

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations**
Financial Statements and Supplemental Schedules
June 30, 2004 and 2003

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Index**

	Page(s)
Report of Independent Auditors	1–2
Management’s Discussion and Analysis	3–6
Financial Statements	
Statements of Net Assets June 30, 2004 and 2003	7
Statements of Revenues, Expenses and Changes in Net Assets Years Ended June 30, 2004 and 2003	8
Statements of Cash Flows Years Ended June 30, 2004 and 2003	9–10
Notes to Financial Statements	11–19
Supplemental Schedules	
Schedule 1-1 – Statement of Net Assets Information June 30, 2004.....	20
Schedule 1-2: – Statement of Net Assets Information June 30, 2003.....	21
Schedule 2-1: – Operations Information Year Ended June 30, 2004.....	22
Schedule 2-2: – Operations Information Year Ended June 30, 2003.....	23

Report of Independent Auditors

To the Chair and Members of the City Council
City and County of Honolulu
Honolulu, Hawaii

We have audited the accompanying financial statements of the City and County of Honolulu Public Transportation System – Bus and Paratransit Operations (the “Company”), as of and for the years ended June 30, 2004 and 2003. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the City and County of Honolulu Public Transportation System – Bus and Paratransit Operations, are intended to present the financial position and the changes in financial position and cash flows of only that portion of the funds of the City and County of Honolulu that is attributable to the transactions of the City and County of Honolulu Public Transportation System – Bus and Paratransit Operations. They do not purport to, and do not, present fairly the financial position of the City and County of Honolulu as of June 30, 2004 and 2003, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City and County of Honolulu Public Transportation System – Bus and Paratransit Operations as of June 30, 2004 and 2003, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 6 is not a required part of the basic financial statements but is 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 supplemental schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplemental schedules 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.

PricewaterhouseCoopers LLP

Honolulu, Hawaii
October 1, 2004

City and County of Honolulu Public Transportation System – Bus and Paratransit Operations

Management's Discussion and Analysis June 30, 2004 and 2003

As financial management of the City and County of Honolulu Public Transportation System (TheBus & Handi-Van operations), we offer readers of these financial statements this narrative overview and analysis of the financial activities of TheBus & Handi-Van for the fiscal years ended June 30, 2004 and 2003. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

(All amounts, unless otherwise indicated, are expressed in thousands of dollars.)

Financial Highlights

- Operating loss for TheBus & Handi-Van was \$113,811, \$115,190 and \$109,693 for fiscal years 2004, 2003 and 2002, respectively. Operating loss decreased by \$1,379 or 1.2% in 2004 and increased by \$5,497 or 5% in 2003.
- Operating revenue (primarily passenger revenue) for TheBus & Handi-Van increased by \$3,558 or 11% for fiscal year ended 2004, due to fare increases in fiscal year 2004, and decreased by (\$503) or (1.6%) for fiscal year ended 2003.
- Net assets increased by \$26,522 or 19% in fiscal year 2004 and decreased by (\$8,824) or (6%) in fiscal year 2003. The term "net assets" refers to the difference between assets and liabilities. At the end of fiscal years 2004, 2003 and 2002, TheBus & Handi-Van had net assets of \$165,483, \$138,961 and \$147,785, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to TheBus & Handi-Van financial statements, which is comprised of the basic financial statements, notes to the financial statements and supplemental schedules.

The basic financial statements are designed to provide readers with a broad overview of TheBus & Handi-Van's finances, in a manner similar to a private-sector business.

The statements of net assets present information of TheBus & Handi-Van's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of TheBus & Handi-Van is improving or deteriorating. Net assets increase when revenues and subsidies exceed expenses. Increases to assets, without a corresponding increase to liabilities, results in increased net assets, which indicate an improved financial position.

The statements of revenues, expenses and changes in net assets present information showing how TheBus & Handi-Van's net assets changed during the past two fiscal years. All changes in net assets are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

City and County of Honolulu
Public Transportation System – Bus and Paratransit Operations

Management's Discussion and Analysis
June 30, 2004 and 2003

The statements of cash flows report cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities.

The notes to financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

In addition to the basic financial statements and accompanying notes to financial statements, this report also presents the statements of net assets and operations information for the separate balances and transactions for TheBus & Handi-Van.

Financial Analysis

Net assets may serve, over time, as a useful indicator of a government's financial position. TheBus & Handi-Van assets exceeded liabilities by \$165,483, \$138,961 and \$147,785 at the end of fiscal years 2004, 2003 and 2002, respectively. This resulted in an increase of \$26,522 or 19% from fiscal year 2003 net assets and a decrease of \$8,824 or 6% from fiscal year 2002 net assets. The increase in net assets in 2004 and 2002 was primarily due to an increase in contribution of fixed assets from the City and County of Honolulu, while TheBus & Handi-Van experienced a decline in contribution of fixed assets in 2003.

The largest portion of TheBus & Handi-Van's net assets represented its investment in capital assets (e.g., buses, buildings, maintenance equipment, etc.). TheBus & Handi-Van use these capital assets to provide public transit services on the Island of Oahu and consequently, capital assets are not available to liquidate liabilities or other spending.

The unrestricted net assets reflected deficit balances at June 30, 2004 and 2003 and increased by (\$1,424) in 2004 and (\$5,339) in 2003. The increase in the deficit balances was primarily attributable to the loss from operations, after transfers and cash contributions.

City and County of Honolulu
Public Transportation System – Bus and Paratransit Operations

Management's Discussion and Analysis
June 30, 2004 and 2003

TheBus & Handi-Van's condensed financial information include:

Net Assets

	2004	2003	2002
Current and other assets	\$ 13,723	\$ 12,653	\$ 16,980
Restricted assets	587	740	819
Capital assets, net	169,238	141,292	144,777
Total assets	<u>183,548</u>	<u>154,685</u>	<u>162,576</u>
Current liabilities	15,032	13,441	12,293
Noncurrent liabilities	3,033	2,283	2,498
Total liabilities	<u>18,065</u>	<u>15,724</u>	<u>14,791</u>
Net assets			
Invested in capital assets	169,238	141,292	144,777
Unrestricted	(3,755)	(2,331)	3,008
	<u>\$ 165,483</u>	<u>\$ 138,961</u>	<u>\$ 147,785</u>

Changes in Net Assets

	2004	2003	2002
Operating revenues	\$ 35,333	\$ 31,776	\$ 32,279
Operating expenses	(149,144)	(146,966)	(141,972)
Loss from operations	<u>(113,811)</u>	<u>(115,190)</u>	<u>(109,693)</u>
Nonoperating revenues (expenses)			
Interest and investment income	9	(29)	72
Loss on assets disposal or write-off	(57)	(1,218)	(4,491)
Loss before contributed capital	<u>(113,859)</u>	<u>(116,437)</u>	<u>(114,112)</u>
Operating transfers	72,642	74,613	72,911
Contributions	67,739	33,000	58,163
Change in net assets	26,522	(8,824)	16,962
Net assets			
Beginning of year	<u>138,961</u>	<u>147,785</u>	<u>130,823</u>
End of year	<u>\$ 165,483</u>	<u>\$ 138,961</u>	<u>\$ 147,785</u>

City and County of Honolulu
Public Transportation System – Bus and Paratransit Operations

Management's Discussion and Analysis
June 30, 2004 and 2003

Significant Events

- Contributions increased by \$34,739 or more than 100% in 2004 and were primarily due to new buses contributed by the City and County of Honolulu. Contributions decreased by \$25,163 or 43% in 2003 and were due to the decline in contribution of fixed assets from the City and County of Honolulu. Fiscal year 2002 major capital contributions included the New Pearl City Bus Facility (\$22 million) and equipment for the Pearl City Bus Facility (\$4.4 million).
- The Teamsters, Local 996, broke off collective bargaining negotiations with Oahu Transit Services, Inc. ("OTS") and went out on strike on August 26, 2003. On September 27, 2003, a new five-year collective bargaining agreement was ratified by members of the Union. Service was restored on September 29, 2003.

Capital Assets and Debt Administration

At June 30, 2004, 2003 and 2002, TheBus & Handi-Van's investment in capital assets amounted to \$169,238, \$141,292 and \$144,777, respectively, net of accumulated depreciation, an increase of \$27,946 or 20% and a decrease of \$3,485 or 2.4%, respectively. Capital assets include buses and vans, buildings, equipment and furniture. In 2004, 2003 and 2002, the City and County of Honolulu contributed capital assets of \$42,646, \$11,788 and \$35,992, respectively.

Requests for Information

This financial report is designed to provide a general overview of TheBus & Handi-Van's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the City and County of Honolulu, Department of Transportation Services.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Statements of Net Assets
June 30, 2004 and 2003**

	2004	2003
Assets		
Current assets		
Cash and cash equivalents	\$ 4,799,184	\$ 4,317,747
Accounts receivable	1,403,246	576,630
Parts and supplies inventories, net of \$50,000 and \$227,000 reserve for obsolescence in 2004 and 2003, respectively	<u>6,660,955</u>	<u>6,631,056</u>
Total current assets	12,863,385	11,525,433
Restricted assets held by Oahu Transit Services, Inc.	587,400	740,529
Property and equipment, net	169,238,368	141,291,435
Other assets	<u>858,864</u>	<u>1,127,629</u>
Total assets	<u>183,548,017</u>	<u>154,685,026</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable	1,016,006	1,043,245
Payable to Oahu Transit Services, Inc. for accrued expenses	1,533,990	782,476
Reserve for insurance claims payable	11,381,331	10,370,854
Deferred income	<u>1,100,980</u>	<u>1,244,150</u>
Total current liabilities	15,032,307	13,440,725
Noncurrent payable to Oahu Transit Services, Inc.	<u>3,033,043</u>	<u>2,283,525</u>
Total liabilities	<u>18,065,350</u>	<u>15,724,250</u>
Commitments and contingencies		
Net assets		
Invested in capital assets	169,238,368	141,291,435
Unrestricted	<u>(3,755,701)</u>	<u>(2,330,659)</u>
Total net assets	<u>\$ 165,482,667</u>	<u>\$ 138,960,776</u>

The accompanying notes are an integral part of the financial statements.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2004 and 2003**

	2004	2003
Operating revenues		
Passenger fares for transit services	\$ 34,886,988	\$ 31,357,724
Nontransportation revenue	270,261	238,575
Special service revenue	176,128	179,541
Total operating revenues	<u>35,333,377</u>	<u>31,775,840</u>
Operating expenses		
Contract services	98,388,068	99,905,555
Depreciation	14,911,150	13,588,350
Insurance	10,977,632	11,165,698
Material and supplies	9,747,606	8,722,951
Fuel and lubricants	6,480,540	6,190,974
Services	5,026,571	3,608,211
State fuel taxes	2,101,812	2,301,397
Utilities, rentals and others	1,510,685	1,482,396
Total operating expenses	<u>149,144,064</u>	<u>146,965,532</u>
Operating loss	(113,810,687)	(115,189,692)
Nonoperating revenue (expense)		
Interest income	12,396	32,439
Loss on disposal or write-off of property and equipment	(57,041)	(1,218,578)
Net decrease in fair value of investments	(3,662)	(61,241)
Loss before transfers and contributions	<u>(113,858,994)</u>	<u>(116,437,072)</u>
Transfers – Appropriations from City and County of Honolulu	72,642,042	74,612,893
Contributions	67,738,843	33,000,041
Change in net assets	<u>26,521,891</u>	<u>(8,824,138)</u>
Net assets		
Beginning of year	<u>138,960,776</u>	<u>147,784,914</u>
End of year	<u>\$ 165,482,667</u>	<u>\$ 138,960,776</u>

The accompanying notes are an integral part of the financial statements.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Statements of Cash Flows
Years Ended June 30, 2004 and 2003**

	2004	2003
Cash flows from operating activities		
Cash received from passengers	\$ 34,363,595	\$ 32,366,055
Cash paid to suppliers and employees	(131,778,544)	(132,756,614)
Net cash used in operating activities	<u>(97,414,949)</u>	<u>(100,390,559)</u>
Cash flows from noncapital financing activities		
Transfers – Appropriations from City and County of Honolulu	72,642,042	74,612,893
Contributions	25,093,200	21,211,643
Net cash provided by noncapital financing activities	<u>97,735,242</u>	<u>95,824,536</u>
Cash flows from capital and related financing activities		
Purchases of property and equipment	-	(126,813)
Net cash used in capital and related financing activities	<u>-</u>	<u>(126,813)</u>
Cash flows from investing activities		
Proceeds from maturity and sale of investments	2,753,729	7,132,885
Purchase of investments	(2,758,107)	(7,108,396)
Interest income	12,393	32,439
Net cash provided by investing activities	<u>8,015</u>	<u>56,928</u>
Net increase (decrease) in cash and cash equivalents	328,308	(4,635,908)
Cash and cash equivalents		
Beginning of year (including \$740,529 and \$815,957 of cash and cash equivalents in restricted assets in 2004 and 2003, respectively)	<u>5,058,276</u>	<u>9,694,184</u>
End of year (including \$587,400 and \$740,529 of cash and cash equivalents in restricted assets in 2004 and 2003, respectively)	<u>\$ 5,386,584</u>	<u>\$ 5,058,276</u>

The accompanying notes are an integral part of the financial statements.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Statements of Cash Flows
Years Ended June 30, 2004 and 2003**

	2004	2003
Cash flows from operating activities		
Operating loss	\$ (113,810,687)	\$ (115,189,692)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	14,911,150	13,588,350
Changes in assets and liabilities		
Accounts receivable	(826,616)	(544,924)
Parts and supplies inventories, net	(79,900)	(278,165)
Other assets	-	1,100,335
Accounts payable	22,765	(140,024)
Payable to Oahu Transit Services, Inc. for accrued expenses	1,501,032	(368,217)
Reserve for insurance claims payable	1,010,477	851,573
Deferred income	(143,170)	590,205
Net cash used in operating activities	<u>\$ (97,414,949)</u>	<u>\$ (100,390,559)</u>
Supplemental disclosure of noncash capital and related financing activities		
Contribution of fixed assets from City and County of Honolulu	\$ 42,645,643	\$ 11,788,398

The accompanying notes are an integral part of the financial statements.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2004 and 2003**

1. Summary of Significant Accounting Policies

Financial Statement Presentation

The City and County of Honolulu Public Transportation System follows Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB Statements No. 21 and No. 34*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Under GASB No. 34, all applicable GASB pronouncements as well as all applicable Financial Accounting Standards Board (“FASB”) statements and interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989 are applied, unless those pronouncements conflict with or contradict GASB pronouncements.

Reporting Entity

The Department of Transportation Services (“DTS”) of the City and County of Honolulu (“City”) oversees the operations of the City bus and paratransit systems. As discussed in Note 2, the City selected Oahu Transit Services, Inc. (“OTS”) to manage, operate and maintain the City bus and paratransit systems on behalf of the City. The accompanying financial statements present only the accounts maintained by OTS in managing the City bus and paratransit operations. Such accounts are included in the Public Transportation System account of the City’s proprietary funds and accordingly, the accompanying financial statements are not intended to present fairly the financial position of the City, and the changes in its financial position and cash flows of its proprietary funds in conformity with accounting principles generally accepted in the United States of America.

Basis of Accounting

The accompanying financial statements are presented on the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the City’s bus and paratransit systems. The principal operating revenues are from charges for passenger fares, while operating expenses include cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

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

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2004 and 2003**

Cash and Cash Equivalents

The City and County of Honolulu Public Transportation System considers all cash on hand, demand deposits and short-term investments (including restricted assets) with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

Parts and Supplies Inventories

Inventories of parts and supplies are stated at weighted average cost.

Investments

Investments reported as restricted assets are recorded at fair value based on quoted market prices.

Property and Equipment

All acquired property and equipment are recorded at cost. Those assets transferred to the City and County of Honolulu Public Transportation System from the various departments or agencies of the City are recorded at the net book value at date of transfer. Upon retirement or disposal of property or equipment, the remaining net book value is charged to operations.

Depreciation of property and equipment is provided on the straight-line basis over the following estimated useful lives of the assets:

	Years
Shops, buildings, building improvements and renovations	31.5 to 40
Buses	7 or 12
Paratransit vans	5
All other assets	5 to 7

Vacation and Sick Leave

OTS accrues a liability for compensated absences (vacation and sick leave) as employees earn the rights to those benefits. An accrual is made for services that are already rendered and that are not contingent on a specific event outside the control of the employer and employee.

Certain OTS employees may elect to redeem a portion of their annual sick leave allowance. Employees who retire and meet certain eligibility requirements may be entitled to a lump sum payment for accumulated sick leave. At the balance sheet date, OTS recorded a sick leave liability to the extent it is probable that benefits will result in annual and/or termination payments.

Deferred Income

Bus passes with expiration dates that extend beyond the fiscal year end are amortized over the life of the pass. Bus vouchers are recognized as revenues upon redemption.

Net Assets

Net assets comprise the various net earnings (loss) from operating and nonoperating revenues, expenses, transfers and contributions. Net assets are classified in the following components: invested in capital assets and unrestricted net assets. Invested in capital assets consists of capital

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2004 and 2003**

assets, net of accumulated depreciation. Unrestricted net assets consist of all other net assets not included in the other category.

Revenue and Expenses

Revenue collected by OTS, except for management fees, is the property of the City and is remitted to a depository controlled by the City. Generally, OTS is reimbursed by the City for all expenses incurred in managing and operating the bus and paratransit systems.

Transfers

The City provides assistance to OTS through transfers. The source of such funding is subject to the availability of appropriations from the City Council, City and County of Honolulu.

Contributions

Contributions from the City for capital purchases and property and equipment (primarily buses and vans) and subsidies that were funded by federal and local grants are recognized as income when the assets or resources are received.

Reclassification

Certain balances in the 2003 financial statements have been reclassified to conform to the 2004 presentation. These reclassifications had no effect on the change in net assets as previously reported.

2. Management and Operations Agreement

OTS has an agreement with the City to provide for the management of the City bus system and the City special transit service (“paratransit”). OTS provides the employees to operate and manage the bus and paratransit systems. Under the agreement, the City reimburses OTS for operating expenses incurred for salaries and wages, employee benefits (including vacation and sick leave and employee benefit plan costs), professional and consulting fees, materials, supplies and services, and all other operating expenses attributable to the bus and paratransit systems. Contract services reported on the statements of revenues, expenses and changes in net assets include reimbursements paid to OTS for labor and fringe benefits. The agreement provided for the City to pay OTS an annual management fee of \$365,000 through September 30, 2002. On October 1, 2002, an amendment was executed to extend the management agreement until September 30, 2007. The annual management fee for the period October 1, 2002 through September 30, 2003 is \$375,000 and is increased by \$10,000 for each of the two years thereafter, then by \$15,000 for each of the remaining two years. Such amount is subject to annual increases upon approval of the DTS and the availability of appropriations by the City Council, City and County of Honolulu.

The agreement provides that the City furnish, but retain title to, the transit buses, paratransit buses, properties, facilities and equipment used in the transit system. Revenue collected by OTS, excluding management fees, is the property of the City and is remitted to a depository controlled by the City.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2004 and 2003**

3. Cash and Cash Equivalents

The cash balances reported in the accompanying statement of net assets are included in the City's cash and investment pool that is used by substantially all of the City's funds. Information pertaining to bank balances and classification of risk is available for only the total cash and investment pool.

4. Restricted Assets Held by OTS

OTS, trustor, maintains trust funds for the purpose of maintaining adequate funds for expenses incurred through its workers' compensation, general and automotive liability self-insurance programs. Pursuant to the trust agreement, the Trustee is required to invest the funds in either interest-bearing bonds, mutual funds, notes, or obligations of the United States or in certificates of deposits of institutions that are federally insured. All income realized from the investments reverts to the trust fund. Upon termination of the trust fund, all assets of the trust fund will be distributed to the City subject to certain limitations as described in the trust agreement. Payments for self-insured workers' compensation, general and automotive liability claims are made from the trust fund subject to certain limitations as described in the trust agreement.

At June 30, 2004 and 2003, the restricted assets held by OTS consisted of cash and cash equivalents that were either insured or registered in the Trust's name. Net realized gains (losses) from the sale of mutual funds during the year were (\$3,662) and \$5,248 for fiscal 2004 and 2003, respectively.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2004 and 2003**

5. Property and Equipment

A summary of the changes in property and equipment for the years ended June 30, 2004 and 2003 follows:

	Balance, July 1, 2003	Additions	Retirements/ Transfers	Balance, June 30, 2004
Buses	\$ 134,968,148	\$ 30,629,818	\$ (10,650,832)	\$ 154,947,134
Shops, buildings, building improvements and renovations	50,478,951	240,835	-	50,719,786
Shop and other equipment	18,141,563	11,908,275	(13,517)	30,036,321
Paratransit vans	9,738,481	-	(1,612,305)	8,126,176
Automobiles and trucks	1,890,436	73,952	(19,565)	1,944,823
Furniture and equipment	128,645	5,203	-	133,848
	<u>215,346,224</u>	<u>42,858,083</u>	<u>(12,296,219)</u>	<u>245,908,088</u>
Less: Accumulated depreciation	<u>(131,902,638)</u>	<u>(14,911,150)</u>	<u>12,296,219</u>	<u>(134,517,569)</u>
	83,443,586	27,946,933	-	111,390,519
Land	57,847,849	-	-	57,847,849
Property and equipment, net	<u>\$ 141,291,435</u>	<u>\$ 27,946,933</u>	<u>\$ -</u>	<u>\$ 169,238,368</u>
	Balance, July 1, 2002	Additions	Retirements/ Transfers	Balance, June 30, 2003
Buses	\$ 131,109,268	\$ 9,023,737	\$ (5,164,857)	\$ 134,968,148
Shops, buildings, building improvements and renovations	50,478,951	-	-	50,478,951
Shop and other equipment	22,131,286	162,079	(4,151,802)	18,141,563
Paratransit vans	7,520,658	2,217,823	-	9,738,481
Automobiles and trucks	1,981,869	-	(91,433)	1,890,436
Furniture and equipment	555,133	338	(426,826)	128,645
	<u>213,777,165</u>	<u>11,403,977</u>	<u>(9,834,918)</u>	<u>215,346,224</u>
Less: Accumulated depreciation	<u>(126,848,391)</u>	<u>(13,588,350)</u>	<u>8,534,103</u>	<u>(131,902,638)</u>
	86,928,774	(2,184,373)	(1,300,815)	83,443,586
Land	57,847,849	-	-	57,847,849
Property and equipment, net	<u>\$ 144,776,623</u>	<u>\$ (2,184,373)</u>	<u>\$ (1,300,815)</u>	<u>\$ 141,291,435</u>

6. Net Assets

At June 30, 2004 and 2003, net assets consisted of the following:

	2004	2003
Invested in capital assets		
Property and equipment, net	\$ 169,238,368	\$ 141,291,435
Unrestricted	<u>(3,755,701)</u>	<u>(2,330,659)</u>
	<u>\$ 165,482,667</u>	<u>\$ 138,960,776</u>

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2004 and 2003**

7. Reserve for Insurance Claims Payable

The City sponsors an automotive and general liability self-insurance program for OTS. The self-insurance program is for claims up to \$1,000,000, which increased to \$3 million effective July 1, 2004. The City also has a workers' compensation self-insurance program, which covers OTS claims up to \$300,000 per occurrence for policy periods through June 30, 1995, \$250,000 per occurrence from July 1, 1995 through June 30, 2002 and \$1,000,000 per occurrence from July 1, 2002. OTS has obtained excess insurance coverage for general liability and automotive claims and workers' compensation through various insurance companies for amounts in excess of claims covered under the two self-insurance programs.

During fiscal 2000, OTS entered into a loss portfolio transfer with American International Group ("AIG") whereby AIG assumed the liability for future payments on accidents occurring prior to March 1, 1998 for workers' compensation and accidents occurring prior to January 1, 2000 for automotive and general liability. Effective April 24, 2000, Oahu Transit Services Insurance Group ("OTSIG"), a wholly owned subsidiary of OTS, was incorporated to operate as a nonprofit captive insurance company. Accordingly, the financial statements of OTSIG are included in bus operations in the accompanying financial statements. OTSIG was primarily organized to facilitate the loss portfolio transfer to AIG. OTSIG transferred the claims, which had a carrying value of approximately \$8.8 million to a third party reinsurer for a premium of \$10 million with a \$15 million aggregate limitation. Management believes the reinsurance policy is adequate to cover all costs associated with the ultimate settlement of these claims. Accordingly, no provision for any liability that may result from the resolution of these claims has been made in the accompanying financial statements.

The amounts payable for claims incurred and claims incurred but not reported for the years ended June 30, 2004 and 2003 are as follows:

	Balance, July 1, 2003	Additions	Payments	Balance, June 30, 2004
Automotive and general liability	\$ 3,652,000	\$ 2,072,533	\$ (1,590,533)	\$ 4,134,000
Workers' compensation	<u>6,718,854</u>	<u>4,158,122</u>	<u>(3,629,645)</u>	<u>7,247,331</u>
Reserve for insurance claims payable	<u>\$ 10,370,854</u>	<u>\$ 6,230,655</u>	<u>\$ (5,220,178)</u>	<u>\$ 11,381,331</u>
	Balance, July 1, 2002	Additions	Payments	Balance, June 30, 2003
Automotive and general liability	\$ 3,106,500	\$ 2,799,533	\$ (2,254,033)	\$ 3,652,000
Workers' compensation	<u>6,412,781</u>	<u>4,437,444</u>	<u>(4,131,371)</u>	<u>6,718,854</u>
Reserve for insurance claims payable	<u>\$ 9,519,281</u>	<u>\$ 7,236,977</u>	<u>\$ (6,385,404)</u>	<u>\$ 10,370,854</u>

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2004 and 2003**

8. Employee Benefit Plans

Pension Plans

OTS participates in the Western Conference of Teamsters Pension Plan, a noncontributory multiemployer defined benefit pension plan which provides for pension benefits to all bargaining employees at stipulated rates.

Pension expense under the multiemployer plan was \$7,662,322 and \$6,789,567 for the years ended June 30, 2004 and 2003, respectively. The information relating to the relative position of each employer associated with its multiemployer plan with respect to the actuarial present value of accumulated benefits and the net assets available for benefits is not available.

OTS also has a noncontributory single-employer defined benefit pension plan, which provides eligible nonbargaining unit employees with retirement and disability benefits for past and future services. Pension expense for the plan was \$364,458 and \$203,121 in fiscal 2004 and 2003, respectively.

The following pension information is for disclosure purposes only as this is an OTS plan and is recorded and disclosed in OTS's separate financial statements.

OTS's annual pension cost and net prepaid pension cost for the single-employer pension plan at June 30, 2004 and 2003 are as follows:

	2004	2003
Annual required contribution	\$ 137,871	\$ 7,436
Interest on net pension asset	(548,197)	(473,430)
Adjustment to annual required contribution	774,784	669,115
Annual pension cost	<u>364,458</u>	<u>203,121</u>
Contributions made	<u>1,200,000</u>	<u>1,200,000</u>
Increase in net pension asset	835,542	996,879
Net pension asset		
Beginning of year	<u>7,309,281</u>	<u>6,312,402</u>
End of year	<u>\$ 8,144,823</u>	<u>\$ 7,309,281</u>

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2004 and 2003**

The annual required contribution of the single-employer pension plan for the current year was determined as part of the June 30, 2004 actuarial valuation using the entry age normal with frozen initial liability actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the fair value of investments over a four-year period. The remaining amortization period at June 30, 2004 was 10 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Asset
June 30, 2002	\$ 163,555	734 %	\$ 6,312,402
June 30, 2003	203,121	591 %	7,309,281
June 30, 2004	364,458	329 %	8,144,823

**Required Supplementary Information
Schedule of Funding Progress (Unaudited)**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability AAL – Entry Age	Unfunded AAL ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
March 1, 2001	\$ 18,850,923	\$ 19,498,560	\$ 647,637	97 %	\$ 4,658,834	13.9 %
March 1, 2002	17,162,998	17,364,048	201,050	99 %	5,131,631	3.9 %
March 1, 2003	16,015,417	18,171,294	2,155,877	88 %	5,354,336	40.3 %

Postretirement Health Benefit Plans

OTS provides its nonbargaining unit employees with postretirement health benefits. Specifically, Medicare and health insurance premiums for retired employees and their spouses are funded on a pay-as-you-go basis. The cost of insurance premiums paid for the years ended June 30, 2004 and 2003 amounted to \$204,587 and \$190,298, respectively.

OTS also provides its bargaining unit employees postretirement health benefits under its collective bargaining agreement with the Hawaii Teamsters and Allied Workers Union Local 996. OTS is required to contribute \$0.21 per straight-time compensable hour earned. Contributions for the years ended June 30, 2004 and 2003 amounted to \$504,416 and \$552,707, respectively.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Notes to Financial Statements
June 30, 2004 and 2003**

Deferred Compensation Plan

OTS offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with these amounts, and all income attributable to those amounts, property or rights are maintained in annuity contracts for each respective employee. In accordance with Internal Revenue Code Section 457, deferred compensation plan assets of \$14,137,881 and \$10,868,373 are not reflected in the OTS separate audited financial statements at June 30, 2004 and 2003, respectively.

9. Operating Lease Commitment

Vehicles and a telephone system are leased under noncancelable operating lease agreements, which expire through December 2006.

Future minimum rental payments at June 30, 2004 are as follows:

Fiscal Years Ending	
2005	\$ 38,700
2006	12,200
2007	5,600
	<u>\$ 56,500</u>

10. Litigation

OTS and the City are involved in various lawsuits arising from the normal operations of the City bus and paratransit systems. Claims for punitive damages related to certain lawsuits may not be covered by insurance. As provided in the management agreement with the City, the City indemnifies OTS from any and all claims made against OTS and the City for legal liability, damages and injuries where such claims are reasonably related to the providing of mass transportation services.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Statement of Net Assets Information
June 30, 2004**

Schedule 1-1

	Bus Operations	Paratransit Operations	Eliminations	Total
			Debit Credit	
Assets				
Current assets				
Cash and cash equivalents	\$ 4,798,584	\$ 600	\$ -	\$ 4,799,184
Accounts receivable	1,330,829	72,417	-	1,403,246
Parts and supplies inventories, net	6,110,304	550,651	-	6,660,955
Intercompany receivable	87,292,266	2,580,217	89,872,483 (1)	-
Total current assets	99,531,983	3,203,885	89,872,483	12,863,385
Restricted assets held by Oahu Transit Services, Inc. (2)	587,400	-	-	587,400
Property and equipment, net	166,266,979	2,971,389	-	169,238,368
Other assets	858,864	-	-	858,864
Total assets	267,245,226	6,175,274	89,872,483	183,548,017
Liabilities and Net Assets				
Current liabilities				
Accounts payable	945,203	70,803	-	1,016,006
Payable to Oahu Transit Services, Inc. for accrued expenses	1,487,558	46,432	-	1,533,990
Intercompany payables	2,580,217	87,292,266	89,872,483 (1)	-
Reserve for insurance claims payable (2)	11,381,331	-	-	11,381,331
Deferred income	1,100,980	-	-	1,100,980
Total current liabilities	17,495,289	87,409,501	89,872,483	15,032,307
Noncurrent payable to Oahu Transit Services, Inc.	3,033,043	-	-	3,033,043
Total liabilities	20,528,332	87,409,501	89,872,483	18,065,350
Net assets				
Invested in capital assets	166,266,979	2,971,389	-	169,238,368
Unrestricted	80,449,915	(84,205,616)	-	(3,755,701)
Total net assets	\$ 246,716,894	\$ (81,234,227)	\$ -	\$ 165,482,667

(1) Elimination of intercompany receivables and payables.

(2) Amount included in the bus operations column does not include an allocation to paratransit operations.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Statement of Net Assets Information
June 30, 2003**

Schedule 1-2

	Bus Operations	Paratransit Operations	Eliminations Debit	Eliminations Credit	Total
Assets					
Current assets					
Cash and cash equivalents	\$ 4,317,147	\$ 600	\$ -	\$ -	\$ 4,317,747
Accounts receivable	519,389	57,241	-	-	576,630
Parts and supplies inventories, net	6,101,613	529,443	-	-	6,631,056
Intercompany receivable	72,764,509	2,726,221	-	75,490,730 (1)	-
Total current assets	83,702,658	3,313,505	-	75,490,730	11,525,433
Restricted assets held by Oahu Transit Services, Inc. (2)	740,529	-	-	-	740,529
Property and equipment, net	137,084,978	4,206,457	-	-	141,291,435
Other assets	1,127,629	-	-	-	1,127,629
Total assets	222,655,794	7,519,962	-	75,490,730	154,685,026
Liabilities and Net Assets					
Current liabilities					
Accounts payable	984,816	58,429	-	-	1,043,245
Payable to Oahu Transit Services, Inc. for accrued expenses	666,911	115,565	-	-	782,476
Intercompany payables	2,726,221	72,764,509	75,490,730 (1)	-	-
Reserve for insurance claims payable (2)	10,370,854	-	-	-	10,370,854
Deferred income	1,244,150	-	-	-	1,244,150
Total current liabilities	15,992,952	72,938,503	75,490,730	-	13,440,725
Noncurrent payable to Oahu Transit Services, Inc.	2,283,525	-	-	-	2,283,525
Total liabilities	18,276,477	72,938,503	75,490,730	-	15,724,250
Net assets					
Invested in capital assets	137,084,978	4,206,457	-	-	141,291,435
Unrestricted	67,294,339	(69,624,998)	-	-	(2,330,659)
Total net assets	\$ 204,379,317	\$ (65,418,541)	\$ -	\$ -	\$ 138,960,776

(1) Elimination of intercompany receivables and payables.

(2) Amount included in the bus operations column does not include an allocation to paratransit operations.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Operations Information
Year Ended June 30, 2004**

Schedule 2-1

	Bus Operations	Paratransit Operations	Eliminations Debit	Eliminations Credit	Total
Operating revenues					
Passenger fares for transit services	\$ 33,476,110	\$ 1,410,878	\$ -	\$ -	\$ 34,886,988
Nontransportation revenue	252,805	17,456	-	-	270,261
Special service revenue	176,128	-	-	-	176,128
Total operating revenues	33,905,043	1,428,334	-	-	35,333,377
Operating expenses					
Contract services	86,097,396	12,290,672	-	-	98,388,068
Depreciation	13,632,660	1,278,490	-	-	14,911,150
Insurance	9,882,468	1,095,164	-	-	10,977,632
Material and supplies	8,713,217	1,034,389	-	-	9,747,606
Fuel and lubricants	5,713,188	767,352	-	-	6,480,540
Services	4,291,401	735,170	-	-	5,026,571
State fuel taxes	1,909,194	192,618	-	-	2,101,812
Utilities, rentals and others	1,153,020	357,665	-	-	1,510,685
Total operating expenses	131,392,544	17,751,520	-	-	149,144,064
Operating loss	(97,487,501)	(16,323,186)	-	-	(113,810,687)
Nonoperating revenue (expense)					
Interest income (1)	12,396	-	-	-	12,396
Loss on disposal or write-off of property and equipment	(57,041)	-	-	-	(57,041)
Net decrease in fair value of investments	(3,662)	-	-	-	(3,662)
Loss before transfers and contributions	(97,535,808)	(16,323,186)	-	-	(113,858,994)
Transfers – Appropriations from City and County of Honolulu (1)					
Contributions	72,642,042	-	-	-	72,642,042
Change in net assets	67,231,348	507,495	-	-	67,738,843
	42,337,582	(15,815,691)	-	-	26,521,891
Net assets					
Beginning of year	204,379,312	(65,418,536)	-	-	138,960,776
End of year	\$ 246,716,894	\$ (81,234,227)	\$ -	\$ -	\$ 165,482,667

(1) Amount included in the bus operations column does not include an allocation to paratransit operations.

**City and County of Honolulu
Public Transportation System –
Bus and Paratransit Operations
Operations Information
Year Ended June 30, 2003**

Schedule 2-2

	Bus Operations	Paratransit Operations	Eliminations Debit	Eliminations Credit	Total
Operating revenues					
Passenger fares for transit services	\$ 29,935,024	\$ 1,422,700	\$ -	\$ -	\$ 31,357,724
Nontransportation revenue	224,250	14,325	-	-	238,575
Special service revenue	179,541	-	-	-	179,541
Total operating revenues	<u>30,338,815</u>	<u>1,437,025</u>	-	-	<u>31,775,840</u>
Operating expenses					
Contract services	88,469,401	11,436,154	-	-	99,905,555
Depreciation	12,356,159	1,232,191	-	-	13,588,350
Insurance	9,145,814	2,019,884	-	-	11,165,698
Material and supplies	8,096,433	626,518	-	-	8,722,951
Fuel and lubricants	5,564,828	626,146	-	-	6,190,974
Services	2,815,614	792,597	-	-	3,608,211
State fuel taxes	2,094,708	206,689	-	-	2,301,397
Utilities, rentals and others	1,169,576	312,820	-	-	1,482,396
Total operating expenses	<u>129,712,533</u>	<u>17,252,999</u>	-	-	<u>146,965,532</u>
Operating loss	<u>(99,373,718)</u>	<u>(15,815,974)</u>	-	-	<u>(115,189,692)</u>
Nonoperating revenue (expense)					
Interest income (1)	32,439	-	-	-	32,439
Loss on disposal or write-off of property and equipment	(1,084,585)	(133,993)	-	-	(1,218,578)
Net decrease in fair value of investments	(61,241)	-	-	-	(61,241)
Loss before transfers and contributions	<u>(100,487,105)</u>	<u>(15,949,967)</u>	-	-	<u>(116,437,072)</u>
Transfers – Appropriations from City and County of Honolulu (1)					
Contributions	74,612,893	-	-	-	74,612,893
Change in net assets	30,799,792	2,200,249	-	-	33,000,041
	4,925,580	(13,749,718)	-	-	(8,824,138)
Net assets					
Beginning of year	199,453,732	(51,668,818)	-	-	147,784,914
End of year	<u>\$ 204,379,312</u>	<u>\$ (65,418,536)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 138,960,776</u>

(1) Amount included in the bus operations column does not include an allocation to paratransit operations.