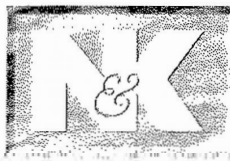


**CITY AND COUNTY OF HONOLULU  
PUBLIC TRANSPORTATION SYSTEM -  
BUS AND PARATRANSIT OPERATIONS**

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

**Fiscal Years Ended June 30, 2007 and 2006**



---

**NISHIHAMA & KISHIDA, CPAs, INC.**

---

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

**TABLE OF CONTENTS**

	<u>Page</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	3 - 4
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	5 - 9
<b>FINANCIAL STATEMENTS</b>	
Statements of Net Assets	10
Statements of Revenues, Expenses and Changes in Net Assets	11
Statements of Cash Flows	12 - 13
Notes to Financial Statements	14 - 25
<b>SUPPLEMENTARY INFORMATION</b>	
Schedule 1     Detailed Statement of Net Assets, June 30, 2007	27 - 28
Schedule 2     Detailed Statement of Net Assets, June 30, 2006	29 - 30
Schedule 3     Detailed Statement of Operations, Fiscal Year Ended June 30, 2007	31 - 32
Schedule 4     Detailed Statement of Operations, Fiscal Year Ended June 30, 2006	33 - 34



YAMAMOTO & KISHIDA, CPAS, INC.  
CERTIFIED PUBLIC ACCOUNTANTS

AMERICAN SAVINGS BANK TOWER  
1001 BISHOP STREET, SUITE 1700  
HONOLULU, HAWAII 96813-3696  
TELEPHONE (808) 524-2255  
FAX (808) 523-2090

## 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, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the fiscal years 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 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 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, 2007 and 2006, and the changes in its financial position and its cash flows for the fiscal 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, 2007 and 2006, and the changes in financial position and cash flows for the fiscal years 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 audits were 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 years ended June 30, 2007 and 2006, 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 basic financial statements taken as a whole.

*Nishihama & Kishida, CPAs, Inc.*

Honolulu, Hawaii  
October 25, 2007

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Fiscal Year Ended June 30, 2007**

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, 2007. 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 increased by \$5.7 million or 4%. The term "net assets" refers to the difference between assets and liabilities.
- Operating revenues increased by \$344,000 or 1% over the prior fiscal year.
- Transfers and contributions increased by \$29.1 million or 25% over the prior fiscal year.
- Total expenses for the fiscal year increased by approximately \$9.3 million or 5% over the prior fiscal year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to TheBus and 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 and Handi-Van's finances, in a manner similar to a private-sector business.

The statements of net assets present information of TheBus and 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 and 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 and 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 (Continued)**  
**Fiscal Year Ended June 30, 2007**

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 and Handi-Van.

**FINANCIAL ANALYSIS**

A summary of operations and changes in net assets for the fiscal years ended June 30, 2007, 2006, and 2005 follows:

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 43,592	\$ 43,248	\$ 41,646
Nonoperating revenues	<u>85</u>	<u>64</u>	<u>7</u>
Total revenues	<u>43,677</u>	<u>43,312</u>	<u>41,653</u>
Depreciation	18,176	16,614	17,831
Other operating expenses	164,115	156,105	143,051
Nonoperating expenses	<u>29</u>	<u>245</u>	<u>133</u>
Total expenses	<u>182,320</u>	<u>172,964</u>	<u>161,015</u>
Loss from operations	(138,643)	(129,652)	(119,362)
Transfers and contributions	<u>144,384</u>	<u>115,318</u>	<u>113,526</u>
Increase (decrease) in net assets	\$ <u>5,741</u>	\$ <u>(14,334)</u>	\$ <u>(5,836)</u>

**City and County of Honolulu  
Public Transportation System - Bus and Paratransit Operations  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Year Ended June 30, 2007**

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.

A condensed summary of the Bus and Paratransit Operations' net assets at June 30, 2007, 2006, and 2005 is shown below:

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 27,256	\$ 18,970	\$ 15,567
Restricted assets	2,331	3,043	1,976
Capital assets, net	<u>145,732</u>	<u>144,532</u>	<u>160,750</u>
Total assets	<u>175,319</u>	<u>166,545</u>	<u>178,293</u>
Current liabilities	18,436	16,684	15,613
Noncurrent liabilities	<u>5,829</u>	<u>4,548</u>	<u>3,033</u>
Total liabilities	<u>24,265</u>	<u>21,232</u>	<u>18,646</u>
Net assets			
Invested in capital assets	145,732	144,532	160,750
Unrestricted	<u>5,322</u>	<u>781</u>	<u>(1,103)</u>
Total net assets	<u>\$ 151,054</u>	<u>\$ 145,313</u>	<u>\$ 159,647</u>

The total assets exceed liabilities by approximately \$151 million, \$145 million, and \$160 million at June 30, 2007, 2006, and 2005, respectively. Net assets increased by approximately \$6 million or 4% from June 30, 2006, and decreased by approximately \$14 million or 9% from June 30, 2005. 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 use 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.

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2007**

**CAPITAL ASSET AND DEBT ADMINISTRATION**

As of June 30, 2007, the Bus and Paratransit Operations had \$146 million invested in capital assets as shown in Table 3. There was a net increase (additions, deductions and depreciation) of \$1.2 million or 1% and a net decrease of \$16 million or 10% for the fiscal years ended June 30, 2007 and 2006, respectively.

**Table 3**  
**Capital Assets**  
(in thousands of dollars)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Buses	\$ 168,540	\$ 155,676	\$ 155,964
Shops, buildings, building improvements and renovations	51,241	51,204	50,739
Shop and other equipment	26,653	29,903	29,876
Paratransit vans	10,167	8,333	8,542
Automobiles and trucks	1,941	1,932	2,023
Furniture and equipment	<u>119</u>	<u>162</u>	<u>127</u>
	258,661	247,210	247,271
Less accumulated depreciation	<u>167,378</u>	<u>160,661</u>	<u>144,369</u>
	91,283	86,549	102,902
Land	53,985	57,848	57,848
Assets not placed in service	<u>464</u>	<u>135</u>	<u>--</u>
 Total	 <u>\$ 145,732</u>	 <u>\$ 144,532</u>	 <u>\$ 160,750</u>

Major capital asset additions and disposals to the public transportation system for the fiscal year ended June 30, 2007, included the following:

- Acquisitions of 40 additional hybrid buses for \$19.4 million and 32 Paratransit vans for \$3.1 million.
- Disposals of older bus lines with an original cost of \$6.6 million that was fully depreciated.



**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2007**

- Transfer of three parcels of land with a total cost of \$3.8 million to the City and County of Honolulu.
- Construction in progress for the new Paratransit facility, which is currently paid and accounted for by the City and County of Honolulu.

**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.

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**STATEMENTS OF NET ASSETS**  
**June 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 16,545,606	\$ 8,484,282
Accounts receivable	1,487,021	1,539,517
Parts, supplies, and fuel inventories	7,062,830	6,614,276
Advance to Oahu Transit Services, Inc. for accrued expenses	<u>2,160,268</u>	<u>2,331,397</u>
Total current assets	<u>27,255,725</u>	<u>18,969,472</u>
<b>RESTRICTED ASSETS</b>		
Held by Oahu Transit Services, Inc.	<u>2,330,451</u>	<u>3,043,507</u>
Total restricted assets	<u>2,330,451</u>	<u>3,043,507</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>145,732,393</u>	<u>144,531,647</u>
Total assets	<u>\$ 175,318,569</u>	<u>\$ 166,544,626</u>

See accompanying notes to financial statements.

	<u>2007</u>	<u>2006</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,410,815	\$ 2,205,434
Payable to City and County of Honolulu	--	127,922
Reserve for insurance claims payable	14,302,686	12,912,254
Deferred income	<u>1,722,540</u>	<u>1,438,003</u>
Total current liabilities	18,436,041	16,683,613
<b>NONCURRENT PAYABLE TO OAHU TRANSIT SERVICES, INC.</b>		
	<u>5,828,416</u>	<u>4,548,202</u>
Total liabilities	<u>24,264,457</u>	<u>21,231,815</u>
<b>NET ASSETS</b>		
Invested in capital assets	145,732,393	144,531,647
Unrestricted	<u>5,321,719</u>	<u>781,164</u>
Total net assets	<u>151,054,112</u>	<u>145,312,811</u>
	<u>\$ 175,318,569</u>	<u>\$ 166,544,626</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, 2007 and 2006

	2007	2006
<b>OPERATING REVENUES</b>		
Passenger fares for transit services	\$ 43,001,835	\$ 42,785,076
Nontransportation revenue	350,029	282,728
Special service revenue	240,063	181,017
	43,591,927	43,248,821
<b>OPERATING EXPENSES BEFORE DEPRECIATION</b>		
Contract services	116,411,620	110,989,999
Insurance	12,284,779	10,834,963
Material and supplies	9,862,410	9,904,638
Fuel and lubricants	14,565,178	13,840,061
Outside services	6,334,209	5,444,559
State fuel taxes	2,614,775	2,615,287
Utilities, rentals and others	2,041,781	2,476,027
	164,114,752	156,105,534
Loss from operations before depreciation	(120,522,825)	(112,856,713)
<b>DEPRECIATION</b>	18,175,536	16,613,773
Loss from operations	(138,698,361)	(129,470,486)
<b>NONOPERATING INCOME (EXPENSE)</b>		
Interest income	85,050	63,587
Loss on disposal of equipment and parts	(29,118)	(244,737)
Other noncapital contributions	21,703,065	22,836,238
Land transfer to City and County of Honolulu	(3,862,406)	--
	17,896,591	22,655,088
Net loss before transfers and capital contributions	(120,801,770)	(106,815,398)
<b>TRANSFERS</b>	103,520,739	91,813,005
<b>CAPITAL CONTRIBUTIONS</b>	23,022,332	668,476
<b>CHANGE IN NET ASSETS</b>	5,741,301	(14,333,917)
<b>NET ASSETS AT BEGINNING OF FISCAL YEAR</b>	145,312,811	159,646,728
<b>NET ASSETS AT END OF FISCAL YEAR</b>	\$ 151,054,112	\$ 145,312,811

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, 2007 and 2006

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from passengers	\$ 43,928,960	\$ 42,408,912
Cash paid to suppliers	(79,466,932)	(78,580,253)
Cash paid to employees	<u>(82,203,987)</u>	<u>(74,376,133)</u>
Net cash used in operating activities	<u>(117,741,959)</u>	<u>(110,547,474)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers and noncapital contributions	<u>125,223,804</u>	<u>114,649,243</u>
Net cash provided by noncapital financing activities	<u>125,223,804</u>	<u>114,649,243</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Direct purchases of capital assets	<u>(216,356)</u>	<u>(14,372)</u>
Net cash used in investing activities	<u>(216,356)</u>	<u>(14,372)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from maturity and sale of investments	13,929,395	14,823,000
Purchase of investments	(12,485,983)	(16,270,007)
Interest income	<u>85,050</u>	<u>63,587</u>
Net cash provided by (used in) investing activities	<u>1,528,462</u>	<u>(1,383,420)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	8,793,951	2,703,977
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR</b>		
(including \$1,597,824 and \$1,976,328 of cash and cash equivalents in restricted assets in 2006 and 2005, respectively)	<u>10,082,106</u>	<u>7,378,129</u>
<b>CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR</b>		
(including \$2,330,451 and \$1,597,824 of cash and cash equivalents in restricted assets in 2007 and 2006, respectively)	\$ <u>18,876,057</u>	\$ <u>10,082,106</u>

City and County of Honolulu  
Public Transportation System - Bus and Paratransit Operations  
**STATEMENTS OF CASH FLOWS (Continued)**  
Fiscal Years Ended June 30, 2007 and 2006

	2007	2006
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Loss from operations	\$ (138,698,361)	\$ (129,470,486)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	18,175,536	16,613,773
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable, net	52,496	(771,018)
Parts and supplies inventories	(477,672)	124,248
Receivable from Oahu Transit Services, Inc. for accrued expenses	171,129	81,536
Other assets	2,271	288,983
Increase (decrease) in:		
Accounts payable	77,459	516,504
Payable to Oahu Transit Services, Inc. for accrued expenses	1,280,214	1,515,159
Reserve for insurance claims payable	1,390,432	622,718
Deferred income	284,537	(68,891)
	(117,741,959)	(110,547,474)
Net cash used in operating activities	\$ (117,741,959)	\$ (110,547,474)

**SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES**

Contribution of fixed assets from City and County of Honolulu	\$ 23,022,332	\$ 668,476
Land transfer to City and County of Honolulu	\$ 3,862,406	\$ --

See accompanying notes to financial statements.

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**

**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 nonprofit 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*** - The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized 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, 2007 and 2006**

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (3) **Cash and cash equivalents** - The City's 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, supplies, and fuel inventories** - Inventory of parts, supplies, and fuel 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's 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:



City and County of Honolulu  
Public Transportation System - Bus and Paratransit Operations  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

- (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 an estimated 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.
- (15) **Recently issued governmental accounting pronouncements** - GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement addresses how state and local governments should account for and report their costs and obligations related to other postemployment benefits (OPEB), including postemployment benefits healthcare and other nonpension benefits. Implementation will be required in the fiscal year 2008 financial report. The effect on adoption of this statement has not been determined.

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**

**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 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. On October 1, 2007, OTS extended the management agreement with the City through June 30, 2010. The agreement provides for the City to pay OTS an annual management fee of \$318,750 for the period from October 1, 2007 to June 30, 2008, \$450,500 for the fiscal year ending June 30, 2009, and \$468,520 for the fiscal year ending June 30, 2010.

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 credit 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

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**

**NOTE E - RESTRICTED ASSETS HELD BY OTS (Continued)**

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, 2007 and 2006, the restricted assets held by OTS consisted of cash and cash equivalents that were uninsured and uncollateralized and mutual funds that were either insured or registered in the Trust's name. Net realized losses from the sale of investments were \$2,271 and \$1,324 for the fiscal years ended June 30, 2007 and 2006, respectively.

Restricted assets as of June 30, 2007 and 2006, consisted of the following investments:

	2007	2006
Cash and cash equivalents	\$ 2,330,451	\$ 1,597,824
Mutual funds - fixed income U.S. government securities	--	1,445,683
	\$ 2,330,451	\$ 3,043,507

**NOTE F - PROPERTY AND EQUIPMENT**

The changes in capital assets were as follows:

	Balance July 1, 2006	Additions	Retirements/ Transfers	Balance June 30, 2007
Buses	\$ 155,676,190	\$ 19,463,564	\$ (6,600,154)	\$ 168,539,600
Buildings and improvements	51,203,602	36,995	--	51,240,597
Shop equipment	29,903,063	227,093	(3,477,459)	26,652,697
Paratransit vans	8,332,735	3,101,920	(1,267,083)	10,167,572
Automobiles and trucks	1,932,086	107,432	(98,564)	1,940,954
Furniture and office equipment	162,724	--	(43,576)	119,148
	247,210,400	22,937,004	(11,486,836)	258,660,568
Less accumulated depreciation	(160,660,716)	(18,175,536)	11,458,586	(167,377,666)
	86,549,684	4,761,468	(28,250)	91,282,902
Land	57,847,849	--	(3,862,406)	53,985,443
Assets not placed in service	134,114	464,048	(134,114)	464,048
Property and equipment, net	\$ 144,531,647	\$ 5,225,516	\$ (4,024,770)	\$ 145,732,393

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**

**NOTE F - PROPERTY AND EQUIPMENT (Continued)**

	Balance July 1, 2005	Additions	Retirements/ Transfers	Balance June 30, 2006
Buses	\$ 155,963,849	\$ --	(287,659)	\$ 155,676,190
Buildings and improvements	50,739,473	464,129	--	51,203,602
Shop equipment	29,876,454	41,926	(15,317)	29,903,063
Paratransit vans	8,541,503	--	(208,768)	8,332,735
Automobiles and trucks	2,022,743	--	(90,657)	1,932,086
Furniture and office equipment	127,053	42,679	(7,008)	162,724
	<u>247,271,075</u>	<u>548,734</u>	<u>(609,409)</u>	<u>247,210,400</u>
Less accumulated depreciation	<u>(144,368,693)</u>	<u>(16,613,773)</u>	<u>321,750</u>	<u>(160,660,716)</u>
	102,902,382	(16,065,039)	(287,659)	86,549,684
Land	57,847,849	--	--	57,847,849
Assets not placed in service	--	134,114	--	134,114
Property and equipment, net	<u>\$ 160,750,231</u>	<u>\$ (15,930,925)</u>	<u>\$ (287,659)</u>	<u>\$ 144,531,647</u>

Depreciation expense was \$18,175,536 and \$16,613,773 for the fiscal years ended June 30, 2007 and 2006, respectively.

**NOTE G - NET ASSETS**

At June 30, 2007 and 2006, net assets consisted of the following:

	<u>2007</u>	<u>2006</u>
Invested in capital assets		
Property and equipment, net	\$ 145,732,393	\$ 144,531,647
Unrestricted	<u>5,321,719</u>	<u>781,164</u>
	<u>\$ 151,054,112</u>	<u>\$ 145,312,811</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 million which increased to \$3 million effective July 1, 2004, and decreased to \$2 million effective July 1, 2006. 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 million per occurrence from July 1, 2001 through June 30, 2004, increasing to \$3 million effective July 1, 2004 and decreasing to \$2 million effective July 1, 2006. 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.

City and County of Honolulu  
Public Transportation System - Bus and Paratransit Operations  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

**NOTE H - RESERVE FOR INSURANCE CLAIMS PAYABLE (Continued)**

During fiscal year 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. In May 2007, the OTS board of directors approved the dissolution of the OTSIG.

The amounts payable for claims incurred and claims incurred but not reported for the fiscal years ended June 30, 2007 and 2006, were as follows:

	<u>Balance July 1, 2006</u>	<u>Current Year Claims and Change in Provision for Prior Years</u>	<u>Payments for Claims and Fees</u>	<u>Balance June 30, 2007</u>
Automotive and general liability	\$ 3,473,000	\$ 5,794,460	\$ 4,856,460	\$ 4,411,000
Workers' compensation	<u>9,439,254</u>	<u>6,692,724</u>	<u>6,240,292</u>	<u>9,891,686</u>
Reserve for insurance claims payable	\$ <u>12,912,254</u>	\$ <u>12,487,184</u>	\$ <u>11,096,752</u>	\$ <u>14,302,686</u>
	<u>Balance July 1, 2005</u>	<u>Current Year Claims and Change in Provision for Prior Years</u>	<u>Payments for Claims and Fees</u>	<u>Balance June 30, 2006</u>
Automotive and general liability	\$ 3,579,000	\$ 4,016,168	\$ 4,122,168	\$ 3,473,000
Workers' compensation	<u>8,710,536</u>	<u>6,943,726</u>	<u>6,215,008</u>	<u>9,439,254</u>
Reserve for insurance claims payable	\$ <u>12,289,536</u>	\$ <u>10,959,894</u>	\$ <u>10,337,176</u>	\$ <u>12,912,254</u>

City and County of Honolulu  
**Public Transportation System - Bus and Paratransit Operations**  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2007 and 2006

**NOTE H - RESERVE FOR INSURANCE CLAIMS PAYABLE (Continued)**

The OTS' workers' compensation loss and allocated loss adjustment expense (ALAE) reserve as of June 30, 2007, is estimated to be \$9.9 million on an undiscounted basis and \$8.9 million on a discounted basis (discounted at 5.5%). OTS' liability loss and ALAE reserve as of June 30, 2007 for accidents occurring from January 1, 2000 through June 30, 2007, is estimated to be \$4.4 million on an undiscounted basis and \$4.0 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.

**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, 2006 to December 31, 2006	3.30
	January 1, 2007 to June 30, 2007	3.40
Paratransit operations - dispatch/ reservations, finance and maintenance employees	March 1, 2006 to December 31, 2006	1.75
	January 1, 2007 - June 30, 2007	2.00
Paratransit operations - operator employees	March 1, 2006 to August 31, 2006	1.35
	September 1, 2006 to February 28, 2007	1.70
	March 1, 2007 to June 30, 2007	2.00

Pension expense under the multiemployer plan was \$10,185,454 and \$9,384,358 for the fiscal years ended June 30, 2007 and 2006, 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.

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**

**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

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 \$595,709 and \$622,844 for the fiscal years ended June 30, 2007 and 2006, 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, 2007 and 2006, were as follows:

	2007	2006
Annual required contribution	\$ 304,107	\$ 351,614
Interest on net pension asset	(705,488)	(656,201)
Adjustment to annual required contribution	997,090	927,431
Annual pension cost	595,709	622,844
Less contributions made	1,400,000	1,280,000
Increase in net pension asset	804,291	657,156
Net pension asset		
Beginning of fiscal year	9,406,507	8,749,351
End of fiscal year	\$ 10,210,798	\$ 9,406,507

The annual required contribution of the single-employer pension plan for the current fiscal year was determined as part of the June 30, 2007 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, 2007 was 7 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Asset
June 30, 2005	\$ 595,472	202%	\$ 8,749,351
June 30, 2006	\$ 622,844	206%	\$ 9,406,507
June 30, 2007	\$ 595,709	235%	\$ 10,210,798

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**

**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, 2004	\$ 16,339,465	\$ 19,689,495	\$ 3,350,030	83%	\$ 5,105,025	65.6%
March 1, 2005	\$ 17,598,683	\$ 20,815,236	\$ 3,216,553	85%	\$ 5,447,542	59.0%
March 1, 2006	\$ 18,968,883	\$ 22,046,800	\$ 3,077,917	86%	\$ 5,716,527	53.8%

- (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, 2007 and 2006, amounted to \$249,846 and \$221,744, respectively. As of June 30, 2007, twenty-five 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 \$0.36 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, 2007 and 2006, amounted to \$963,232 and \$834,953, 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 \$24,237,882 and \$19,714,940 are not reflected in the OTS separate audited financial statements at June 30, 2007 and 2006, respectively.



City and County of Honolulu  
Public Transportation System - Bus and Paratransit Operations  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2007 and 2006

**NOTE I - EMPLOYEE BENEFIT PLANS (Continued)**

- (4) **Sick leave** - OTS employees of the Bus operations are credited with sick leave at rates of 96 to 120 hours annually on March 1, depending on their years of service. Employees with at least one year of service may elect to redeem 50% of their unused annual sick leave allowance in the form of cash or credit to their deferred compensation plan. Annual sick leave not redeemed is added to the employees' cumulative allowance, which is carried over from year to year with no maximum. Employees who retire and meet certain eligibility requirements may be entitled to a retirement credit for accumulated sick leave, which is to be paid in a lump sum. The value of the retirement credit is 100% of the employees' straight-time hourly rate multiplied by the number of accumulated sick leave hours. At the statements of net assets date, sick leave credits are recorded as an estimated liability to the extent it is probable that benefits will result in annual and/or termination payments.

OTS Paratransit dispatch/reservations, finance, maintenance, operator employees, and employees not covered by a collective bargaining contract are credited with sick leave at a range of 48 to 96 hours annually on March 1. Employees with at least one year of service may elect to redeem 50% of their unused annual sick leave allowance in the form of cash or credit to their deferred compensation plan.

As discussed above, employees meeting the minimum required service period are afforded the option to redeem a portion of their unused sick leave allowance in the form of cash or credit to their deferred compensation plan. Additionally, employees who retire and meet certain eligibility requirements may be entitled to a retirement credit for accumulated sick leave, which is to be paid in a lump sum. Changes in the reported liability are as follows:

	<u>2007</u>	<u>2006</u>
Beginning liability	\$ 5,494,834	\$ 3,909,481
Qualified benefits earned	2,340,480	2,667,927
Payments	<u>(1,063,785)</u>	<u>(1,082,574)</u>
Ending liability	6,771,529	5,494,834
Less current portion	<u>943,113</u>	<u>946,632</u>
Noncurrent portion due to OTS	\$ <u>5,828,416</u>	\$ <u>4,548,202</u>

Determination of the probable sick leave benefits that will result in termination payments is a significant estimate. It is reasonably possible that one or more future events could result in a material change in the estimated liability to OTS.

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2007 and 2006**

**NOTE J - 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.

**NOTE K - RISKS AND UNCERTAINTIES**

The collective bargaining agreement between OTS, for its bus operations, and the Hawaii Teamsters and Allied Workers Union, Local 996, expires on June 30, 2008 for operators, maintenance and finance, and dispatch/reservations, schedulers, and customer service employees.

**SUPPLEMENTARY INFORMATION**

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**DETAILED STATEMENT OF NET ASSETS**  
**June 30, 2007**

	<b>Bus and OTS Insurance Operations</b>	<b>Paratransit Operations</b>	<b>Eliminations</b>		<b>Total</b>
			<b>Debit</b>	<b>Credit</b>	
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 16,545,006	\$ 600	\$ --	\$ --	\$ 16,545,606
Accounts receivable	1,451,352	35,669	--	--	1,487,021
Parts, supplies, and fuel inventories	6,215,368	847,462	--	--	7,062,830
Advance to Oahu Transit Services, Inc. for accrued expenses	2,003,642	156,626	--	--	2,160,268
Intercompany receivable	<u>139,746,769</u>	<u>--</u>	<u>--</u>	<u>139,746,769</u>	<u>--</u>
Total current assets	<u>165,962,137</u>	<u>1,040,357</u>	<u>--</u>	<u>139,746,769</u>	<u>27,255,725</u>
<b>RESTRICTED ASSETS</b>					
Held by Oahu Transit Services, Inc.	<u>2,330,451</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,330,451</u>
Total restricted assets	<u>2,330,451</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,330,451</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>142,229,887</u>	<u>3,502,506</u>	<u>--</u>	<u>--</u>	<u>145,732,393</u>
Total assets	<u>\$ 310,522,475</u>	<u>\$ 4,542,863</u>	<u>\$ --</u>	<u>\$ 139,746,769</u>	<u>\$ 175,318,569</u>

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**DETAILED STATEMENT OF NET ASSETS (Continued)**  
**June 30, 2007**

	<b>Bus and OTS Insurance Operations</b>	<b>Paratransit Operations</b>	<b>Eliminations</b>		<b>Total</b>
			<b>Debit</b>	<b>Credit</b>	
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 2,121,603	\$ 289,212	\$ --	\$ --	\$ 2,410,815
Intercompany payables	--	139,746,769	139,746,769	--	--
Reserve for insurance claims payable	14,302,686	--	--	--	14,302,686
Deferred income	<u>1,722,540</u>	--	--	--	<u>1,722,540</u>
Total current liabilities	18,146,829	140,035,981	139,746,769	--	18,436,041
<b>NONCURRENT PAYABLE TO OAHU TRANSIT SERVICES, INC.</b>					
	<u>5,828,416</u>	--	--	--	<u>5,828,416</u>
Total liabilities	<u>23,975,245</u>	<u>140,035,981</u>	<u>139,746,769</u>	--	<u>24,264,457</u>
<b>NET ASSETS</b>					
Invested in capital assets	142,229,887	3,502,506	--	--	145,732,393
Unrestricted	<u>144,317,343</u>	<u>(138,995,624)</u>	--	--	<u>5,321,719</u>
Total net assets	<u>286,547,230</u>	<u>(135,493,118)</u>	--	--	<u>151,054,112</u>
Total liabilities and net assets	\$ <u>310,522,475</u>	\$ <u>4,542,863</u>	\$ <u>139,746,769</u>	\$ --	\$ <u>175,318,569</u>

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**DETAILED STATEMENT OF NET ASSETS**  
**June 30, 2006**

	<b>Bus and OTS Insurance Operations</b>	<b>Paratransit Operations</b>	<b>Eliminations</b>		<b>Total</b>
			<b>Debit</b>	<b>Credit</b>	
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 8,483,682	\$ 600	\$ --	\$ --	\$ 8,484,282
Accounts receivable	1,480,931	58,586	--	--	1,539,517
Parts, supplies, and fuel inventories	5,871,948	742,328	--	--	6,614,276
Advance to Oahu Transit Services, Inc. for accrued expenses	2,331,373	24	--	--	2,331,397
Intercompany receivable	<u>119,996,236</u>	<u>1,301,782</u>	<u>--</u>	<u>121,298,018</u>	<u>--</u>
Total current assets	<u>138,164,170</u>	<u>2,103,320</u>	<u>--</u>	<u>121,298,018</u>	<u>18,969,472</u>
<b>RESTRICTED ASSETS</b>					
Held by Oahu Transit Services, Inc.	<u>3,043,507</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3,043,507</u>
Total restricted assets	<u>3,043,507</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>3,043,507</u>
<b>PROPERTY AND EQUIPMENT, NET</b>					
	<u>142,980,938</u>	<u>1,550,709</u>	<u>--</u>	<u>--</u>	<u>144,531,647</u>
Total assets	<u>\$ 284,188,615</u>	<u>\$ 3,654,029</u>	<u>\$ --</u>	<u>\$ 121,298,018</u>	<u>\$ 166,544,626</u>

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**DETAILED STATEMENT OF NET ASSETS (Continued)**  
**June 30, 2006**

	<u>Bus and OTS Insurance Operations</u>	<u>Paratransit Operations</u>	<u>Eliminations</u>		<u>Total</u>
			<u>Debit</u>	<u>Credit</u>	
<b>LIABILITIES AND NET ASSETS</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ 1,932,819	\$ 272,615	\$ --	\$ --	\$ 2,205,434
Payable to City and County of Honolulu	127,922	--	--	--	127,922
Intercompany payables	1,301,782	119,996,236	121,298,018		--
Reserve for insurance claims payable	12,912,254	--	--	--	12,912,254
Deferred income	<u>1,438,003</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,438,003</u>
Total current liabilities	17,712,780	120,268,851	121,298,018	--	16,683,613
<b>NONCURRENT PAYABLE TO OAHU TRANSIT SERVICES, INC.</b>					
	<u>4,548,202</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>4,548,202</u>
Total liabilities	<u>22,260,982</u>	<u>120,268,851</u>	<u>121,298,018</u>	<u>--</u>	<u>21,231,815</u>
<b>NET ASSETS</b>					
Invested in capital assets	142,980,938	1,550,709	--	--	144,531,647
Unrestricted	<u>118,946,695</u>	<u>(118,165,531)</u>	<u>--</u>	<u>--</u>	<u>781,164</u>
Total net assets	<u>261,927,633</u>	<u>(116,614,822)</u>	<u>--</u>	<u>--</u>	<u>145,312,811</u>
Total liabilities and net assets	\$ <u>284,188,615</u>	\$ <u>3,654,029</u>	\$ <u>121,298,018</u>	\$ <u>--</u>	\$ <u>166,544,626</u>

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**DETAILED STATEMENT OF OPERATIONS**  
**Fiscal Year Ended June 30, 2007**

	Bus and OTS		Eliminations		Total
	Insurance Operations	Paratransit Operations	Debit	Credit	
<b>OPERATING REVENUES</b>					
Passenger fares for transit services	\$ 41,502,289	\$ 1,499,546	\$ --	\$ --	\$ 43,001,835
Nontransportation revenue	333,266	16,763	--	--	350,029
Special service revenue	240,063	--	--	--	240,063
	<u>42,075,618</u>	<u>1,516,309</u>	<u>--</u>	<u>--</u>	<u>43,591,927</u>
<b>OPERATING EXPENSES BEFORE DEPRECIATION</b>					
Contract services	100,585,193	15,826,427	--	--	116,411,620
Insurance	10,845,734	1,439,045	--	--	12,284,779
Material and supplies	9,070,374	792,036	--	--	9,862,410
Fuel and lubricants	12,921,531	1,643,647	--	--	14,565,178
Outside services	4,172,797	2,161,412	--	--	6,334,209
State fuel taxes	2,401,370	213,405	--	--	2,614,775
Utilities, rentals and others	1,403,505	638,276	--	--	2,041,781
	<u>141,400,504</u>	<u>22,714,248</u>	<u>--</u>	<u>--</u>	<u>164,114,752</u>
Loss from operations before depreciation	(99,324,886)	(21,197,939)	--	--	(120,522,825)
	<u>16,842,057</u>	<u>1,333,479</u>	<u>--</u>	<u>--</u>	<u>18,175,536</u>
<b>DEPRECIATION</b>					
Loss from operations	(116,166,943)	(22,531,418)	--	--	(138,698,361)
<b>NONOPERATING INCOME (EXPENSE)</b>					
Interest income	85,050	--	--	--	85,050
Loss on disposal of parts	(29,118)	--	--	--	(29,118)
Other noncapital contributions	21,248,932	454,133	--	--	21,703,065
Land transfer to City and County of Honolulu	(3,862,406)	--	--	--	(3,862,406)
	<u>17,442,458</u>	<u>454,133</u>	<u>--</u>	<u>--</u>	<u>17,896,591</u>
Net loss before transfers and capital contributions	\$ (98,724,485)	\$ (22,077,285)	\$ --	\$ --	\$ (120,801,770)



**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**DETAILED STATEMENT OF OPERATIONS (Continued)**  
**Fiscal Year Ended June 30, 2007**

	Bus and OTS		Eliminations		Total
	Insurance Operations	Paratransit Operations	Debit	Credit	
<b>NET LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	\$ (98,724,485)	\$ (22,077,285)	\$ --	\$ --	\$ (120,801,770)
<b>TRANSFERS</b>	103,520,739	--	--	--	103,520,739
<b>CAPITAL CONTRIBUTIONS</b>	<u>19,823,343</u>	<u>3,198,989</u>	--	--	<u>23,022,332</u>
<b>CHANGE IN NET ASSETS</b>	24,619,597	(18,878,296)	--	--	5,741,301
<b>NET ASSETS AT BEGINNING OF FISCAL YEAR</b>	<u>261,927,633</u>	<u>(116,614,822)</u>	--	--	<u>145,312,811</u>
<b>NET ASSETS AT END OF FISCAL YEAR</b>	\$ <u>286,547,230</u>	\$ <u>(135,493,118)</u>	\$ --	\$ --	\$ <u>151,054,112</u>

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**DETAILED STATEMENT OF OPERATIONS**  
**Fiscal Year Ended June 30, 2006**

	Bus and OTS		Eliminations		Total
	Insurance Operations	Paratransit Operations	Debit	Credit	
<b>OPERATING REVENUES</b>					
Passenger fares for transit services	\$ 41,350,420	\$ 1,434,656	\$ --	\$ --	\$ 42,785,076
Nontransportation revenue	266,129	16,599	--	--	282,728
Special service revenue	181,017	--	--	--	181,017
	<u>41,797,566</u>	<u>1,451,255</u>	<u>--</u>	<u>--</u>	<u>43,248,821</u>
<b>OPERATING EXPENSES BEFORE DEPRECIATION</b>					
Contract services	96,772,293	14,217,706	--	--	110,989,999
Insurance	9,599,946	1,235,017	--	--	10,834,963
Material and supplies	9,056,975	847,663	--	--	9,904,638
Fuel and lubricants	12,360,085	1,479,976	--	--	13,840,061
Outside services	4,242,742	1,201,817	--	--	5,444,559
State fuel taxes	2,399,903	215,384	--	--	2,615,287
Utilities, rentals and others	1,227,255	1,248,772	--	--	2,476,027
	<u>135,659,199</u>	<u>20,446,335</u>	<u>--</u>	<u>--</u>	<u>156,105,534</u>
Loss from operations before depreciation	(93,861,633)	(18,995,080)	--	--	(112,856,713)
<b>DEPRECIATION</b>					
	<u>15,438,811</u>	<u>1,174,962</u>	<u>--</u>	<u>--</u>	<u>16,613,773</u>
Loss from operations	(109,300,444)	(20,170,042)	--	--	(129,470,486)
<b>NONOPERATING INCOME (EXPENSE)</b>					
Interest income	63,587	--	--	--	63,587
Loss on disposal or write-off of property and equipment	(244,737)	--	--	--	(244,737)
Other noncapital contributions	21,844,528	991,710	--	--	22,836,238
	<u>21,663,378</u>	<u>991,710</u>	<u>--</u>	<u>--</u>	<u>22,655,088</u>
Net loss before transfers and capital contributions	\$ <u>(87,637,066)</u>	\$ <u>(19,178,332)</u>	\$ <u>--</u>	\$ <u>--</u>	\$ <u>(106,815,398)</u>

**City and County of Honolulu**  
**Public Transportation System - Bus and Paratransit Operations**  
**DETAILED STATEMENT OF OPERATIONS (Continued)**  
**Fiscal Year Ended June 30, 2006**

	Bus and OTS		Eliminations		Total
	Insurance Operations	Paratransit Operations	Debit	Credit	
<b>NET LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS</b>	\$ (87,637,066)	\$ (19,178,332)	\$ --	\$ --	\$ (106,815,398)
<b>TRANSFERS</b>	91,813,005	--	--	--	91,813,005
<b>CAPITAL CONTRIBUTIONS</b>	634,333	34,143	--	--	668,476
<b>CHANGE IN NET ASSETS</b>	4,810,272	(19,144,189)	--	--	(14,333,917)
<b>NET ASSETS AT BEGINNING OF FISCAL YEAR</b>	257,117,361	(97,470,633)	--	--	159,646,728
<b>NET ASSETS AT END OF FISCAL YEAR</b>	\$ 261,927,633	\$ (116,614,822)	\$ --	\$ --	\$ 145,312,811