evaluates alternatives to the Governor's proposed recommendations, adopts programs, and determines the State budget. It may, from time to time, request the Department of Budget and Finance and any agency to conduct such analysis of programs and finances as well as assist in determining the State's program and financial plan and budget.
- Program Execution - except as limited by policy decisions of the Governor, appropriations by the legislature, and other provisions of law, the several agencies responsible for the programs administer the programs and are responsible for their proper management. The appropriations by the legislature for a biennium are allocated between the two fiscal years of the biennium in the manner provided in the budget or appropriations act and as further prescribed by the Director of Finance. No appropriation transfers or changes between programs or agencies can be made without legislative authorization. Authorized transfers or changes, when made, should be reported to the legislature.

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

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

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2007

2. BUDGETING AND BUDGETARY CONTROL (Continued)

Adjustments necessary to convert the results of operations and fund balances for the year ended June 30, 2007 from the GAAP basis to the budget basis are as follows:

Excess of expenditures over revenues and transfers, GAAP basis	\$ 2,008,844
Increase (decrease) in revenues:	
Current year receivables	(3,870,498)
Prior year receivables	602,512
Current year deferred revenue	130,658
Prior year's deferred revenue	<u>(34,278)</u>
	<u>(3,171,606)</u>
Increase (decrease) in expenditures:	
Current year accrued liabilities	(3,869,729)
Prior year accrued liabilities	959,209
Current year encumbrances, net of adjustments	2,049,948
Prior year encumbrances	<u>(1,620,724)</u>
	<u>(2,481,296)</u>
Excess of revenues over expenditures and transfers, budgetary basis	<u>\$ 1,318,534</u>

3. CAPITAL ASSETS

Capital assets activities of the governmental fund financial statements fund for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Capital assets:</u>				
Furniture & equipment	\$3,905,107	\$ 407,368	\$ 22,294	\$4,290,181
Less accumulated depreciation	<u>2,078,660</u>	<u>472,167</u>	<u>57,775</u>	<u>2,493,052</u>
Capital assets, net of depreciation	<u>\$1,826,447</u>	<u>\$ (64,799)</u>	<u>\$ (35,481)</u>	<u>\$1,797,129</u>

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2007

4. ACCRUED VACATION

Accrued vacation consists of the following:

Balance at June 30, 2006	\$1,349,468
Increases	<u>33,358</u>
Balance at June 30, 2007	1,382,826
Less current portion	<u>(297,978)</u>
Total accrued vacation, long-term	<u>\$1,084,848</u>

5. RETIREMENT BENEFITS

Employees' Retirement System

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

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2007

5. RETIREMENT BENEFITS (Continued)

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.

Most covered employees of the contributory option are required to contribute 7.8% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. 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.

The State's contribution requirement as of June 30, 2006, 2005 and 2004, based on the most recent information available, was approximately \$318,144,000, \$251,685,000, and \$181,614,000 respectively. The State contributed 100% of its required contributions for those years. The Fund's covered payroll was approximately \$6,459,000 in 2007. The retirement plan contributions charged to the Division's operation was \$646,000 in 2007.

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 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 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.

Contributions are financed on a pay-as-you-go basis. The Division's share of the expense for post-retirement benefits for the year ended June 30, 2007 was \$332,000.

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.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2007

6. COMMITMENTS AND CONTINGENCIES

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with sixty days or more of unused sick leave is entitled to additional service credit in the ERS. The Division'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*. As of June 30, 2007, sick leave accumulations were approximately \$4,840,000.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan (the "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 the Division'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 loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
NOTES TO THE FINANCIAL STATEMENTS (Continued)  
JUNE 30, 2007

7. RISK MANAGMENT

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 \$250,000 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 \$100 million, except for flood and earthquake which individually is \$50 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 \$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 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.



**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, 2007

	Budget	Actual	Variance - Favorable (Unfavorable)
Revenues			
Assessments	\$ 13,319,121	\$ 13,321,621	\$ 2,500
Federal grant revenues	23,688,352	5,328,601	(18,359,751)
Other	340,000	616,874	276,874
Total revenues	37,347,473	19,267,096	(18,080,377)
Expenditures			
Personal services	8,442,240	6,514,072	1,928,168
Other	28,905,233	10,723,278	18,181,955
Total expenditures	37,347,473	17,237,350	20,110,123
Excess of revenues over expenditures	-	2,029,746	2,029,746
Transfers to others	-	(711,212)	(711,212)
Excess of revenues over expenditures and transfers	\$ -	\$ 1,318,534	\$ 1,318,534

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2007

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
<b><u>Federal Transit Administration:</u></b>				
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			
9/29/01-10/31/02		HI-03-0027	\$ 408,000	\$ 21,520
9/29/03-10/31/04		HI-03-0032	4,846,159	-
9/30/04-10/31/05		HI-03-0033	4,028,825	1,167,253
9/30/04-10/31/05		HI-03-0034	12,613,841	4,064,537
9/30/05-10/31/06		HI-03-0038	14,684,170	1,278,340
9/30/05-10/31/06		HI-03-0039	6,281,494	804,072
9/30/06-10/31/07		HI-03-0044	4,800,000	-
9/30/06-10/31/07		HI-04-0003	3,960,000	27,570
			<u>51,622,489</u>	<u>* 7,363,292</u>
Capital assistance grant to assist in providing transportation services for elderly and the handicapped	20.513			
9/29/00-10/31/01		HI-16-0027	376,045	68,048
9/29/01-10/31/02		HI-16-0028	393,408	208,359
9/29/02-10/31/03		HI-16-0029	421,383	73,030
9/29/03-10/31/04		HI-16-0030	474,109	271,013
9/29/04-10/31/05		HI-16-0031	474,925	287,406
9/29/05-10/31/06		HI-16-0032	492,379	88,662
9/29/06-10/31/07		HI-16-0033	558,579	-
			<u>3,190,828</u>	<u>* 996,518</u>

\* Denotes major program expenditures

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)

June 30, 2007

Federal Grantor/Pass-Through Grantor Program Title	Federal CFDA Number	Grant Number	Program or Award Amount	Current Year Expenditure Amount
Financial, operating, and technical assistance in providing public transportation services in non-urbanized areas	20.509			
9/1/99-12/31/00		HI-18-X019	\$ 770,187	\$ 14,698
9/1/00-12/31/01		HI-18-X020	710,639	23,289
9/1/02-12/31/03		HI-18-X021	1,493,939	62,377
9/1/03-12/31/04		HI-18-X022	2,034,065	115,665
9/1/04-12/31/05		HI-18-X023	1,072,343	20,000
9/1/05-10/31/06		HI-18-X024	1,118,873	-
9/1/06-12/31/07		HI-18-X025	1,719,756	4,139
			<u>8,919,802</u>	<u>240,168</u>
<b><u>Federal Highway Administration:</u></b>				
Grant to assist in the development of an integrated, interconnected transportation system	20.205			
10/1/05-9/30/06		SPR-0010(28)	602,080	26,488
10/1/06-9/30/07		SPR-0010(29)	764,927	2,594
			<u>1,367,007</u>	<u>29,082</u>
Total Federal Financial Assistance			\$ <u>65,100,126</u>	\$ <u>8,629,060</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, 2007, and have issued our report thereon dated December 28, 2007. 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 control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity’s financial statements that is more than inconsequential will not be prevented or detected by the entity’s internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity’s internal control.

**COPY**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. 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.

Honolulu, Hawaii  
December 28, 2007

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, 2007. The Division’s major federal programs are identified in the summary of auditors’ 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.

In our opinion, the Division complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.



**COPY**

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

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 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 of 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 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.

Honolulu, Hawaii  
December 28, 2007

**PART V**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

**Status of Prior Year Comments**

There were no audit findings and questioned costs reported for the year ended June 30, 2006.

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS:**

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

**FEDERAL AWARDS:**

1. Internal control over major program: Material weaknesses identified? 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 program:	<u>Unqualified</u>
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	<u>No</u>
4. Identification of major program:	
a. 20.500 - Federal Transit Administration: Financial, operating, and technical assistance in providing mass transportation service in urban areas; 20.513 - Federal Transit Administration: Capital assistance grants to assist in providing transportation services for the elderly and the handicapped.	
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>

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)  
YEAR ENDED JUNE 30, 2007

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No matters were reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters were reported.

**PART VI**  
**CORRECTIVE ACTION PLAN**

STATE OF HAWAII  
DEPARTMENT OF TRANSPORTATION, ADMINISTRATION DIVISION  
CORRECTIVE ACTION PLAN  
JUNE 30, 2007

A corrective action plan is not required since there were no audit findings and questioned costs reported for the year ended June 30, 2007.