

**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, 2009 and 2008



N&K CPAs, Inc.

ACCOUNTANTS|CONSULTANTS

**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 County 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, 2009 and 2008, 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, 2009 and 2008, 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, 2009 and 2008, and the changes in its 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, 2009 and 2008, 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.

N&K CPAs, Inc.

Honolulu, Hawaii
October 30, 2009

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2009

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, 2009. Please read it in conjunction with the Bus and Paratransit Operations' 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 \$6.1 million or 4.5%. The term "net assets" refers to the difference between assets and liabilities.
- Operating revenues increased by \$478,000 or 1.1% over the prior fiscal year.
- Transfers and contributions increased by \$33.3 million or 24.6% over the prior fiscal year.
- Total expenses for the fiscal year increased by approximately \$12.1 million or 6.2% 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, 2009

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, 2009, 2008, and 2007 follows:

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 44,245	\$ 43,767	\$ 43,592
Nonoperating revenues	<u>10</u>	<u>35</u>	<u>85</u>
Total revenues	<u>44,255</u>	<u>43,802</u>	<u>43,677</u>
Depreciation	17,017	17,002	18,176
Other operating expenses	189,936	177,898	164,115
Nonoperating expenses	<u>22</u>	<u>10</u>	<u>29</u>
Total expenses	<u>206,975</u>	<u>194,910</u>	<u>182,320</u>
Loss from operations	(162,720)	(151,108)	(138,643)
Transfers and contributions	<u>168,788</u>	<u>135,451</u>	<u>144,384</u>
Increase (decrease) in net assets	\$ <u>6,068</u>	\$ <u>(15,657)</u>	\$ <u>5,741</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2009

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, 2009, 2008, and 2007 is shown below:

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

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$ 28,942	\$ 23,376	\$ 27,256
Restricted assets	1,612	2,513	2,331
Capital assets, net	<u>146,450</u>	<u>138,659</u>	<u>145,732</u>
Total assets	<u>177,004</u>	<u>164,548</u>	<u>175,319</u>
Current liabilities	23,581	20,064	18,436
Noncurrent liabilities	<u>11,958</u>	<u>9,087</u>	<u>5,829</u>
Total liabilities	<u>35,539</u>	<u>29,151</u>	<u>24,265</u>
Net assets			
Invested in capital assets	146,450	138,659	145,732
Unrestricted	<u>(4,985)</u>	<u>(3,262)</u>	<u>5,322</u>
Total net assets	\$ <u>141,465</u>	\$ <u>135,397</u>	\$ <u>151,054</u>

The total assets exceed liabilities by approximately \$141 million, \$135 million, and \$151 million at June 30, 2009, 2008, and 2007, respectively. Net assets increased by approximately \$6 million or 5% from June 30, 2008, and decreased by approximately \$16 million or 10% from June 30, 2007. 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, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION

As of June 30, 2009, the Bus and Paratransit Operations had \$147 million invested in capital assets as shown in Table 3. There was a net increase (additions, deductions and depreciation) of \$7.8 million or 6% and a net decrease of \$7.1 million or 5% for the fiscal years ended June 30, 2009 and 2008, respectively.

Table 3
Capital Assets
(in thousands of dollars)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Buses	\$ 181,406	\$ 173,676	\$ 168,540
Shops, buildings, building improvements and renovations	63,558	51,533	51,241
Shop and other equipment	29,336	28,566	26,653
Paratransit vans	13,414	11,870	10,167
Automobiles and trucks	2,180	2,239	1,941
Furniture and equipment	<u>99</u>	<u>119</u>	<u>119</u>
	289,993	268,003	258,661
Less accumulated depreciation	<u>197,889</u>	<u>183,388</u>	<u>167,378</u>
	92,104	84,615	91,283
Land	53,985	53,985	53,985
Assets not placed in service	<u>361</u>	<u>59</u>	<u>464</u>
 Total	 <u>\$ 146,450</u>	 <u>\$ 138,659</u>	 <u>\$ 145,732</u>

Major capital asset additions and disposals to the public transportation system for the fiscal year ended June 30, 2009, included the following:

- Acquisitions of 10 additional hybrid buses for \$9.4 million and 18 Paratransit vans for \$2.0 million.
- Disposals of older bus lines, Paratransit vans, and equipment with an original cost of \$2.2 million that were 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, 2009

- Transfer-in of the completed Paratransit building from the City and County of Honolulu with an original cost of \$11.6 million.
- Construction in progress for the Middle Street Transit Center, which is accounted for by the City and County of Honolulu and has not been transferred to the Bus and Paratransit Operations as of June 30, 2009.

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, 2009 and 2008

	2009	2008
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 16,097,347	\$ 10,646,946
Accounts receivable	1,465,773	1,593,045
Parts, supplies, and fuel inventories	8,372,742	7,657,959
Advance to Oahu Transit Services, Inc. for accrued expenses	<u>3,006,528</u>	<u>3,477,535</u>
Total current assets	<u>28,942,390</u>	<u>23,375,485</u>
RESTRICTED ASSETS		
Held by Oahu Transit Services, Inc.	<u>1,611,427</u>	<u>2,513,402</u>
Total restricted assets	<u>1,611,427</u>	<u>2,513,402</u>
PROPERTY AND EQUIPMENT, NET	<u>146,450,450</u>	<u>138,659,246</u>
Total assets	<u>\$ 177,004,267</u>	<u>\$ 164,548,133</u>

See accompanying notes to financial statements.

	<u>2009</u>	<u>2008</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,570,771	\$ 3,166,440
Reserve for insurance claims payable	19,105,830	15,080,304
Deferred income	<u>1,904,351</u>	<u>1,817,140</u>
Total current liabilities	<u>23,580,952</u>	<u>20,063,884</u>
NONCURRENT PAYABLE TO OAHU TRANSIT SERVICES, INC.		
Accrued sick leave	6,065,962	6,140,156
Postretirement liability	<u>5,892,275</u>	<u>2,946,869</u>
	<u>11,958,237</u>	<u>9,087,025</u>
Total liabilities	<u>35,539,189</u>	<u>29,150,909</u>
NET ASSETS		
Invested in capital assets	146,450,450	138,659,246
Unrestricted	<u>(4,985,372)</u>	<u>(3,262,022)</u>
Total net assets	<u>141,465,078</u>	<u>135,397,224</u>
	<u>\$ 177,004,267</u>	<u>\$ 164,548,133</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, 2009 and 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Passenger fares for transit services	\$ 43,876,703	\$ 43,237,018
Nontransportation revenue	268,922	264,611
Special service revenue	99,205	265,697
	<u>44,244,830</u>	<u>43,767,326</u>
OPERATING EXPENSES BEFORE DEPRECIATION		
Contract services	133,337,997	125,754,381
Insurance	15,117,044	11,481,631
Material and supplies	12,725,927	10,558,135
Fuel and lubricants	16,450,360	18,110,814
Outside services	7,286,423	6,243,643
State fuel taxes	2,772,912	2,857,577
Utilities, rentals and others	2,245,823	2,891,543
	<u>189,936,486</u>	<u>177,897,724</u>
Loss from operations before depreciation	(145,691,656)	(134,130,398)
DEPRECIATION	<u>17,016,950</u>	<u>17,002,087</u>
Loss from operations	<u>(162,708,606)</u>	<u>(151,132,485)</u>
NONOPERATING INCOME (EXPENSE)		
Interest income	10,361	34,427
Loss on disposal of equipment and parts	(21,665)	(10,051)
Other noncapital contributions	21,107,801	21,674,260
	<u>21,096,497</u>	<u>21,698,636</u>
Net loss before transfers and capital contributions	(141,612,109)	(129,433,849)
TRANSFERS	123,220,856	104,394,385
CAPITAL CONTRIBUTIONS	<u>24,459,107</u>	<u>9,382,576</u>
CHANGE IN NET ASSETS	6,067,854	(15,656,888)
NET ASSETS AT BEGINNING OF FISCAL YEAR	<u>135,397,224</u>	<u>151,054,112</u>
NET ASSETS AT END OF FISCAL YEAR	\$ <u><u>141,465,078</u></u>	\$ <u><u>135,397,224</u></u>

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, 2009 and 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from passengers	\$ 44,459,314	\$ 43,755,902
Cash paid to suppliers	(91,114,882)	(87,436,054)
Cash paid to employees	<u>(92,764,312)</u>	<u>(87,582,214)</u>
Net cash used in operating activities	<u>(139,419,880)</u>	<u>(131,262,366)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers and noncapital contributions	<u>144,328,657</u>	<u>126,068,645</u>
Net cash provided by noncapital financing activities	<u>144,328,657</u>	<u>126,068,645</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Direct purchases of capital assets	<u>(370,712)</u>	<u>(556,415)</u>
Net cash used in investing activities	<u>(370,712)</u>	<u>(556,415)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>10,361</u>	<u>34,427</u>
Net cash provided by investing activities	<u>10,361</u>	<u>34,427</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,548,426	(5,715,709)
CASH AND CASH EQUIVALENTS AT BEGINNING OF FISCAL YEAR		
(including \$2,513,402 and \$2,330,451 of cash and cash equivalents in restricted assets in 2008 and 2007, respectively)	<u>13,160,348</u>	<u>18,876,057</u>
CASH AND CASH EQUIVALENTS AT END OF FISCAL YEAR		
(including \$1,611,427 and \$2,513,402 of cash and cash equivalents in restricted assets in 2009 and 2008, respectively)	\$ <u>17,708,774</u>	\$ <u>13,160,348</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2009 and 2008

	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Loss from operations	\$ (162,708,606)	\$ (151,132,485)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	17,016,950	17,002,087
Changes in assets and liabilities		
(Increase) decrease in:		
Accounts receivable, net	127,272	(106,024)
Parts, supplies and fuel inventories	(714,783)	(595,129)
Advance to Oahu Transit Services, Inc. for accrued expenses	471,007	(1,759,267)
Increase (decrease) in:		
Accounts payable	(595,669)	755,625
Payable to Oahu Transit Services, Inc. for accrued expenses	2,871,212	3,700,609
Reserve for insurance claims payable	4,025,526	777,618
Deferred income	87,211	94,600
Net cash used in operating activities	\$ (139,419,880)	\$ (131,262,366)
 SUPPLEMENTAL DISCLOSURE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Contribution of fixed assets from City and County of Honolulu	\$ 24,459,107	\$ 9,382,576

See accompanying notes to financial statements.

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

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.

OTS is fiscally dependent upon the City, and therefore, the City is financially accountable for OTS, as defined by Governmental Accounting Standards Board Statements No. 14 and 39. For financial reporting purposes, certain accounts of OTS are included in the City's financial statements.

The collective bargaining agreement between OTS, for its bus operations, and the Hawaii Teamsters and Allied Workers Union, Local 996, expired on June 30, 2008 for operators, maintenance and finance, dispatch/reservations, schedulers, and customer service employees. During July 2008, a new collective bargaining agreement was ratified by the members of the Hawaii Teamsters and Allied Workers Union, Local 996. The term of the new agreement is effective from July 1, 2008 through June 30, 2013.

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.

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (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.
- (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 \$200 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) **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.

City and County of Honolulu
 Public Transportation System - Bus and Paratransit Operations
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

	Years
Shops, buildings, building improvements and renovations	31.5 to 40
Buses	7 to 12
Paratransit vans	5
All other assets	5 to 15

- (8) **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.

- (9) **Deferred Income** - Bus vouchers are recognized as revenues upon redemption.
- (10) **Pension and Postretirement Plans** - OTS has a noncontributory single-employer defined benefit pension plan covering eligible nonbargaining unit employees upon their retirement. The benefits are based on age, years of service, and the level of compensation during the five years before retirement. OTS also sponsors a single-employer defined benefit healthcare plan for eligible nonbargaining unit retirees and their spouses.

OTS records annual amounts related to its pension and postretirement plans based on calculations that incorporate various actuarial and other assumptions, including discount rates, mortality, assumed rates of return, compensation increases, and healthcare cost trend rates. OTS reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends, when it is appropriate to do so. OTS believes that the assumptions utilized in recording its prepaid pension cost and obligation under its pension and postretirement plans, respectively, are reasonable based on its experience and market conditions. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The pension plan may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the prepaid pension cost reported in the OTS's separate financial statements.

OTS uses the measurement date of March 1 and June 30 for its pension and postretirement plans, respectively. The annual costs are recognized as employees render the services necessary to earn the pension and postretirement benefits.

- (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 categorized as invested in capital assets.
- (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) **Reclassifications** - Certain balances in the 2008 financial statements have been reclassified to conform to the 2009 presentation. These reclassifications had no effect on the change in net assets as previously reported.

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

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June 30, 2009 and 2008

NOTE C - MANAGEMENT AND OPERATIONS AGREEMENT (Continued)

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, notes, or obligations of the United States. 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.

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
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June 30, 2009 and 2008

NOTE E - RESTRICTED ASSETS HELD BY OTS (Continued)

At June 30, 2009 and 2008, the restricted assets held by OTS consisted of cash and cash equivalents that were uninsured and uncollateralized.

Restricted assets as of June 30, 2009 and 2008, consisted of the following:

	<u>2009</u>	<u>2008</u>
Cash	\$ 391,577	\$ 206,139
Money market mutual fund	<u>1,219,850</u>	<u>2,307,263</u>
	<u>\$ 1,611,427</u>	<u>\$ 2,513,402</u>

NOTE F - PROPERTY AND EQUIPMENT

The changes in capital assets were as follows:

	Balance July 1, 2008	Additions	Retirements/ Transfers	Balance June 30, 2009
Buses	\$ 173,675,746	\$ 9,380,650	\$ (1,650,039)	\$ 181,406,357
Buildings and improvements	51,533,283	12,024,381	--	63,557,664
Shop equipment	28,566,165	1,117,506	(347,697)	29,335,974
Paratransit vans	11,870,351	1,916,289	(372,489)	13,414,151
Automobiles and trucks	2,238,507	69,333	(128,018)	2,179,822
Furniture and office equipment	<u>119,148</u>	<u>--</u>	<u>(20,267)</u>	<u>98,881</u>
	268,003,200	24,508,159	(2,518,510)	289,992,849
Less accumulated depreciation	<u>(183,388,310)</u>	<u>(17,016,950)</u>	<u>2,516,094</u>	<u>(197,889,166)</u>
	84,614,890	7,491,209	(2,416)	92,103,683
Land	53,985,443	--	--	53,985,443
Assets not placed in service	<u>58,913</u>	<u>302,411</u>	<u>--</u>	<u>361,324</u>
Property and equipment, net	<u>\$ 138,659,246</u>	<u>\$ 7,793,620</u>	<u>\$ (2,416)</u>	<u>\$ 146,450,450</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
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June 30, 2009 and 2008

NOTE F - PROPERTY AND EQUIPMENT (Continued)

	Balance July 1, 2007	Additions	Retirements/ Transfers	Balance June 30, 2008
Buses	\$ 168,539,600	\$ 5,754,911	\$ (618,765)	\$ 173,675,746
Buildings and improvements	51,240,597	292,686	--	51,533,283
Shop equipment	26,652,697	1,949,226	(35,758)	28,566,165
Paratransit vans	10,167,572	2,012,700	(309,921)	11,870,351
Automobiles and trucks	1,940,954	382,815	(85,262)	2,238,507
Furniture and office equipment	119,148	--	--	119,148
	<u>258,660,568</u>	<u>10,392,338</u>	<u>(1,049,706)</u>	<u>268,003,200</u>
Less accumulated depreciation	<u>(167,377,666)</u>	<u>(17,002,087)</u>	<u>991,443</u>	<u>(183,388,310)</u>
	91,282,902	(6,609,749)	(58,263)	84,614,890
Land	53,985,443	--	--	53,985,443
Assets not placed in service	<u>464,048</u>	<u>37,072</u>	<u>(442,207)</u>	<u>58,913</u>
Property and equipment, net	\$ <u>145,732,393</u>	\$ <u>(6,572,677)</u>	\$ <u>(500,470)</u>	\$ <u>138,659,246</u>

Depreciation expense was \$17,016,950 and \$17,002,087 for the fiscal years ended June 30, 2009 and 2008, respectively.

NOTE G - NET ASSETS

At June 30, 2009 and 2008, net assets consisted of the following:

	<u>2009</u>	<u>2008</u>
Invested in capital assets		
Property and equipment, net	\$ 146,450,450	\$ 138,659,246
Unrestricted	<u>(4,985,372)</u>	<u>(3,262,022)</u>
	\$ <u>141,465,078</u>	\$ <u>135,397,224</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, 2002, and \$1 million per occurrence from July 1, 2002 through June 30, 2009. 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, 2009 and 2008

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. It was officially dissolved as of May 31, 2008, with the remaining assets of approximately \$380,000 being transferred to the trust fund established for the City's self-insurance programs. Management believed the reinsurance policy was adequate to cover all costs associated with the ultimate settlement of these claims. Accordingly, no provision for any liability that resulted from the resolution of these claims was made in the accompanying financial statements.

The amounts payable for claims incurred and claims incurred but not reported for the fiscal years ended June 30, 2009 and 2008, were as follows:

	Balance July 1, 2008	Current Year Claims and Change in Provision for Prior Years	Payments for Claims and Fees	Balance June 30, 2009
Automotive and general liability	\$ 3,996,000	\$ 5,508,507	\$ 4,685,507	\$ 4,819,000
Workers' compensation	<u>11,084,304</u>	<u>9,749,049</u>	<u>6,546,523</u>	<u>14,286,830</u>
Reserve for insurance claims payable	<u>\$ 15,080,304</u>	<u>\$ 15,257,556</u>	<u>\$ 11,232,030</u>	<u>\$ 19,105,830</u>

	Balance July 1, 2007	Current Year Claims and Change in Provision for Prior Years	Payments for Claims and Fees	Balance June 30, 2008
Automotive and general liability	\$ 4,411,000	\$ 4,512,246	\$ 4,927,246	\$ 3,996,000
Workers' compensation	<u>9,891,686</u>	<u>7,100,498</u>	<u>5,907,880</u>	<u>11,084,304</u>
Reserve for insurance claims payable	<u>\$ 14,302,686</u>	<u>\$ 11,612,744</u>	<u>\$ 10,835,126</u>	<u>\$ 15,080,304</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
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June 30, 2009 and 2008

NOTE H - RESERVE FOR INSURANCE CLAIMS PAYABLE (Continued)

The OTS's workers' compensation loss and allocated loss adjustment expense (ALAE) reserve as of June 30, 2009, is estimated to be \$14.3 million on an undiscounted basis and \$12.9 million on a discounted basis (discounted at 5.5%). The OTS's liability loss and ALAE reserve as of June 30, 2009 for accidents occurring from January 1, 2000 through June 30, 2009, is estimated to be \$4.8 million on an undiscounted basis and \$4.4 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 (WCT 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, 2007 to December 31, 2007	3.50
	January 1, 2008 to February 28, 2009	3.60
	March 1, 2009 to June 30, 2009	3.85
Paratransit operations - dispatchers, schedulers, reservationists, and customer service clerks	January 1, 2007 to December 31, 2007	2.00
	January 1, 2008 to December 31, 2008	2.20
	January 1, 2009 to June 30, 2009	2.35
Paratransit operations - maintenance employees and administrative clerks	January 1, 2007 to February 29, 2008	2.00
	March 1, 2008 to February 28, 2009	2.20
	March 1, 2009 to June 30, 2009	2.35
Paratransit operations - operator employees	March 1, 2007 to February 29, 2008	2.00
	March 1, 2008 to February 28, 2009	2.20
	March 1, 2009 to June 30, 2009	2.35

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Public Transportation System - Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
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NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

In addition, OTS contributes an additional 6.5% of the pension contribution fixed rate per straight-time hour for bargaining employees of the Program for Enhanced Early Retirement (PEER). The additional pension contribution for Paratransit operations employees became effective on March 1, 2008.

Pension expense under the multiemployer plan was \$12,380,197, \$11,264,818, and \$10,185,454 for the fiscal years ended June 30, 2009, 2008 and 2007, 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. The WCT Plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Western Conference of Teamsters Pension Trust Fund Board of Trustees, 2323 Eastlake Avenue East, Seattle, WA 98102-3305.

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 \$1,202,399 and \$490,523 for the fiscal years ended June 30, 2009 and 2008, 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, 2009 and 2008, were as follows:

	2009	2008
Annual required contribution	\$ 800,166	\$ 173,988
Interest on net pension asset	(710,801)	(765,810)
Adjustment to annual required contribution	1,113,034	1,082,345
Annual pension cost	1,202,399	490,523
Less contributions made	2,055,000	1,440,000
Increase in net pension asset	852,601	949,477
Net pension asset		
Beginning of fiscal year	11,160,275	10,210,798
End of fiscal year	\$ 12,012,876	\$ 11,160,275

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

The annual required contribution (ARC) of the single-employer pension plan for the current fiscal year was determined as part of the March 1, 2008 (the most recent actuarial valuation date) actuarial valuation using the projected unit credit method. The actuarial assumptions include (a) 6.17% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.00% per year. The actuarial value of assets was determined using the market value. The remaining amortization period at June 30, 2009 was 5 years.

Three-Year Trend Information			
Fiscal Year Ended	Annual Pension Cost ("APC")	Percentage of APC Contributed	Net Pension Asset
June 30, 2007	\$ 595,709	235%	\$ 10,210,798
June 30, 2008	\$ 490,523	294%	\$ 11,160,275
June 30, 2009	\$ 1,202,399	171%	\$ 12,012,876

On August 17, 2006, the Pension Protection Act of 2006 (the Act) was signed into law. The Act, among other things, impacts the single-employer plan with respect to future funding targets and deduction limits. The Act is effective for plan years beginning after 2007 and, accordingly, took effect in the March 1, 2008 actuarial valuation.

The following schedule of funding progress, presented as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

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, 2006	\$ 18,968,883	\$ 22,046,800	\$ 3,077,917	86%	\$ 5,716,527	54%
March 1, 2007	\$ 20,513,959	\$ 23,355,571	\$ 2,841,612	88%	\$ 6,029,828	47%
March 1, 2008	\$ 21,485,480	\$ 27,358,059	\$ 5,872,579	79%	\$ 6,255,239	94%

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

- (2) **Postretirement health benefit plans** - OTS provides its nonbargaining unit employees with postretirement health benefits (OPEB). Specifically, Medicare and health insurance premiums for eligible 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, 2009, 2008 and 2007, amounted to \$260,391, \$254,181, and \$249,846, respectively. As of June 30, 2009, 29 participants are eligible to receive benefits.

The OTS's annual OPEB cost is calculated based on the ARC of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table presents the components of the OTS's annual OPEB cost for the fiscal years ended June 30, 2009 and 2008, the amount actually contributed to the plan, and changes in the net OPEB obligation:

	<u>2009</u>	<u>2008</u>
Annual required contribution	\$ 3,378,810	\$ 3,472,050
Interest on net OPEB obligation	144,804	--
Adjustment to annual required contribution	<u>(299,628)</u>	<u>--</u>
Annual OPEB cost	3,223,986	3,472,050
Contributions made	<u>(266,580)</u>	<u>(254,181)</u>
Increase in net OPEB obligation	2,957,406	3,217,869
Net OPEB obligation at beginning of fiscal year	<u>3,217,869</u>	<u>--</u>
Net OPEB obligation at end of fiscal year	6,175,275	3,217,869
Less current portion due to OTS	<u>283,000</u>	<u>271,000</u>
Noncurrent portion due to OTS	\$ <u>5,892,275</u>	\$ <u>2,946,869</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal years ended June 30, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
Annual OPEB cost	\$ 3,223,986	\$ 3,472,050
Percentage of annual OPEB cost contributed	8.3%	7.3%
Net OPEB obligation	\$ 6,175,275	\$ 3,217,869

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

The schedule of funding progress as of June 30, 2009 and 2008, were as follows:

	<u>2009</u>	<u>2008</u>
Actuarial accrued liability (AAL)	\$ 27,223,007	\$ 26,900,040
Actuarial value of plan assets	<u> --</u>	<u> --</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u>27,223,007</u>	\$ <u>26,900,040</u>
 Funded ratio	 0.0%	 0.0%
 Covered payroll (active plan members)	 \$ 8,833,961	 \$ 6,199,559
 UAAL as a percentage of covered payroll	 308.2%	 434.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2009 and 2008 actuarial valuation (the most recent actuarial valuation date), the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected returns on employer investments intended to be used to pay future benefits. The UAAL is being amortized as a level dollar open amortization period. The remaining amortization period at June 30, 2009 and 2008 was 15 years.

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 \$0.51 and \$0.11 per straight-time compensable hour earned on behalf of bus and paratransit operations employees, respectively. Contributions for the fiscal years ended June 30, 2009 and 2008, amounted to \$1,354,907 and \$1,262,337, respectively.

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

- (3) **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 for employees covered by a collective bargaining agreement and for employees not covered by a collective bargaining agreement is 100% and 50%, respectively, 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 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. 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 for employees covered by a collective bargaining agreement and for employees not covered by a collective bargaining agreement is 100% and 50%, respectively, of the employees' straight-time hourly rate multiplied by the number of accumulated sick leave hours.

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>2009</u>	<u>2008</u>
Beginning liability	\$ 7,464,422	\$ 6,771,529
Qualified benefits earned	1,652,121	1,798,281
Payments	<u>(1,557,442)</u>	<u>(1,105,388)</u>
Ending liability	7,559,101	7,464,422
Less current portion	<u>1,493,139</u>	<u>1,324,266</u>
Noncurrent portion due to OTS	\$ <u>6,065,962</u>	\$ <u>6,140,156</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
NOTES TO FINANCIAL STATEMENTS
June 30, 2009 and 2008

NOTE I - EMPLOYEE BENEFIT PLANS (Continued)

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.

NOTE J - TRANSFERS AND CONTRIBUTIONS

The Bus and Paratransit Operations receives significant support for operations from the City and the Federal Transit Administration (FTA). Transfers from the City totaled approximately \$123.2 million and \$104.4 million for the fiscal years ended June 30, 2009 and 2008, respectively. In addition, capital and noncapital contributions for the fiscal years ended June 30, 2009 and 2008, were as follows:

	2009	2008
Federal capital contributions	\$ 8,795,147	\$ 6,919,998
City capital contributions	15,663,960	2,462,578
 Total capital contributions	 \$ 24,459,107	 \$ 9,382,576
 FTA preventative maintenance funds	 \$ 21,000,000	 \$ 21,000,000
Other federal non-operating revenues	2,713	--
City non-operating revenues	105,088	674,260
 Other noncapital contributions	 \$ 21,107,801	 \$ 21,674,260

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, 2009

	<u>Bus Operations</u>	<u>Paratransit Operations</u>	<u>Eliminations</u>		<u>Total</u>
			Debit	Credit	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 16,096,747	\$ 600	\$ --	\$ --	\$ 16,097,347
Accounts receivable	1,460,080	5,693	--	--	1,465,773
Parts, supplies, and fuel inventories	7,435,997	936,745	--	--	8,372,742
Advance to Oahu Transit Services, Inc. for accrued expenses	2,536,104	470,424	--	--	3,006,528
Intercompany receivable	<u>25,358,768</u>	<u>--</u>	<u>--</u>	<u>25,358,768</u>	<u>--</u>
Total current assets	<u>52,887,696</u>	<u>1,413,462</u>	<u>--</u>	<u>25,358,768</u>	<u>28,942,390</u>
RESTRICTED ASSETS					
Held by Oahu Transit Services, Inc.	<u>1,611,427</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,611,427</u>
Total restricted assets	<u>1,611,427</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>1,611,427</u>
PROPERTY AND EQUIPMENT, NET	<u>128,556,339</u>	<u>17,894,111</u>	<u>--</u>	<u>--</u>	<u>146,450,450</u>
Total assets	<u>\$ 183,055,462</u>	<u>\$ 19,307,573</u>	<u>\$ --</u>	<u>\$ 25,358,768</u>	<u>\$ 177,004,267</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
DETAILED STATEMENT OF NET ASSETS (Continued)
June 30, 2009

	Bus Operations	Paratransit Operations	Eliminations		Total
			Debit	Credit	
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 2,140,691	\$ 430,080	\$ --	\$ --	\$ 2,570,771
Intercompany payables	--	25,358,768	25,358,768	--	--
Reserve for insurance claims payable	19,105,830	--	--	--	19,105,830
Deferred income	1,904,351	--	--	--	1,904,351
Total current liabilities	<u>23,150,872</u>	<u>25,788,848</u>	<u>25,358,768</u>	<u>--</u>	<u>23,580,952</u>
NONCURRENT PAYABLE TO OAHU TRANSIT SERVICES, INC.					
Accrued sick leave	5,589,338	476,624	--	--	6,065,962
Postretirement liability	5,438,882	453,393	--	--	5,892,275
	<u>11,028,220</u>	<u>930,017</u>	<u>--</u>	<u>--</u>	<u>11,958,237</u>
Total liabilities	<u>34,179,092</u>	<u>26,718,865</u>	<u>25,358,768</u>	<u>--</u>	<u>35,539,189</u>
NET ASSETS					
Invested in capital assets	128,556,339	17,894,111	--	--	146,450,450
Unrestricted	20,320,031	(25,305,403)	--	--	(4,985,372)
Total net assets	<u>148,876,370</u>	<u>(7,411,292)</u>	<u>--</u>	<u>--</u>	<u>141,465,078</u>
Total liabilities and net assets	<u>\$ 183,055,462</u>	<u>\$ 19,307,573</u>	<u>\$ 25,358,768</u>	<u>\$ --</u>	<u>\$ 177,004,267</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
DETAILED STATEMENT OF NET ASSETS
June 30, 2008

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	Bus and OTS Insurance Operations	Paratransit Operations	Eliminations		Total
			Debit	Credit	
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 10,646,346	\$ 600	\$ --	\$ --	\$ 10,646,946
Accounts receivable	1,542,350	50,695	--	--	1,593,045
Parts, supplies, and fuel inventories	6,746,966	910,993	--	--	7,657,959
Advance to Oahu Transit Services, Inc. for accrued expenses	3,122,393	355,142	--	--	3,477,535
Intercompany receivable	<u>162,937,630</u>	<u>--</u>	<u>--</u>	<u>162,937,630</u>	<u>--</u>
Total current assets	<u>184,995,685</u>	<u>1,317,430</u>	<u>--</u>	<u>162,937,630</u>	<u>23,375,485</u>
RESTRICTED ASSETS					
Held by Oahu Transit Services, Inc.	<u>2,513,402</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,513,402</u>
Total restricted assets	<u>2,513,402</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>2,513,402</u>
PROPERTY AND EQUIPMENT, NET	<u>133,008,633</u>	<u>5,650,613</u>	<u>--</u>	<u>--</u>	<u>138,659,246</u>
Total assets	<u>\$ 320,517,720</u>	<u>\$ 6,968,043</u>	<u>\$ --</u>	<u>\$ 162,937,630</u>	<u>\$ 164,548,133</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
DETAILED STATEMENT OF NET ASSETS (Continued)
June 30, 2008

	Bus and OTS Insurance Operations	Paratransit Operations	Eliminations		Total
			Debit	Credit	
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	\$ 2,754,244	\$ 412,196	\$ --	\$ --	\$ 3,166,440
Intercompany payables	--	162,937,630	162,937,630	--	--
Reserve for insurance claims payable	15,080,304	--	--	--	15,080,304
Deferred income	1,817,140	--	--	--	1,817,140
Total current liabilities	<u>19,651,688</u>	<u>163,349,826</u>	<u>162,937,630</u>	<u>--</u>	<u>20,063,884</u>
NONCURRENT PAYABLE TO OAHU TRANSIT SERVICES, INC.					
Accrued sick leave	6,005,825	134,331	--	--	6,140,156
Postretirement liability	2,450,224	496,645	--	--	2,946,869
Total liabilities	<u>8,456,049</u>	<u>630,976</u>	<u>--</u>	<u>--</u>	<u>9,087,025</u>
Total liabilities	<u>28,107,737</u>	<u>163,980,802</u>	<u>162,937,630</u>	<u>--</u>	<u>29,150,909</u>
NET ASSETS					
Invested in capital assets	133,008,633	5,650,613	--	--	138,659,246
Unrestricted	159,401,350	(162,663,372)	--	--	(3,262,022)
Total net assets	<u>292,409,983</u>	<u>(157,012,759)</u>	<u>--</u>	<u>--</u>	<u>135,397,224</u>
Total liabilities and net assets	<u>\$ 320,517,720</u>	<u>\$ 6,968,043</u>	<u>\$ 162,937,630</u>	<u>\$ --</u>	<u>\$ 164,548,133</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
DETAILED STATEMENT OF OPERATIONS
Fiscal Year Ended June 30, 2009

	Bus	Paratransit	Eliminations		Total
	Operations	Operations	Debit	Credit	
OPERATING REVENUES					
Passenger fares for transit services	\$ 42,355,718	\$ 1,520,985	\$ --	\$ --	\$ 43,876,703
Nontransportation revenue	247,876	21,046	--	--	268,922
Special service revenue	99,205	--	--	--	99,205
	<u>42,702,799</u>	<u>1,542,031</u>	<u>--</u>	<u>--</u>	<u>44,244,830</u>
OPERATING EXPENSES BEFORE DEPRECIATION					
Contract services	113,454,530	19,883,467	--	--	133,337,997
Insurance	13,837,379	1,279,665	--	--	15,117,044
Material and supplies	11,540,336	1,185,591	--	--	12,725,927
Fuel and lubricants	14,220,957	2,229,403	--	--	16,450,360
Outside services	5,126,152	2,160,271	--	--	7,286,423
State fuel taxes	2,586,289	186,623	--	--	2,772,912
Utilities, rentals and others	164,911,653	(162,665,830)	--	--	2,245,823
	<u>325,677,296</u>	<u>(135,740,810)</u>	<u>--</u>	<u>--</u>	<u>189,936,486</u>
Income (loss) from operations before depreciation	(282,974,497)	137,282,841	--	--	(145,691,656)
DEPRECIATION					
	<u>14,899,726</u>	<u>2,117,224</u>	<u>--</u>	<u>--</u>	<u>17,016,950</u>
Income (loss) from operations	<u>(297,874,223)</u>	<u>135,165,617</u>	<u>--</u>	<u>--</u>	<u>(162,708,606)</u>
NONOPERATING INCOME (EXPENSE)					
Interest income	10,361	--	--	--	10,361
Gain (loss) on disposal of equipment and parts	(21,665)	--	--	--	(21,665)
Other noncapital contributions	21,002,714	105,087	--	--	21,107,801
	<u>20,991,410</u>	<u>105,087</u>	<u>--</u>	<u>--</u>	<u>21,096,497</u>
Net income (loss) before transfers and capital contributions	\$ <u>(276,882,813)</u>	\$ <u>135,270,704</u>	\$ <u>--</u>	\$ <u>--</u>	\$ <u>(141,612,109)</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
DETAILED STATEMENT OF OPERATIONS (Continued)
Fiscal Year Ended June 30, 2009

	Bus		Eliminations		Total
	Insurance Operations	Paratransit Operations	Debit	Credit	
NET INCOME (LOSS) BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	\$ (276,882,813)	\$ 135,270,704	\$ --	\$ --	\$ (141,612,109)
TRANSFERS	123,220,856	--	--	--	123,220,856
CAPITAL CONTRIBUTIONS	<u>10,128,344</u>	<u>14,330,763</u>	<u>--</u>	<u>--</u>	<u>24,459,107</u>
CHANGE IN NET ASSETS	(143,533,613)	149,601,467	--	--	6,067,854
NET ASSETS AT BEGINNING OF FISCAL YEAR	<u>292,409,983</u>	<u>(157,012,759)</u>	<u>--</u>	<u>--</u>	<u>135,397,224</u>
NET ASSETS AT END OF FISCAL YEAR	<u>\$ 148,876,370</u>	<u>\$ (7,411,292)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 141,465,078</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
DETAILED STATEMENT OF OPERATIONS
Fiscal Year Ended June 30, 2008

	Bus and OTS Insurance Operations	Paratransit Operations	Eliminations		Total
			Debit	Credit	
OPERATING REVENUES					
Passenger fares for transit services	\$ 41,718,435	\$ 1,518,583	\$ --	\$ --	\$ 43,237,018
Nontransportation revenue	246,926	17,685	--	--	264,611
Special service revenue	<u>265,697</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>265,697</u>
	<u>42,231,058</u>	<u>1,536,268</u>	<u>--</u>	<u>--</u>	<u>43,767,326</u>
OPERATING EXPENSES BEFORE DEPRECIATION					
Contract services	107,337,581	18,416,800	--	--	125,754,381
Insurance	10,200,226	1,281,405	--	--	11,481,631
Material and supplies	9,590,737	967,398	--	--	10,558,135
Fuel and lubricants	15,922,348	2,188,466	--	--	18,110,814
Outside services	4,361,246	1,882,397	--	--	6,243,643
State fuel taxes	2,658,618	198,959	--	--	2,857,577
Utilities, rentals and others	<u>2,032,869</u>	<u>858,674</u>	<u>--</u>	<u>--</u>	<u>2,891,543</u>
	<u>152,103,625</u>	<u>25,794,099</u>	<u>--</u>	<u>--</u>	<u>177,897,724</u>
Loss from operations before depreciation	(109,872,567)	(24,257,831)	--	--	(134,130,398)
DEPRECIATION					
	<u>15,551,861</u>	<u>1,450,226</u>	<u>--</u>	<u>--</u>	<u>17,002,087</u>
Loss from operations	<u>(125,424,428)</u>	<u>(25,708,057)</u>	<u>--</u>	<u>--</u>	<u>(151,132,485)</u>
NONOPERATING INCOME (EXPENSE)					
Interest income	34,427	--	--	--	34,427
Loss on disposal or write-off of property and equipment	(15,534)	5,483	--	--	(10,051)
Other noncapital contributions	<u>21,000,000</u>	<u>674,260</u>	<u>--</u>	<u>--</u>	<u>21,674,260</u>
	<u>21,018,893</u>	<u>679,743</u>	<u>--</u>	<u>--</u>	<u>21,698,636</u>
Net loss before transfers and capital contributions	\$ <u>(104,405,535)</u>	\$ <u>(25,028,314)</u>	\$ <u>--</u>	\$ <u>--</u>	\$ <u>(129,433,849)</u>

City and County of Honolulu
Public Transportation System - Bus and Paratransit Operations
DETAILED STATEMENT OF OPERATIONS (Continued)
Fiscal Year Ended June 30, 2008

	Bus and OTS		Eliminations		Total
	Insurance Operations	Paratransit Operations	Debit	Credit	
NET LOSS BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	\$ (104,405,535)	\$ (25,028,314)	\$ --	\$ --	\$ (129,433,849)
TRANSFERS	104,394,385	--	--	--	104,394,385
CAPITAL CONTRIBUTIONS	<u>5,873,903</u>	<u>3,508,673</u>	--	--	<u>9,382,576</u>
CHANGE IN NET ASSETS	5,862,753	(21,519,641)	--	--	(15,656,888)
NET ASSETS AT BEGINNING OF FISCAL YEAR	<u>286,547,230</u>	<u>(135,493,118)</u>	--	--	<u>151,054,112</u>
NET ASSETS AT END OF FISCAL YEAR	<u>\$ 292,409,983</u>	<u>\$ (157,012,759)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 135,397,224</u>