

**CITY AND COUNTY OF HONOLULU
PUBLIC TRANSPORTATION SYSTEM -
BUS AND PARATRANSIT OPERATIONS**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY
INFORMATION WITH INDEPENDENT AUDITORS' REPORT**

Fiscal Years Ended June 30, 2005 and 2004

**CITY AND COUNTY OF HONOLULU
PUBLIC TRANSPORTATION SYSTEM -
BUS AND PARATRANSIT OPERATIONS**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of the City and County of Honolulu, Public Transportation System - Bus and Paratransit Operations (Bus and Paratransit Operations), as of June 30, 2005, and the related statements of revenues, expenses and changes in net assets, and cash flows for the fiscal year then ended. These financial statements are the responsibility of the management of the Bus and Paratransit Operations. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Bus and Paratransit Operations as of June 30, 2004, were audited by other auditors whose report dated October 1, 2004, expressed an unqualified opinion on those statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note A, the financial statements of the 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 business-type activities of the City and County of Honolulu that is attributable to the transactions of the 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, 2005, and the changes in its financial position and its cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City and County of Honolulu, Public Transportation System - Bus and Paratransit Operations as of June 30, 2005, and the changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as of and for the fiscal year ended June 30, 2005, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Nishihama & Kishida, CPAs, Inc.

Honolulu, Hawaii
October 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City and County of Honolulu, Public Transportation System - Bus and Paratransit Operations (Bus and Paratransit Operations) financial report presents the reader with an introduction and overview of the Bus and Paratransit Operations' financial performance during the fiscal year ended June 30, 2005. Please read it in conjunction with the Bus and Paratransit Operations's financial statements, which follows this section.

The City and County of Honolulu public transportation system plays a vital role in Hawaii's economy as the primary means of public transportation on the island of Oahu. The Bus Operations unit (TheBus) provides regular bus services to the public, and the Paratransit Operations unit (Handi-Van) provides van transportation services for those people who cannot readily use the bus services.

FINANCIAL HIGHLIGHTS

- The Bus and Paratransit Operations' net assets decreased by \$5.8 million or 4%. The term "net assets" refers to the difference between assets and liabilities.
- Operating revenues increased by \$6.3 million or 18% over the prior fiscal year.
- Total expenses for the fiscal year increased by approximately \$11.8 million or 8% over the prior fiscal year.

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,

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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).

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 detailed statements of net assets and operations for the separate balances and transactions for TheBus & Handi-Van.

FINANCIAL ANALYSIS

A summary of operations and changes in net assets for the fiscal years ended June 30, 2005, 2004, and 2003 follows:

Table 1
Condensed Statements of Revenues,
Expenses and Changes in Net Assets
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 41,646	\$ 35,333	\$ 31,776
Nonoperating revenues	<u>7</u>	<u>9</u>	<u>--</u>
Total revenues	<u>41,653</u>	<u>35,342</u>	<u>31,776</u>
Depreciation	17,831	14,911	13,588
Other operating expenses	143,051	134,233	133,378
Nonoperating expenses	<u>133</u>	<u>57</u>	<u>1,247</u>
Total expenses	<u>161,015</u>	<u>149,201</u>	<u>148,213</u>
Loss from operations	(119,362)	(113,859)	(116,437)
Transfers and contributions	<u>113,526</u>	<u>140,381</u>	<u>107,613</u>
Increase (decrease) in net assets	\$ <u>(5,836)</u>	\$ <u>26,522</u>	\$ <u>(8,824)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

A condensed summary of the Bus and Paratransit Operations' net assets at June 30, 2005, 2004, and 2003 is shown below:

Table 2
Condensed Statements of Net Assets
(in thousands of dollars)

	2005	2004	2003
Current and other assets	\$ 15,567	\$ 13,723	\$ 12,653
Restricted assets	1,976	587	740
Capital assets, net	160,750	169,238	141,292
Total assets	178,293	183,548	154,685
Current liabilities	15,613	15,032	13,441
Noncurrent liabilities	3,033	3,033	2,283
Total liabilities	18,646	18,065	15,724
Net assets			
Invested in capital assets	160,750	169,238	141,292
Unrestricted	(1,103)	(3,755)	(2,331)
Total net assets	\$ 159,647	\$ 165,483	\$ 138,961

The largest portion of the Bus and Paratransit Operations' net assets represents its investment in capital assets (e.g., buses, paratransit vans, buildings, maintenance equipment, etc.). The Bus and Paratransit Operations uses these capital assets to provide services to its users of the public transportation system; consequently, these assets are not available to liquidate liabilities or for future spending.

The change in net assets is an indicator of whether the overall fiscal condition of the Bus and Paratransit Operations improved or worsened during the fiscal year. The total net assets may serve over time as a useful indicator of the Bus and Paratransit Operations' financial position. The total assets exceed liabilities by approximately \$160 million, \$165 million, and \$139 million at June 30, 2005, 2004, and 2003, respectively. Net assets decreased by approximately \$6 million or 4% from June 30, 2004, and increased by approximately \$27 million or 19% from June 30, 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2005, the Bus and Paratransit Operations had \$161 million invested in capital assets as shown in Table 4. There was a net decrease (additions, deductions and depreciation) of \$8.5 million or 5% and a net increase of \$28 million or 20% for the fiscal years ended June 30, 2005 and 2004, respectively.

Table 4
Capital Assets
(in thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Buses	\$ 155,964	\$ 154,947	\$ 134,968
Shops, buildings, building improvements and renovations	50,739	50,720	50,479
Shop and other equipment	29,876	30,036	18,142
Paratransit vans	8,542	8,126	9,738
Automobiles and trucks	2,023	1,945	1,890
Furniture and equipment	<u>127</u>	<u>134</u>	<u>129</u>
	247,271	245,908	215,346
Less accumulated depreciation	<u>(144,369)</u>	<u>(134,518)</u>	<u>(131,903)</u>
	102,902	111,390	83,443
Land	<u>57,848</u>	<u>57,848</u>	<u>57,848</u>
Total	\$ <u>160,750</u>	\$ <u>169,238</u>	\$ <u>141,291</u>

Major capital asset additions and disposals to the public transportation system for the fiscal year ended June 30, 2005, included the following:

- Acquisitions of additional buses for \$8.2 million, which includes \$7.9 million for the new hybrid buses; and
- Disposals of older bus lines with an original cost of \$7.2 million that was fully depreciated.

REQUEST FOR INFORMATION

The financial report is designed to provide a general overview of the Bus and Paratransit Operations' finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed in writing to the City and County of Honolulu, Department of Transportation Services.

	<u>2005</u>	<u>2004</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 1,816,852	\$ 1,016,006
Payable to Oahu Transit Services, Inc. for accrued expenses	--	1,533,990
Reserve for insurance claims payable	12,289,536	11,381,331
Deferred income	<u>1,506,894</u>	<u>1,100,980</u>
Total current liabilities	15,613,282	15,032,307
NONCURRENT PAYABLE TO OAHU TRANSIT SERVICES, INC.		
Total liabilities	<u>3,033,043</u>	<u>3,033,043</u>
	<u>18,646,325</u>	<u>18,065,350</u>
NET ASSETS		
Invested in capital assets	160,750,231	169,238,368
Unrestricted	<u>(1,103,503)</u>	<u>(3,755,701)</u>
Total net assets	<u>159,646,728</u>	<u>165,482,667</u>
	<u>\$ 178,293,053</u>	<u>\$ 183,548,017</u>

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Fiscal Years Ended June 30, 2005 and 2004**

	2005	2004
OPERATING REVENUES		
Passenger fares for transit services	\$ 41,099,829	\$ 34,886,988
Nontransportation revenue	315,117	270,261
Special service revenue	231,522	176,128
	41,646,468	35,333,377
OPERATING EXPENSES BEFORE DEPRECIATION		
Contract services	107,037,046	98,388,068
Insurance	8,751,645	10,977,632
Material and supplies	8,947,727	9,747,606
Fuel and lubricants	10,454,316	6,480,540
Services	3,579,293	5,026,571
State fuel taxes	2,513,115	2,101,812
Utilities, rentals and others	1,767,932	1,510,685
	143,051,074	134,232,914
Loss from operations before depreciation	(101,404,606)	(98,899,537)
DEPRECIATION	17,831,623	14,911,150
Loss from operations	(119,236,229)	(113,810,687)
NONOPERATING INCOME (EXPENSE)		
Interest income	6,886	12,396
Loss on disposal of equipment and parts	(132,708)	(57,041)
Net decrease in fair value of investments	--	(3,662)
	(125,822)	(48,307)
Net loss before transfers and contributions	(119,362,051)	(113,858,994)
TRANSFERS	76,584,091	72,642,042
CONTRIBUTIONS	36,942,021	67,738,843
CHANGE IN NET ASSETS	(5,835,939)	26,521,891
NET ASSETS AT BEGINNING OF FISCAL YEAR	165,482,667	138,960,776
NET ASSETS AT END OF FISCAL YEAR	\$ 159,646,728	\$ 165,482,667

See accompanying notes to financial statements.

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2005 and 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passengers	\$ 42,687,129	\$ 34,363,595
Cash paid to suppliers	(72,684,509)	(64,868,604)
Cash paid to employees	<u>(72,180,122)</u>	<u>(66,909,940)</u>
Net cash used in operating activities	<u>(102,177,502)</u>	<u>(97,414,949)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers and contributions	<u>104,214,188</u>	<u>97,735,242</u>
Net cash provided by noncapital financing activities	<u>104,214,188</u>	<u>97,735,242</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Direct purchases of capital assets	<u>(51,674)</u>	<u>--</u>
Net cash used in investing activities	<u>(51,674)</u>	<u>--</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity and sale of investments	10,130,513	2,753,729
Purchase of investments	(10,130,866)	(2,758,107)
Interest income	<u>6,886</u>	<u>12,393</u>
Net cash provided by investing activities	<u>6,533</u>	<u>8,015</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,991,545	328,308
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR		
(including \$587,400 and \$740,529 of cash and cash equivalents in restricted assets in 2005 and 2004, respectively)	<u>5,386,584</u>	<u>5,058,276</u>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR		
(including \$1,976,328 and \$587,400 of cash and cash equivalents in restricted assets in 2005 and 2004, respectively)	\$ <u>7,378,129</u>	\$ <u>5,386,584</u>

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2005 and 2004**

	2005	2004
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
Loss from operations	\$ (119,236,229)	\$ (113,810,687)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	17,831,623	14,911,150
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable, net	634,747	(826,616)
Parts and supplies inventories	(434,902)	(79,900)
Receivable from Oahu Transit Services, Inc. for accrued expenses	(2,412,933)	--
Other assets	859,217	--
Increase (decrease) in:		
Accounts payable	800,846	22,765
Payable to Oahu Transit Services, Inc. for accrued expenses	(1,533,990)	1,501,032
Reserve for insurance claims payable	908,205	1,010,477
Deferred income	405,914	(143,170)
Net cash used in operating activities	\$ <u>(102,177,502)</u>	\$ <u>(97,414,949)</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Contribution of fixed assets from City and County of Honolulu	\$ 9,311,924	\$ 42,645,643

See accompanying notes to financial statements.

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004**

NOTE A - FINANCIAL 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 C, the City selected Oahu Transit Services, Inc. (OTS), a not-for-profit organization, 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 as part of the City's Public Transportation System proprietary funds. 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City's Public Transportation System conform to generally accepted accounting principles as applicable to enterprise activities of governmental units as promulgated by the Governmental Accounting Standards Board (GASB). In accordance with GASB standards, the City has elected not to apply the Financial Accounting Standards Board pronouncements on accounting and financial reporting that were issued after November 30, 1989.

- (1) **Basis of accounting** - An enterprise fund is used to account for the acquisition, operation and maintenance of government facilities and services that are entirely or predominantly supported by user charges. The bus and paratransit systems' operations are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting is utilized. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are 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.

- (2) **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 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, 2005 and 2004**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (3) **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.
- (4) **Accounts receivable** - Accounts receivable consists primarily of amounts due from third parties who purchase transportation services. Accounts are written-off when it is believed, after considering economic conditions, business conditions, and collection efforts, that the accounts are uncollectible. Management considers all accounts receivable as of the current fiscal year-end to be fully collectible. Accordingly, no provision for losses has been established.
- (5) **Risk management** - The Bus and Paratransit Operations is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss is reasonably estimable.

For the prior and current fiscal years, the City maintained risk property insurance covering all real and personal property of the City, including the structures, equipment, inventory and rolling stock owned by the City and provided to OTS to operate and manage the transit system for the City. This master policy provided \$100 million in blanket limits, subject to a general deductible of \$75,000 and various deductibles for the perils of earthquake, flood, and hurricane.

- (6) **Parts and supplies inventories** - Inventory of parts and supplies are stated at weighted average cost.
- (7) **Investments** - Investments reported as restricted assets are recorded at fair value based on quoted market prices.
- (8) **Property and equipment** - Fixed assets with an initial, individual cost of \$5,000 or more for equipment and \$100,000 for buildings, structures and infrastructure, and an estimated life of more than one year are capitalized. 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:

	<u>Years</u>
Shops, buildings, building improvements and renovations	31.5 to 40
Buses	7
Paratransit vans	5
All other assets	5 to 15

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004**

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (9) **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 terminated payments.

- (10) **Deferred income** - Bus vouchers are recognized as revenues upon redemption.
- (11) **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 assets, net of accumulated depreciation. Unrestricted net assets consist of all other net assets not included in the other category.
- (12) **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.
- (13) **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.
- (14) **Contributions** - Contributions from the City for capital purchases and property and equipment (primarily buses and vans) and operating subsidies that were funded by federal and local grants are recognized as income when the assets or resources are received.

NOTE C - 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 provides for the City to pay OTS an annual management fee of \$395,000 for the period from

**City and County of Honolulu
Public Transportation System -
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NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004**

NOTE C - MANAGEMENT AND OPERATIONS AGREEMENT (Continued)

October 1, 2004 through September 30, 2005, and is increased by \$15,000 for each of the two remaining years of the contract expiring on September 30, 2007. 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.

NOTE D - CASH AND INVESTMENTS

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

State statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of other states, cities, and counties, mutual funds and bank repurchase agreements. Investments in repurchase agreements are primarily U.S. government and federal agency securities. The City does not have a policy relative to interest rate risk.

NOTE E - 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 deposit 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, 2005 and 2004, 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 fiscal year were \$(353) and \$(3,662) for fiscal years 2005 and 2004, respectively.

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004**

NOTE F - PROPERTY AND EQUIPMENT

The changes in capital assets were as follows:

	Balance July 1, 2004	Additions	Retirements/ Transfers	Balance June 30, 2005
Buses	\$ 154,947,134	\$ 8,251,352	\$ (7,234,637)	\$ 155,963,849
Shops, buildings, building improvements and renovations	50,719,786	19,687	--	50,739,473
Shop and other equipment	30,036,321	147,329	(307,196)	29,876,454
Paratransit vans	8,126,176	867,310	(451,983)	8,541,503
Automobiles and trucks	1,944,823	77,920	--	2,022,743
Furniture and equipment	133,848	--	(6,795)	127,053
	245,908,088	9,363,598	(8,000,611)	247,271,075
Less accumulated depreciation	(134,517,569)	(17,831,623)	7,980,499	(144,368,693)
	111,390,519	(8,468,025)	(20,112)	102,902,382
Land	57,847,849	--	--	57,847,849
Property and equipment, net	\$ <u>169,238,368</u>	\$ <u>(8,468,025)</u>	\$ <u>(20,112)</u>	\$ <u>160,750,231</u>
	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
	215,346,224	42,858,083	(12,296,219)	245,908,088
Less accumulated depreciation	(131,902,638)	(14,911,150)	12,296,219	(134,517,569)
	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>

Depreciation expense was \$17,831,623 and \$14,911,150 for the fiscal years ended June 30, 2005 and 2004, respectively.

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004**

NOTE G - NET ASSETS

At June 30, 2005 and 2004, net assets consisted of the following:

	<u>2005</u>	<u>2004</u>
Invested in capital assets		
Property and equipment, net	\$ 160,750,231	\$ 169,238,368
Unrestricted	<u>(1,103,503)</u>	<u>(3,755,701)</u>
	<u>\$ 159,646,728</u>	<u>\$ 165,482,667</u>

NOTE H - RESERVE FOR INSURANCE CLAIMS PAYABLE

The City sponsors an automotive and general liability self-insurance program for OTS. This 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, 2001 and \$1,000,000 per occurrence from July 1, 2001 through June 30, 2004, increasing to \$3 million effective July 1, 2004. OTS has obtained excess insurance coverage for general liability and automotive claims and workers' compensation through various insurance companies for amounts in excess of claim 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 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 additional provision for any liability that may result from the resolution of these claims has been made in the accompanying financial statements.

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004**

NOTE H - RESERVE FOR INSURANCE CLAIMS PAYABLE (Continued)

The amounts payable for claims incurred and claims incurred but not reported for the years ended June 30, 2005 and 2004, are as follows:

	Balance July 1, 2004	Current Year Claims and Change in Provision for Prior Years	Payments for Claims and Fees	Balance June 30, 2005
Automotive and general liability	\$ 4,134,000	\$ 2,066,005	\$ 2,621,005	\$ 3,579,000
Workers' compensation	<u>7,247,331</u>	<u>5,998,736</u>	<u>4,535,531</u>	<u>8,710,536</u>
Reserve for insurance claims payable	\$ <u>11,381,331</u>	\$ <u>8,064,741</u>	\$ <u>7,156,536</u>	\$ <u>12,289,536</u>

	Balance July 1, 2003	Current Year Claims and Change in Provision for Prior Years	Payments for Claims	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>

The OTS' workers' compensation loss and allocated loss adjustment expense (ALAE) reserve as of June 30, 2005, is estimated to be \$8.7 million on an undiscounted basis and \$7.9 million on a discounted basis (discounted at 5.5%). OTS' liability loss and ALAE reserve as of June 30, 2005 for accidents occurring from January 1, 2000 through June 30, 2005, is estimated to be \$3.6 million on an undiscounted basis and \$3.3 million on a discounted basis (discounted at 5.5%). The actuarially determined reserve estimates are based on data net of subrogation and salvage and net of excess insurance. They include the third party administrator fee for workers' compensation.

Determination of a reserve account for workers' compensation and automotive liability claims is a significant estimate. It is reasonably possible that one or more future events could result in a material change in the estimated claim losses in the near term.

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004**

NOTE I - EMPLOYEE BENEFIT PLANS

- (1) **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 the following rates:

Division	Period	Fixed rate per straight-time hour
Bus operations	July 1, 2003 to June 30, 2005	3.00
Paratransit operations - dispatch/ reservations, finance and maintenance employees	June 1, 2004 to May 31, 2005 June 1, 2005 to June 30, 2005	1.25 1.60
Paratransit operations - operator employees	July 1, 2003 to February 28, 2005 March 1, 2005 to June 30, 2005	0.75 1.00

Pension expense under the multiemployer plan was \$8,856,134 and \$8,052,195 for the fiscal years ended June 30, 2005 and 2004, 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 \$595,472 and \$364,458 for the fiscal years ended June 30, 2005 and 2004, 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.

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004**

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

OTS's annual pension cost and net prepaid pension cost for the single-employer pension plan at June 30, 2005 and 2004, are as follows:

	<u>2005</u>	<u>2004</u>
Annual required contribution	\$ 342,982	\$ 137,871
Interest on net pension asset	(610,861)	(548,197)
Adjustment to annual required contribution	<u>863,351</u>	<u>774,784</u>
Annual pension cost	595,472	364,458
Less contributions made	<u>1,200,000</u>	<u>1,200,000</u>
Increase in net pension asset	604,528	835,542
Net pension asset		
Beginning of fiscal year	<u>8,144,823</u>	<u>7,309,281</u>
End of fiscal year	<u>\$ 8,749,351</u>	<u>\$ 8,144,823</u>

The annual required contribution of the single-employer pension plan for the current fiscal year was determined as part of the June 30, 2005 actuarial valuation using the entry age normal with frozen initial liability actuarial cost method. The actuarial assumptions include (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 contract (book) basis for fixed income assets; book basis (adjusted by spreading unrealized appreciation and depreciation over 4 years) for long-term equity investments; and market value for short-term, real estate, and bond mutual funds. The remaining amortization period at June 30, 2005 was 9 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost ("APC")</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
June 30,2003	\$ 203,121	591%	\$ 7,309,281
June 30,2004	\$ 364,458	329%	\$ 8,144,823
June 30,2005	\$ 595,472	202%	\$ 8,749,351

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004**

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

Required Supplementary Information - Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
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%
March 1, 2004	\$ 16,339,465	\$ 19,689,495	\$ 3,350,030	83%	\$ 5,105,025	65.6%

On July 1, 2004, OTS adopted a plan change in the benefit accrual rate from 2.00% to 2.25% of effective compensation. If the change were effective March 1, 2003, the impact would have resulted in the UAAL amounting to approximately \$3,600,000.

- (2) **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 fiscal years ended June 30, 2005 and 2004 amounted to \$209,433 and \$204,587, respectively. As of June 30, 2005, twenty-three participants are eligible to receive benefits.

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 \$0.26 and \$0.05 per straight-time compensable hour earned on behalf of bus and paratransit operations employees, respectively. Contributions for the fiscal years ended June 30, 2005 and 2004 amounted to \$709,693 and \$526,245, respectively.

- (3) **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 those amounts, and all income attributable to those amounts, property or rights are maintained in annuity contracts for each respective employee. In accordance with GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, deferred compensation plan assets of \$16,588,937 and \$14,137,881 are not reflected in the OTS separate audited financial statements at June 30, 2005 and 2004, respectively.

**City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004**

NOTE J - OPERATING LEASE COMMITMENT

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

The following is a schedule of approximate future minimum lease rentals on noncancelable operating leases as of June 30, 2005:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2006	\$ 14,700
2007	<u>3,200</u>
	\$ <u>17,900</u>

NOTE K - 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.

SUPPLEMENTARY INFORMATION

City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
DETAILED STATEMENT OF NET ASSETS
June 30, 2005

	Bus and OTS Insurance Operations	Paratransit Operations	Eliminations	Debit	Credit	Total
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	\$ 5,401,201	\$ 600	\$ --	\$ --	\$ --	\$ 5,401,801
Accounts receivable	690,592	77,907	--	--	--	768,499
Parts and supplies inventories, net of reserve for obsolescence	6,325,167	658,094	--	--	--	6,983,261
Advance to Oahu Transit Services, Inc. for accrued expenses	2,325,601	87,332	--	--	--	2,412,933
Intercompany receivable	102,897,795	2,088,382	--	104,986,177	--	--
Total current assets	<u>117,640,356</u>	<u>2,912,315</u>	<u>--</u>	<u>104,986,177</u>	<u>--</u>	<u>15,566,494</u>
RESTRICTED ASSETS						
Held by Oahu Transit Services, Inc.	<u>1,976,328</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,976,328</u>
Total restricted assets	<u>1,976,328</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,976,328</u>
PROPERTY AND EQUIPMENT, NET	158,067,240	2,682,991	--	--	--	160,750,231
OTHER ASSETS						
Total assets	<u>\$ 277,683,924</u>	<u>\$ 5,595,306</u>	<u>\$ --</u>	<u>\$ 104,986,177</u>	<u>\$ --</u>	<u>\$ 178,293,053</u>

City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
DETAILED STATEMENT OF NET ASSETS (Continued)
June 30, 2005

	Bus and OTS Insurance Operations	Paratransit Operations	Eliminations	Total
			Debit	Credit
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	\$ 1,648,708	\$ 168,144	\$ --	\$ --
Intercompany payables	2,088,382	102,897,795	104,986,177	--
Reserve for insurance claims payable	12,289,536	--	--	--
Deferred income	1,506,894	--	--	--
Total current liabilities	17,533,520	103,065,939	104,986,177	--
NONCURRENT PAYABLE TO OAHU TRANSIT SERVICES, INC.				
	3,033,043	--	--	--
Total liabilities	20,566,563	103,065,939	104,986,177	--
NET ASSETS				
Invested in capital assets	158,067,240	2,682,991	--	--
Unrestricted	99,050,121	(100,153,624)	--	--
Total net assets	257,117,361	(97,470,633)	--	--
	\$ 277,683,924	\$ 5,595,306	\$ 104,986,177	\$ --
				\$ 178,293,053

City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
DETAILED STATEMENT OF NET ASSETS
June 30, 2004

	Bus and OTS Insurance Operations	Paratransit Operations	Eliminations	Debit	Credit	Total
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 of reserve for obsolescence	6,110,304	550,651	--	--	--	6,660,955
Intercompany receivable	87,292,266	2,580,217	--	89,872,483	--	--
Total current assets	<u>99,531,983</u>	<u>3,203,885</u>	<u>--</u>	<u>89,872,483</u>	<u>--</u>	<u>12,863,385</u>
RESTRICTED ASSETS						
Held by Oahu Transit Services, Inc.	<u>587,400</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>587,400</u>
Total restricted assets	<u>587,400</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>587,400</u>
PROPERTY AND EQUIPMENT, NET	166,266,979	2,971,389	--	--	--	169,238,368
OTHER ASSETS						
Total assets	<u>\$ 267,245,226</u>	<u>\$ 6,175,274</u>	<u>\$ --</u>	<u>\$ 89,872,483</u>	<u>\$ --</u>	<u>\$ 183,548,017</u>

City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
DETAILED STATEMENT OF NET ASSETS (Continued)
June 30, 2004

	Bus and OTS Insurance Operations	Paratransit Operations	Eliminations	Credit	Total
			Debit		
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	--	--
Reserve for insurance claims payable	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.					
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
	\$ 267,245,226	\$ 6,175,274	\$ 89,872,483	\$ --	\$ 183,548,017

City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
DETAILED STATEMENT OF OPERATIONS
Fiscal Year Ended June 30, 2005

	Bus and OTS Insurance Operations	Paratransit Operations	Eliminations Debit	Eliminations Credit	Total
OPERATING REVENUES					
Passenger fares for transit services	\$ 39,693,898	\$ 1,405,931	\$ --	\$ --	\$ 41,099,829
Nontransportation revenue	299,331	15,786	--	--	315,117
Special service revenue	<u>231,522</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>231,522</u>
	<u>40,224,751</u>	<u>1,421,717</u>	<u>--</u>	<u>--</u>	<u>41,646,468</u>
OPERATING EXPENSES BEFORE DEPRECIATION					
Contract services	94,195,014	12,842,032	--	--	107,037,046
Insurance	7,643,780	1,107,865	--	--	8,751,645
Material and supplies	8,098,904	848,823	--	--	8,947,727
Fuel and lubricants	9,398,075	1,056,241	--	--	10,454,316
Services	2,635,068	944,225	--	--	3,579,293
State fuel taxes	2,282,571	230,544	--	--	2,513,115
Utilities, rentals and others	<u>1,340,867</u>	<u>427,065</u>	<u>--</u>	<u>--</u>	<u>1,767,932</u>
	<u>125,594,279</u>	<u>17,456,795</u>	<u>--</u>	<u>--</u>	<u>143,051,074</u>
	<u>(85,369,528)</u>	<u>(16,035,078)</u>	<u>--</u>	<u>--</u>	<u>(101,404,606)</u>
Loss from operations before depreciation					
	16,646,641	1,184,982	--	--	17,831,623
	<u>(102,016,169)</u>	<u>(17,220,060)</u>	<u>--</u>	<u>--</u>	<u>(119,236,229)</u>
DEPRECIATION					
Loss from operations					
	6,886	--	--	--	6,886
	<u>(132,708)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(132,708)</u>
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
	<u>(125,822)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(125,822)</u>
NONOPERATING INCOME (EXPENSE)					
Interest income					
Loss on disposal of equipment and parts					
Net decrease in fair value of investments					
	\$ (102,141,991)	\$ (17,220,060)	\$ --	\$ --	\$ (119,362,051)
Net loss before transfers and contributions					

City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
DETAILED STATEMENT OF OPERATIONS (Continued)
Fiscal Year Ended June 30, 2005

	Bus and OTS				Eliminations	Total
	Insurance Operations	Paratransit Operations	Debit	Credit		
NET LOSS BEFORE TRANSFERS AND CONTRIBUTIONS	\$ (102,141,991)	\$ (17,220,060)	--	\$ --	\$ --	\$ (119,362,051)
TRANSFERS CONTRIBUTIONS	76,584,091	--	--	--	--	76,584,091
CHANGE IN NET ASSETS	<u>35,958,367</u>	<u>983,654</u>	--	--	--	<u>36,942,021</u>
	10,400,467	(16,236,406)	--	--	--	(5,835,939)
NET ASSETS AT BEGINNING OF FISCAL YEAR	<u>246,716,894</u>	<u>(81,234,227)</u>	--	--	--	<u>165,482,667</u>
NET ASSETS AT END OF FISCAL YEAR	<u>\$ 257,117,361</u>	<u>\$ (97,470,633)</u>	--	\$ --	\$ --	<u>\$ 159,646,728</u>

City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
DETAILED STATEMENT OF OPERATIONS
Fiscal Year Ended June 30, 2004

	Bus and OTS Insurance 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
	33,905,043	1,428,334	--	--	35,333,377
OPERATING EXPENSES BEFORE DEPRECIATION					
Contract services	86,097,396	12,290,672	--	--	98,388,068
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
	117,759,884	16,473,030	--	--	134,232,914
Loss from operations before depreciation	(83,854,841)	(15,044,696)	--	--	(98,899,537)
DEPRECIATION					
Loss from operations	13,632,660	1,278,490	--	--	14,911,150
	(97,487,501)	(16,323,186)	--	--	(113,810,687)
NONOPERATING INCOME (EXPENSE)					
Interest income	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)
	(48,307)	--	--	--	(48,307)
Net loss before transfers and contributions	\$ (97,535,808)	\$ (16,323,186)	\$ --	\$ --	\$ (113,858,994)

City and County of Honolulu
Public Transportation System -
Bus and Paratransit Operations
DETAILED STATEMENT OF OPERATIONS (Continued)
Fiscal Year Ended June 30, 2004

	Bus and OTS		Paratransit Operations	Eliminations		Total
	Insurance Operations			Debit	Credit	
NET LOSS BEFORE TRANSFERS AND CONTRIBUTIONS	\$ (97,535,808)	\$ (16,323,186)	\$	\$	--	\$ (113,858,994)
TRANSFERS CONTRIBUTIONS	72,642,042	--	--	--	--	72,642,042
CHANGE IN NET ASSETS	67,231,348	507,495	(15,815,691)	--	--	67,738,843
NET ASSETS AT BEGINNING OF FISCAL YEAR	42,337,582	(65,418,536)	--	--	--	26,521,891
NET ASSETS AT END OF FISCAL YEAR	204,379,312	(81,234,227)	\$	\$	--	138,960,776
	\$ 246,716,894	(81,234,227)	\$	\$	--	165,482,667