



# **OFFICE OF THE CITY AUDITOR**

City and County of Honolulu  
State of Hawai'i

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

**Financial Statements and Supplemental Schedules  
June 30, 2014 and 2013**



## Table of Contents

<b>Independent Auditor’s Report</b> .....	1
<b>Management’s Discussion and Analysis (MD&amp;A)</b> .....	4–8
<b>Financial Statements</b>	
Statements of Net Position June 30, 2014 and 2013 .....	9
Statements of Revenues, Expenses and Changes in Net Position Years Ended June 30, 2014 and 2013 .....	10
Statements of Cash Flows Years Ended June 30, 2014 and 2013 .....	11
Notes to Financial Statements June 30, 2014 and 2013 .....	12–28
<b>Required Supplementary Information Other Than MD&amp;A</b>	
Employee Benefit Plans Schedules of Funding Progress .....	29
<b>Supplemental Schedules</b>	
Detailed Statement of Net Position June 30, 2014 .....	30–31
Detailed Statement of Net Position June 30, 2013 .....	32–33
Detailed Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2014 .....	34–35
Detailed Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2013 .....	36–37



---

A Hawaii Limited Liability Partnership

## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the City and County of Honolulu, Public Transportation System – Bus and Paratransit Operations (Bus and Paratransit Operations) as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bus and Paratransit Operations as of June 30, 2014, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Bus and Paratransit Operations and do not purport to, and do not, present fairly the financial position of the City and County of Honolulu as of June 30, 2014, and the changes in its financial position or, where applicable, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### ***2013 Financial Statements***

The financial statements of the Bus and Paratransit Operations, as of and for the year ended June 30, 2013, were audited by other auditors whose report dated October 4, 2013 expressed an unmodified opinion on those financial statements.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 and the schedules of funding progress on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Bus and Paratransit Operations. The supplementary schedules consisting of 1) detailed schedules of net position as of June 30, 2014 and 2013 and 2) detailed schedules of revenues, expenses and changes in net position for the years ended June 30, 2014 and 2013, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information as of and for the year ended June 30, 2014 has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary schedules as of and for the year ended June 30, 2014 are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The supplementary information as of and for the year ended June 30, 2013, was audited by other auditors whose report, dated October 4, 2013, expressed an unmodified opinion on such information in relation to the basic financial statements as a whole.

*KMH LLP*

KMH LLP

Honolulu, Hawaii  
October 31, 2014

# **City and County of Honolulu**

## **Public Transportation System – Bus and Paratransit Operations**

Management's Discussion and Analysis  
June 30, 2014 and 2013

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, 2014. 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 position increased by \$4.6 million or 2.7% in fiscal year 2014. The term "net position" refers to the difference between assets and liabilities.
- Operating revenues decreased by \$75,000 or less than one percent from the prior fiscal year.
- Transfers and contributions decreased by \$9.4 million or 4.9% from the prior fiscal year.
- Total expenses for the fiscal year 2014 decreased by approximately \$570,000 or less than one percent compared to the reclassified balances of 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 position present information of TheBus' and Handi-Van's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of TheBus and Handi-Van is improving or deteriorating. Net position increases when revenues and subsidies exceed expenses. Increases to assets, without a corresponding increase to liabilities, results in increased net position, which indicate an improved financial position.

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

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

Management’s Discussion and Analysis  
June 30, 2014 and 2013

The statements of cash flows report cash receipts, cash payments, and net changes in cash resulting from operations, investing, noncapital financing and capital 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 position and operations for the separate balances and transactions for TheBus and Handi-Van as of and for the years ended June 30, 2014 and 2013.

### Financial Analysis

A condensed summary of the Bus and Paratransit Operations’ net position at June 30, 2014, 2013 and 2012 is shown below:

**Table 1**  
**Condensed Statements of Net Position**  
(in thousands of dollars)

	2014	2013	2012
Current and other assets	\$ 36,890	\$ 33,712	\$ 24,696
Restricted assets	2,221	1,702	2,666
Capital assets, net	182,319	179,775	169,949
Total assets	<u>221,430</u>	<u>215,189</u>	<u>197,311</u>
Current liabilities	13,369	13,808	11,781
Noncurrent liabilities	34,004	31,939	29,587
Total liabilities	<u>47,373</u>	<u>45,747</u>	<u>41,368</u>
Net position			
Invested in capital assets	182,319	179,775	169,949
Unrestricted	<u>(8,262)</u>	<u>(10,333)</u>	<u>(14,006)</u>
Total net position	<u>\$ 174,057</u>	<u>\$ 169,442</u>	<u>\$ 155,943</u>

The total assets exceed liabilities by approximately \$174.1 million, \$169.4 million and \$155.9 million at June 30, 2014, 2013 and 2012, respectively. Net position increased by approximately \$4.6 million or 2.7% from June 30, 2013, and by approximately \$13.5 million or 8.7% from June 30, 2012. The largest portion of the Bus and Paratransit Operations’ net position 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 the 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  
June 30, 2014 and 2013

A summary of operations and changes in net position for the fiscal years ended June 30, 2014, 2013 and 2012 follows:

**Table 2**  
**Condensed Statements of Revenues, Expenses and Changes in Net Position**  
(in thousands of dollars)

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Operating revenues	\$ 56,974	\$ 57,049	\$ 56,796
Total revenues	<u>56,974</u>	<u>57,049</u>	<u>56,796</u>
Depreciation	13,036	13,801	12,827
Other operating expenses	220,872	220,687	210,564
Nonoperating expenses	125	115	186
Total expenses	<u>234,033</u>	<u>234,603</u>	<u>223,577</u>
Loss before transfers and contributions	(177,059)	(177,554)	(166,781)
Transfers and contributions	<u>181,673</u>	<u>191,054</u>	<u>159,638</u>
Change in net position	<u>\$ 4,614</u>	<u>\$ 13,500</u>	<u>\$ (7,143)</u>

The changes in net position are an indicator of whether the overall fiscal condition of the Bus and Paratransit Operations improved or declined during the fiscal year. The total net position may serve over time as a useful indicator of the Bus and Paratransit Operations’ financial position.

### Capital Asset and Debt Administration

As of June 30, 2014, the Bus and Paratransit Operations had approximately \$182 million invested in capital assets as shown in Table 3. There was a net increase (additions, deductions and depreciation) approximately of \$2.5 million or 1% and \$9.8 million or 6% for the fiscal years ended June 30, 2014 and 2013, respectively.



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

Management's Discussion and Analysis  
June 30, 2014 and 2013

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

	<b>2014</b>	<b>2013</b>	<b>2012</b>
Buses	\$ 219,710	\$ 216,200	\$ 203,731
Buildings and improvements	84,771	81,208	80,304
Shop and office equipment	27,560	28,865	27,556
Paratransit vans	15,440	14,338	14,728
Automobiles and trucks	3,065	2,909	2,842
	<u>350,546</u>	<u>343,520</u>	<u>329,161</u>
Less: Accumulated depreciation	<u>225,721</u>	<u>220,834</u>	<u>220,939</u>
	124,825	122,686	108,222
Land	53,985	53,985	53,985
Construction in progress	3,509	3,104	7,742
Total	<u>\$ 182,319</u>	<u>\$ 179,775</u>	<u>\$ 169,949</u>

Major capital asset additions and disposals to the public transportation system for the fiscal year ended June 30, 2014, included the following:

- Acquisition of 18 diesel buses for \$8 million.
- Completion of the Pearl City Bus Facility paving project of \$3.6 million.
- Acquisition of 13 Paratransit vans for \$1.4 million.
- Disposal of older buses, Paratransit vans, and equipment with an original cost of \$8 million that were fully depreciated.

### Currently Known Facts, Decisions, or Conditions

Oahu Transit Services, Inc. (OTS) manages, operates and maintains the Bus and Paratransit Operations on behalf of the City and County of Honolulu. The management agreement between the City and County of Honolulu and OTS provides for the payment of \$117,130 per quarter beginning with the quarter ended September 30, 2010 until a new management and operations agreement is executed.

The collective bargaining agreement between OTS, for its bus operations, and the Hawaii Teamsters and Allied Workers Union, Local 996, is effective from July 1, 2013 through June 30, 2018.

The collective bargaining agreement between OTS, for its paratransit operations, and the Hawaii Teamsters and Allied Workers Union, Local 996, is effective from April 1, 2012 through March 31, 2015.

# **City and County of Honolulu**

## **Public Transportation System – Bus and Paratransit Operations**

Management's Discussion and Analysis  
June 30, 2014 and 2013

### **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 Position  
June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current Assets		
Cash and cash equivalents	\$ 16,730,626	\$ 14,752,718
Accounts receivable	1,093,671	1,972,263
Parts, supplies and fuel inventories	7,706,186	7,390,195
Advance to Oahu Transit Services, Inc. for accrued expenses	11,327,766	9,564,775
Other assets	<u>32,636</u>	<u>32,154</u>
Total current assets	36,890,885	33,712,105
Restricted Assets Held by Oahu Transit Services, Inc.	2,221,104	1,701,793
Capital Assets, net	<u>182,318,676</u>	<u>179,774,995</u>
Total assets	<u>\$ 221,430,665</u>	<u>\$ 215,188,893</u>
 <b>Liabilities and Net Position</b>		
Current Liabilities		
Accounts payable	\$ 4,101,616	\$ 4,519,408
Reserve for insurance claims payable	7,755,393	7,209,390
Unearned revenue	<u>1,513,082</u>	<u>2,079,279</u>
Total current liabilities	13,370,091	13,808,077
Noncurrent Payable to Oahu Transit Services, Inc.		
Accrued sick leave	6,984,816	6,900,390
Postretirement liability	15,182,132	14,510,166
Reserve for Insurance Claims Payable, noncurrent	<u>11,837,053</u>	<u>10,528,343</u>
Total liabilities	<u>47,374,092</u>	<u>45,746,976</u>
Commitments and Contingencies		
Net Position		
Invested in capital assets	182,318,676	179,774,995
Unrestricted	<u>(8,262,103)</u>	<u>(10,333,078)</u>
Total net position	<u>174,056,573</u>	<u>169,441,917</u>
Total liabilities and net position	<u>\$ 221,430,665</u>	<u>\$ 215,188,893</u>

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

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

Statements of Revenues, Expenses and Changes in Net Position  
Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Operating Revenues</b>		
Passenger fares for transit services	\$ 56,642,793	\$ 56,647,185
Nontransportation revenue	<u>331,363</u>	<u>402,077</u>
Total operating revenues	<u>56,974,156</u>	<u>57,049,262</u>
<b>Operating Expenses</b>		
Contract services	159,296,705	156,999,294
Fuel and lubricants	21,053,094	21,365,228
Materials and supplies	13,478,701	15,474,819
Depreciation	13,035,501	13,801,974
Insurance	12,653,510	12,407,123
Outside services	8,791,056	8,398,151
State fuel taxes	3,277,367	3,186,171
Utilities, rentals and others	<u>2,322,181</u>	<u>2,856,131</u>
Total operating expenses	<u>233,908,115</u>	<u>234,488,891</u>
Loss from operations	<u>(176,933,959)</u>	<u>(177,439,629)</u>
<b>Nonoperating Income (Expense)</b>		
Noncapital contributions	21,524,247	27,279,054
Loss on disposal of equipment and parts	<u>(124,685)</u>	<u>(115,395)</u>
Total nonoperating income	<u>21,399,562</u>	<u>27,163,659</u>
Loss before transfers and capital contributions	(155,534,397)	(150,275,970)
<b>Transfers</b>	145,288,727	140,774,885
<b>Capital Contributions</b>	<u>14,860,326</u>	<u>23,000,375</u>
Change in net position	4,614,656	13,499,290
<b>Net Position</b>		
Beginning of year	<u>169,441,917</u>	<u>155,942,627</u>
End of year	<u>\$ 174,056,573</u>	<u>\$ 169,441,917</u>

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

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

Statements of Cash Flows  
Years Ended June 30, 2014 and 2013

	<b>2014</b>	<b>2013</b>
<b>Cash Flows From Operating Activities</b>		
Cash received from passengers	\$ 56,955,188	\$ 56,573,165
Cash paid to suppliers and others	(128,820,651)	(110,319,728)
Cash paid to reimburse OTS for its employees	(91,731,436)	(108,366,898)
Net cash used in operating activities	(163,596,899)	(162,113,461)
<b>Cash Flows From Noncapital Financing Activity --</b>		
Transfers and noncapital contributions	166,812,974	168,053,939
<b>Cash Flows From Capital and Related Financing Activity --</b>		
Purchases of capital assets	(718,856)	(627,982)
Net increase in cash and cash equivalents	2,497,219	5,312,496
<b>Cash and Cash Equivalents</b>		
Beginning of year	16,454,511	11,142,015
End of year (including \$2,221,104 and \$1,701,793 in restricted assets in 2014 and 2013, respectively)	\$ 18,951,730	\$ 16,454,511
<b>Reconciliation of Loss from Operations to Net Cash Used In Operating Activities</b>		
Loss from operations	\$ (176,933,959)	\$ (177,439,629)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	13,035,501	13,801,974
Loss on disposal of equipment and parts	(124,685)	(115,395)
Changes in assets and liabilities		
Accounts receivable	878,592	61,381
Parts, supplies, fuel inventories and other current assets	(316,473)	(36,826)
Advance to Oahu Transit Services, Inc.	(1,762,991)	(2,764,479)
Accounts payable	(417,792)	488,801
Payable to Oahu Transit Services, Inc.	756,392	740,496
Reserve for insurance claims payable	1,854,713	3,285,531
Unearned revenue	(566,197)	(135,316)
Net cash used in operating activities	\$ (163,596,899)	\$ (162,113,462)
<b>Supplemental Disclosure of Noncash Capital Activity --</b>		
Contribution of Capital Assets from the Federal Transit Administration and City	\$ 14,860,326	\$ 23,000,375

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

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 1. 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 3, 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's Public Transportation System – Bus and Paratransit Operations (Bus and Paratransit Operations). Such accounts are included as part of the City's Public Transportation System proprietary fund. 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 accordance 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. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and No. 39, *Determining Whether Certain Organizations Are Component Units*.

The collective bargaining agreement between OTS, for its bus operations, and the Hawaii Teamsters and Allied Workers Union, Local 996, is effective from July 1, 2013 through June 30, 2018. The collective bargaining agreement between OTS, for its paratransit operations, and the Hawaii Teamsters and Allied Workers Union, Local 996, is effective from April 1, 2012 through March 31, 2015.

### 2. Summary of Significant Accounting Policies

#### a. Basis of Accounting

The accounting policies of the Bus and Paratransit Operations 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 (FASB) pronouncements on accounting and financial reporting that were issued after November 30, 1989.

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.

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 2. Summary of Significant Accounting Policies (continued)

#### a. Basis of Accounting (continued)

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.

#### b. Use of Estimates

The preparation of financial statements in accordance 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.

#### c. Cash and Cash Equivalents

The Bus and Paratransit Operations consider 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.

#### d. Accounts Receivable

Accounts receivable consists primarily of amounts due from third parties who purchase transportation services. Accounts are written off when it is determined, after considering economic conditions, business conditions and collection efforts, that the accounts are uncollectible. Management considers all accounts receivable as of June 30, 2014 and 2013 to be fully collectible. Accordingly, no allowance for doubtful accounts has been established.

#### e. Parts, Supplies and Fuel Inventories

Inventory of parts, supplies and fuel are stated at weighted average cost. Inventories are written off when management determines that such items are obsolete or unusable.

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 2. Summary of Significant Accounting Policies (continued)

#### f. Capital Assets

Capital 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 Bus and Paratransit Operations 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 capital assets, the remaining net book value is charged to operations.

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

	<b>Years</b>
Buildings and improvements	30 – 40
Buses	7 – 12
Paratransit vans	5
All other assets	5 – 15

#### g. 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. The current portions of accrued vacation and sick leave are included in the advance to Oahu Transit Services, Inc. for accrued expenses balance on the statements of net position.

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.

#### h. Deferred Income

Bus vouchers are recognized as revenues upon redemption. Annual and two-year bus passes are deferred until the applicable period has passed.



# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 2. Summary of Significant Accounting Policies (continued)

#### i. 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 postretirement 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.

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 investments securities, it is at least reasonably possible that changes in the value of investment securities will occur in the near term, and that such change could materially affect the prepaid pension cost reported in 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.

#### j. Net Position

Net position comprises the various net earnings (loss) from operating and nonoperating revenues, expenses, transfers and contributions. Net position is classified in the following components: invested in capital assets and unrestricted net position. Invested in capital assets consists of capital assets, net of accumulated depreciation. Unrestricted net position consists of all other net position not categorized as invested in capital assets.

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 2. Summary of Significant Accounting Policies (continued)

#### j. Net Position (continued)

When both restricted and unrestricted resources are available for use, generally, it is management's policy to use restricted resources first, then unrestricted resources as they are needed.

#### k. 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 vehicles owned by the City and provided to OTS to operate and manage the transit system for the City. This master policy provided \$250 million in blanket limits, subject to a general deductible of \$75,000 and various deductibles for the perils of earthquake, flood and hurricane. In addition, this policy provided \$50 million in sublimits for comprehensive damage (other than collision damage) to the vehicles while parked at the Bus and Paratransit Operations facilities.

#### l. 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.

#### m. 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.

#### n. Contributions

Contributions from the City for capital assets (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.

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 2. Summary of Significant Accounting Policies (continued)

#### o. New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68 (GASB 68), *Accounting and Reporting for Pensions (an amendment of GASB Statement No. 27)*. GASB 68 amends the accounting guidance related to employers' accounting for pension plans administered through trusts or similar arrangements and requires the recognition of a liability for the employers' accumulated obligation for pension benefits. GASB 68 also provides additional guidance regarding the recognition of annual costs of pension benefits and revises the disclosure requirements for the notes to the financial statements and required supplementary information. GASB 68 will be effective for the Bus and Paratransit Operations' financial statements for the year ending June 30, 2015. Management is currently evaluating the impact the adoption of GASB 68 will have on the Bus and Paratransit Operations' financial statements.

In May 2014, the GASB approved an exposure draft for issuance which will significantly revise the existing GASB standards contained in GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. If adopted as exposed, the revised accounting for other postemployment benefits (OPEB) will mirror the accounting and reporting framework used in GASB 68 described above. The exposure draft as issued will be effective for the Bus and Paratransit Operations' financial statements for the year ending June 30, 2018.

In April 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to clarify the appropriate reporting of deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. The adoption of this Statement for the year ended June 30, 2014 did not result in a significant impact to the Bus and Paratransit Operations' financial statements.

In April 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012*. The objective of this Statement is to enhance usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The adoption of this Statement for the year ended June 30, 2014 did not result in a significant impact to the Bus and Paratransit Operations' financial statements.

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 2. Summary of Significant Accounting Policies (continued)

#### p. Reclassifications

Interfund transfers on the supplemental schedule – detailed statement of revenues, expenses and changes in net position for the year ended June 30, 2013 were reclassified to be consistent with the classifications adopted by management for the year ended June 30, 2014. Such reclassifications had the effect of reducing operating expenses and loss from operations for bus operations with a corresponding increase in operating expenses and loss from operations for paratransit operations of approximately \$33.4 million for the year ended June 30, 2013.

### 3. Management and Operations Agreement

OTS has an agreement with the City to manage 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, 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 change in net position include reimbursements paid to OTS for labor and fringe benefits. The agreement provided for the City to pay OTS an annual management fee of approximately \$469,000 for the fiscal years ended June 30, 2014 and 2013.

The current agreement with the City provides for the City to pay OTS approximately \$117,000 per quarter beginning with the quarter ended September 30, 2010 until a new management and operations agreement is executed.

The agreement provides that the City furnish, but retain title to, the transit buses, paratransit vans, properties, facilities and equipment used in the transit system.

### 4. Cash and Investments

The cash balances reported in the accompanying statements of net position are included in the City's cash and investment pool. Specific information pertaining to bank and invested 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 and other states, cities, and counties, mutual funds and bank repurchase agreements. Investments in repurchase agreements are primarily U.S. government and federal agency securities.

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

#### 4. Cash and Investments (continued)

The City structures its investment portfolio so that securities mature to meet cash requirements for ongoing operations avoiding the need to sell securities on the open market prior to maturity. This practice decreases the City's exposure to risk caused by fluctuation of interest rates.

#### 5. Restricted Assets Held by OTS

OTS, the trustor, maintains trust funds for the purpose of maintaining adequate funds for expenses incurred through the City's 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.

Restricted assets as of June 30, 2014 and 2013 consisted of the following and were uninsured and uncollateralized:

	<b>2014</b>	<b>2013</b>
Cash	\$ 287,545	\$ 456,432
Money market mutual fund	1,933,559	1,245,361
	<u>\$ 2,221,104</u>	<u>\$ 1,701,793</u>

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

Notes to Financial Statements  
June 30, 2014 and 2013

### 6. Capital Assets

The changes in capital assets were as follows:

	<b>Balance July 1, 2013</b>	<b>Additions</b>	<b>Retirements/ Transfers</b>	<b>Balance June 30, 2014</b>
Buses	\$ 216,198,609	\$ 8,158,336	\$ (4,647,393)	\$ 219,709,552
Buildings and improvements	81,207,556	3,563,747	-	84,771,303
Shop and office equipment	28,865,289	1,663,373	(2,968,393)	27,560,269
Paratransit vans	14,338,289	1,405,053	(303,475)	15,439,867
Automobiles and trucks	2,909,446	383,972	(228,790)	3,064,628
	<u>343,519,189</u>	<u>15,174,481</u>	<u>(8,148,051)</u>	<u>350,545,619</u>
Less: Accumulated depreciation	<u>(220,833,941)</u>	<u>(13,035,501)</u>	<u>8,148,051</u>	<u>(225,721,391)</u>
	122,685,248	2,138,980	-	124,824,228
Land	53,985,443	-	-	53,985,443
Construction in progress	3,104,304	4,204,908	(3,800,207)	3,509,005
Capital assets, net	<u>\$ 179,774,995</u>	<u>\$ 6,343,888</u>	<u>\$ (3,800,207)</u>	<u>\$ 182,318,676</u>
	<b>Balance July 1, 2012</b>	<b>Additions</b>	<b>Retirements/ Transfers</b>	<b>Balance June 30, 2013</b>
Buses	\$ 203,730,433	\$ 25,206,395	\$ (12,738,219)	\$ 216,198,609
Buildings and improvements	80,304,327	903,229	-	81,207,556
Shop and office equipment	27,556,258	1,938,796	(629,765)	28,865,289
Paratransit vans	14,728,074	-	(389,785)	14,338,289
Automobiles and trucks	2,841,778	217,388	(149,720)	2,909,446
	<u>329,160,870</u>	<u>28,265,808</u>	<u>(13,907,489)</u>	<u>343,519,189</u>
Less: Accumulated depreciation	<u>(220,939,456)</u>	<u>(13,801,974)</u>	<u>13,907,489</u>	<u>(220,833,941)</u>
	108,221,414	14,463,834	-	122,685,248
Land	53,985,443	-	-	53,985,443
Construction in progress	7,741,755	3,039,429	(7,676,880)	3,104,304
Capital assets, net	<u>\$ 169,948,612</u>	<u>\$ 17,503,263</u>	<u>\$ (7,676,880)</u>	<u>\$ 179,774,995</u>

Depreciation expense was \$13,035,501 and \$13,801,974 for the fiscal years ended June 30, 2014 and 2013, respectively.

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

Notes to Financial Statements  
June 30, 2014 and 2013

### 7. 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 effective July 1, 2002. OTS has obtained excess insurance coverage for general liability and automotive claims and workers' compensation through various insurance companies for amounts in excess of claims covered under the two self-insurance programs. The amounts payable for claims incurred and claims incurred but not reported for the fiscal years ended June 30, 2014 and 2013, were as follows:

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>July 1, 2013</b>	<b>Incurred</b>	<b>Payments</b>	<b>June 30, 2014</b>	<b>Due Within</b>
					<b>One Year</b>
Automotive and general liability	\$ 5,336,033	\$ 6,081,646	\$ (5,020,958)	\$ 6,396,721	\$ 2,967,230
Workers' compensation	<u>12,401,700</u>	<u>6,693,622</u>	<u>(5,899,597)</u>	<u>13,195,725</u>	<u>4,788,163</u>
Reserve for insurance claims payable	<u>\$ 17,737,733</u>	<u>\$ 12,775,268</u>	<u>\$ (10,920,555)</u>	<u>\$ 19,592,446</u>	<u>\$ 7,755,393</u>

	<b>Balance</b>			<b>Balance</b>	<b>Amounts</b>
	<b>July 1, 2012</b>	<b>Incurred</b>	<b>Payments</b>	<b>June 30, 2013</b>	<b>Due Within</b>
					<b>One Year</b>
Automotive and general liability	\$ 4,343,736	\$ 5,740,941	\$ (4,748,644)	\$ 5,336,033	\$ 2,676,331
Workers' compensation	<u>10,108,465</u>	<u>9,846,605</u>	<u>(7,553,370)</u>	<u>12,401,700</u>	<u>4,533,059</u>
Reserve for insurance claims payable	<u>\$ 14,452,201</u>	<u>\$ 15,587,546</u>	<u>\$ (12,302,014)</u>	<u>\$ 17,737,733</u>	<u>\$ 7,209,390</u>

The OTS workers' compensation loss and allocated loss adjustment expense (ALAE) reserve as of June 30, 2014 for accidents occurring from March 1, 1998 to June 30, 2014 is estimated to be \$13.2 million on an undiscounted basis and \$11.5 million on a discounted basis (discounted at 4.5%). The OTS liability loss and ALAE reserve as of June 30, 2014 for accidents occurring from January 1, 2000 through June 30, 2014, is estimated to be \$6.4 million on an undiscounted basis and \$5.8 million on a discounted basis (discounted at 4.5%). 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 amount for workers' compensation and automotive liability claims is a significant estimate. It is reasonably possible that one or more future events could result in material change in the estimated claim losses in the near term.

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 8. Employee Benefit Plans

#### a. Pension Plans

OTS participates in the Western Conference of Teamsters Pension Plan (WCT Plan), a noncontributory cost sharing multi-employer defined benefit pension plan which provides for pension benefits to all bargaining employees at the following rates:

<b>Division</b>	<b>Period</b>	<b>Fixed Rate Per Straight-time Hour</b>
Bus operations	March 1, 2012 to February 28, 2013	\$ 4.60
	March 1, 2013 to June 30, 2013	4.80
	July 1, 2013 to October 31, 2014	4.80
Paratransit operations – dispatchers, schedulers, reservationists, maintenance employees, customer service and administrative clerks	January 1, 2012 to July 31, 2013	2.80
	August 1, 2013 to March 31, 2014	2.95
	April 1, 2014 to September 30, 2014	3.10
Paratransit operations – operator employees	March 1, 2012 to July 31, 2013	2.80
	August 1, 2013 to March 31, 2014	2.85
	April 1, 2014 to September 30, 2014	3.00

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.

Pension expense under the multiemployer plan was approximately \$15,459,000, \$14,948,000, and \$14,723,000 for the fiscal years ended June 30, 2014, 2013, and 2012, respectively. The information relating to the relative position of each employer associated with its multi-employer 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 supplemental 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 approximately \$1,970,000 and \$1,967,000 for the fiscal years ended June 30, 2014 and 2013, respectively.



# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 8. Employee Benefit Plans (continued)

#### a. Pension Plans (continued)

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, 2014 and 2013 were as follows:

	<b>2014</b>	<b>2013</b>
Annual required contribution	\$ 1,415,393	\$ 1,461,742
Interest on net pension asset	(1,196,591)	(1,090,679)
Adjustment to annual required contribution	<u>1,750,872</u>	<u>1,595,900</u>
Annual pension cost	1,969,674	1,966,963
Less: Contributions made	<u>3,930,000</u>	<u>3,570,000</u>
Increase in net pension cost	1,960,326	1,603,037
Net pension asset		
Beginning of year	<u>17,994,162</u>	<u>16,391,125</u>
End of year	<u>\$ 19,954,488</u>	<u>\$ 17,994,162</u>

The annual required contribution (ARC) for the current year was determined as part of the March 1, 2013, the most recent actuarial valuation date, actuarial valuation using the projected unit credit method. The actuarial assumptions included (a) 7.00% 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, 2014 and 2013 was one year and two years, respectively.

#### Three-Year Trend Information

<b>Fiscal Year Ended</b>	<b>Annual Pension Cost ("APC")</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Asset</b>
June 30, 2012	\$ 1,588,175	203%	\$ 16,391,125
June 30, 2013	\$ 1,966,963	181%	\$ 17,994,162
June 30, 2014	\$ 1,969,674	200%	\$ 19,954,488

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 8. Employee Benefit Plans (continued)

#### b. Postretirement Health Benefit Plans

OTS provides its nonbargaining unit employees with postretirement health benefits. 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, 2014, 2013 and 2012, amounted to approximately \$238,000, \$208,000 and \$187,000, respectively.

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, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the 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 OTS's annual OPEB cost for the fiscal years ended June 30, 2014 and 2013, the amount actually contributed to the plan, and change in the net OPEB obligation:

	<b>2014</b>	<b>2013</b>
Annual required contribution	\$ 1,647,800	\$ 1,600,142
Interest on net OPEB obligation	662,317	629,979
Adjustment to annual required contribution	<u>(1,370,464)</u>	<u>(1,303,550)</u>
Annual OPEB cost	939,653	926,571
Contributions made	<u>(237,687)</u>	<u>(207,944)</u>
Increase in net OPEB obligation	701,966	718,627
Net OPEB obligation		
Beginning of year	<u>14,718,166</u>	<u>13,999,539</u>
End of year	15,420,132	14,718,166
Less: Current portion (included in Advance to Oahu Transit Services, Inc. for accrued expenses)	<u>238,000</u>	<u>208,000</u>
Noncurrent portion due to OTS	<u>\$ 15,182,132</u>	<u>\$ 14,510,166</u>

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 8. Employee Benefit Plans (continued)

#### b. Postretirement Health Benefit Plans (continued)

The June 30, 2014 and 2013 actuarial valuations used the projected unit credit cost method. 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 unfunded actuarial accrued liability is being amortized as a level dollar open amortization period. The remaining amortization period at June 30, 2014 and 2013 was 15 years.

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, 2014, 2013 and 2012 were as follows:

<b>Three-Year Trend Information</b>			
<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
June 30, 2012	\$ 1,701,744	11%	\$ 13,999,539
June 30, 2013	\$ 926,571	22%	\$ 14,718,166
June 30, 2014	\$ 939,653	25%	\$ 15,420,132

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. 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.

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 8. Employee Benefit Plans (continued)

#### b. Postretirement Health Benefit Plans (continued)

OTS's valuation reflects premium reimbursement payments of \$96.40 per month for retirees enrolled in Medicare Part B.

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 (Union). OTS is required to contribute the following amounts per straight-time compensable hour earned on behalf of Bus and Paratransit Operations employees:

<b>Division</b>	<b>Period</b>	<b>Fixed Rate Per Straight-time Hour</b>
Bus operations	March 1, 2012 to February 28, 2013	\$ 0.72
	March 1, 2013 to June 30, 2015	0.81
Paratransit operations	January 1, 2012 to March 31, 2015	0.20

Contributions for the fiscal years ended June 30, 2014, 2013 and 2012 were approximately \$2,253,000, \$2,080,000 and \$1,917,000, respectively. The Union's plan issues a publicly available financial report that includes financial statements and required supplemental information. This report may be obtained by writing to the Hawaii Teamsters Health and Welfare Plan Board of Trustees, 1817 Hart Street, Honolulu, HI 96819.

#### c. Sick Leave

OTS employees of the Bus operations are credited with sick leave at rates of 96 or 120 hours annually on March 1, depending on their years of service. 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. Annual sick leave not redeemed is added to the employees' cumulative allowance, which is carried over from year to year with no maximum for bargaining unit employees and a maximum of 160 days for nonbargaining unit employees. 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.

# City and County of Honolulu

## Public Transportation System – Bus and Paratransit Operations

Notes to Financial Statements  
June 30, 2014 and 2013

### 8. Employee Benefit Plans (continued)

#### c. Sick Leave (continued)

The value of the retirement credit for employees covered by a collective bargaining agreement is 100% of the employees' straight-time hourly rate multiplied by the number of accumulated sick leave hours. Effective November 1, 2011, OTS suspended the retirement credit for employees not covered by a collective bargaining agreement. At June 30, 2014 and 2013, 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.

Changes in the accrued sick leave balance as of June 30, 2014 and 2013 are as follows:

	<b>2014</b>	<b>2013</b>
Beginning of year	\$ 7,925,711	\$ 7,884,025
Qualified benefits earned	1,145,737	1,195,283
Payments	<u>(1,049,228)</u>	<u>(1,153,597)</u>
End of year	8,022,220	7,925,711
Less: Current portion (included in Advance to Oahu Transit Services, Inc. for accrued expenses)	<u>1,037,404</u>	<u>1,025,321</u>
Noncurrent portion due to OTS	<u>\$ 6,984,816</u>	<u>\$ 6,900,390</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.

### 9. Transfers and Contributions

The Bus and Paratransit Operations receive significant support for operations from the City and the Federal Transit Administration. Transfers from the City totaled approximately \$145.3 million and \$140.8 million for the fiscal years ended June 30, 2014 and 2013, respectively. In addition, capital and noncapital contributions for the fiscal years ended June 30, 2014 and 2013 were as follows:

	<b>2014</b>	<b>2013</b>
Federal capital contributions	\$ 10,971,033	\$ 14,043,335
City capital contributions	<u>3,889,294</u>	<u>8,957,040</u>
Total capital contributions	<u>\$ 14,860,326</u>	<u>\$ 23,000,375</u>
FTA preventative maintenance funds	\$ 21,313,006	\$ 27,161,000
Other federal non-operating revenues	<u>211,241</u>	<u>118,054</u>
Total noncapital contributions	<u>\$ 21,524,247</u>	<u>\$ 27,279,054</u>

# **City and County of Honolulu**

## **Public Transportation System – Bus and Paratransit Operations**

Notes to Financial Statements  
June 30, 2014 and 2013

### **10. Litigation**

OTS and the City are involved in various lawsuits arising from the normal operations of the City Bus and Paratransit Operations. 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.

**Required Supplementary Information Other Than MD&A**

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

Employee Benefit Plans - Schedules of Funding Progress  
June 30, 2014

The following schedules of funding progress present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities.

### Pension Plans

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, 2011	\$ 15,462,957	\$ 26,720,582	\$ 11,257,625	58%	\$ 7,283,579	155%
March 1, 2012	\$ 12,990,154	\$ 27,931,418	\$ 14,941,264	47%	\$ 7,477,573	200%
March 1, 2013	\$ 15,662,444	\$ 30,410,766	\$ 14,748,322	52%	\$ 7,908,974	187%

### Postretirement Health Benefit Plans

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
June 30, 2012	\$ -	\$ 13,147,311	\$ 13,147,311	0%	\$ 8,004,127	164%
June 30, 2013	\$ -	\$ 13,679,800	\$ 13,679,800	0%	\$ 8,325,313	164%
June 30, 2014	\$ -	\$ 18,443,764	\$ 18,443,764	0%	\$ 8,481,973	217%



## **Supplemental Schedules**

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

Supplemental Schedule – Detailed Statement of Net Position  
June 30, 2014

	<u>Bus Operations</u>	<u>Paratransit Operations</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 16,730,026	\$ 600	\$ -	\$ 16,730,626
Accounts receivable	1,082,127	11,544	-	1,093,671
Parts, supplies and fuel inventories	7,209,381	496,805	-	7,706,186
Advance to Oahu Transit Services, Inc. for accrued expenses	9,171,430	2,156,336	-	11,327,766
Other current assets	32,636	-	-	32,636
Intercompany receivables	36,031,236	-	(36,031,236)	-
Total current assets	70,256,836	2,665,285	(36,031,236)	36,890,885
Restricted assets held by Oahu Transit Services, Inc.	2,221,104	-	-	2,221,104
Capital assets, net	161,173,451	21,145,225	-	182,318,676
Total assets	<u>\$ 233,651,391</u>	<u>\$ 23,810,510</u>	<u>\$ (36,031,236)</u>	<u>\$ 221,430,665</u>

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

Supplemental Schedule – Detailed Statement of Net Position (continued)  
June 30, 2014

	<u>Bus Operations</u>	<u>Paratransit Operations</u>	<u>Eliminations</u>	<u>Total</u>
<b>Liabilities and Net Position</b>				
Current liabilities				
Accounts payable	\$ 3,104,592	\$ 997,024	\$ -	\$ 4,101,616
Intercompany payables	-	36,031,236	(36,031,236)	-
Reserve for insurance claims payable	7,755,393	-	-	7,755,393
Unearned revenue	1,513,082	-	-	1,513,082
Total current liabilities	12,373,067	37,028,260	(36,031,236)	13,370,091
Noncurrent payable to Oahu Transit Services, Inc.				
Accrued sick leave	6,271,529	713,287	-	6,984,816
Postretirement liability	14,955,180	226,952	-	15,182,132
Reserve for insurance claims payable, noncurrent	11,837,053	-	-	11,837,053
Total liabilities	45,436,829	37,968,499	(36,031,236)	47,374,092
Net position				
Invested in capital assets	161,173,451	21,145,225	-	182,318,676
Unrestricted	27,041,111	(35,303,214)	-	(8,262,103)
Total net position	188,214,562	(14,157,989)	-	174,056,573
Total liabilities and net position	<u>\$ 233,651,391</u>	<u>\$ 23,810,510</u>	<u>\$ (36,031,236)</u>	<u>\$ 221,430,665</u>

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

Supplemental Schedule – Detailed Statement of Net Position  
June 30, 2013

	<u>Bus Operations</u>	<u>Paratransit Operations</u>	<u>Eliminations</u>	<u>Total</u>
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 14,752,118	\$ 600	\$ -	\$ 14,752,718
Accounts receivable	1,967,484	4,779	-	1,972,263
Parts, supplies and fuel inventories	6,830,931	559,264	-	7,390,195
Advance to Oahu Transit Services, Inc. for accrued expenses	7,674,138	1,890,637	-	9,564,775
Other assets	32,154	-	-	32,154
Intercompany receivables	<u>35,972,544</u>	<u>-</u>	<u>35,972,544</u>	<u>-</u>
Total current assets	67,229,369	2,455,280	35,972,544	33,712,105
Restricted assets held by Oahu Transit Services, Inc.	1,701,793	-	-	1,701,793
Capital assets, net	<u>158,324,297</u>	<u>21,450,698</u>	<u>-</u>	<u>179,774,995</u>
Total assets	<u>\$ 227,255,459</u>	<u>\$ 23,905,978</u>	<u>\$ 35,972,544</u>	<u>\$ 215,188,893</u>

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

Supplemental Schedule – Detailed Statement of Net Position (continued)  
June 30, 2013

	<b>Bus Operations</b>	<b>Paratransit Operations</b>	<b>Eliminations</b>	<b>Total</b>
<b>Liabilities and Net Position</b>				
Current liabilities				
Accounts payable	\$ 3,366,477	\$ 1,152,931	\$ -	\$ 4,519,408
Intercompany payables	-	35,972,544	35,972,544	-
Reserve for insurance claims payable	7,209,390	-	-	7,209,390
Unearned revenue	2,079,279	-	-	2,079,279
Total current liabilities	12,655,146	37,125,475	35,972,544	13,808,077
Noncurrent payable to Oahu Transit Services, Inc.				
Accrued sick leave	6,135,687	764,703	-	6,900,390
Postretirement liability	14,276,301	233,865	-	14,510,166
Reserve for insurance claims payable, noncurrent	10,528,343	-	-	10,528,343
Total liabilities	43,595,477	38,124,043	35,972,544	45,746,976
Net position				
Invested in capital assets	158,324,297	21,450,698	-	179,774,995
Unrestricted	25,335,685	(35,668,763)	-	(10,333,078)
Total net position	183,659,982	(14,218,065)	-	169,441,917
Total liabilities and net position	\$ 227,255,459	\$ 23,905,978	\$ 35,972,544	\$ 215,188,893

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

Supplemental Schedule – Detailed Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2014

	<b>Bus Operations</b>	<b>Paratransit Operations</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>				
Passenger fares for transit services	\$ 54,955,598	\$ 1,687,195	\$ -	\$ 56,642,793
Nontransportation revenue	302,883	28,480	-	331,363
Total operating revenues	<u>55,258,481</u>	<u>1,715,675</u>	<u>-</u>	<u>56,974,156</u>
<b>Operating Expenses</b>				
Contract services	132,721,604	26,575,101	-	159,296,705
Fuel and lubricants	18,323,680	2,729,414	-	21,053,094
Materials and supplies	11,846,031	1,632,670	-	13,478,701
Depreciation	10,880,676	2,154,825	-	13,035,501
Insurance	10,708,099	1,945,411	-	12,653,510
Outside services	4,954,299	3,836,757	-	8,791,056
State fuel taxes	2,853,043	424,324	-	3,277,367
Utilities, rentals and others	2,155,163	167,018	-	2,322,181
Total operating expenses	<u>194,442,595</u>	<u>39,465,520</u>	<u>-</u>	<u>233,908,115</u>
Loss from operations	<u>(139,184,114)</u>	<u>(37,749,845)</u>	<u>-</u>	<u>(176,933,959)</u>
<b>Nonoperating Income (Expense)</b>				
Noncapital contributions	21,524,247	-	-	21,524,247
Loss on disposal of equipment and parts	(124,685)	-	-	(124,685)
	<u>21,399,562</u>	<u>-</u>	<u>-</u>	<u>21,399,562</u>
Loss before transfers and capital contributions	<u>(117,784,552)</u>	<u>(37,749,845)</u>	<u>-</u>	<u>(155,534,397)</u>

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

Supplemental Schedule – Detailed Statement of Revenues, Expenses and Changes in Net Position (continued)  
Year Ended June 30, 2014

	<u>Bus Operations</u>	<u>Paratransit Operations</u>	<u>Eliminations</u>	<u>Total</u>
Loss before transfers and capital contributions	\$(117,784,552)	\$(37,749,845)	\$ -	\$(155,534,397)
Interfund transfers	(35,972,544)	35,972,544	-	-
Transfers	145,288,727	-	-	145,288,727
Capital contributions	<u>13,022,949</u>	<u>1,837,377</u>	-	<u>14,860,326</u>
Changes in net position	4,554,580	60,076	-	4,614,656
<b>Net Position</b>				
Beginning of year	<u>183,659,982</u>	<u>(14,218,065)</u>	-	<u>169,441,917</u>
End of year	<u>\$ 188,214,562</u>	<u>\$ (14,157,989)</u>	<u>\$ -</u>	<u>\$ 174,056,573</u>

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

Supplemental Schedule – Detailed Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2013

	<b>Bus Operations</b>	<b>Paratransit Operations</b>	<b>Eliminations</b>	<b>Total</b>
<b>Operating Revenues</b>				
Passenger fares for transit services	\$ 55,024,364	\$ 1,622,821	\$ -	\$ 56,647,185
Nontransportation revenue	372,879	29,198	-	402,077
Total operating revenues	<u>55,397,243</u>	<u>1,652,019</u>	<u>-</u>	<u>57,049,262</u>
<b>Operating Expenses</b>				
Contract services	131,192,148	25,807,146	-	156,999,294
Fuel and lubricants	18,648,354	2,716,874	-	21,365,228
Insurance	13,005,534	2,469,285	-	15,474,819
Depreciation	11,293,342	2,508,632	-	13,801,974
Materials and Supplies	10,736,854	1,670,269	-	12,407,123
Outside services	4,299,559	4,098,592	-	8,398,151
State fuel taxes	2,770,474	415,697	-	3,186,171
Utilities, rentals and others	2,436,589	419,542	-	2,856,131
Total operating expenses	<u>194,382,854</u>	<u>40,106,037</u>	<u>-</u>	<u>234,488,891</u>
Loss from operations	<u>(138,985,611)</u>	<u>(38,454,018)</u>	<u>-</u>	<u>(177,439,629)</u>
<b>Nonoperating Income (Expense)</b>				
Noncapital contributions	27,279,054	-	-	27,279,054
Loss on disposal of equipment and parts	(115,395)	-	-	(115,395)
Total nonoperating income	<u>27,163,659</u>	<u>-</u>	<u>-</u>	<u>27,163,659</u>
Loss before transfers and capital contributions	<u>(111,821,952)</u>	<u>(38,454,018)</u>	<u>-</u>	<u>(150,275,970)</u>



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

Supplemental Schedule – Detailed Statement of Revenues, Expenses and Change in Net Position (continued)  
Year Ended June 30, 2013

	<u>Bus Operations</u>	<u>Paratransit Operations</u>	<u>Eliminations</u>	<u>Total</u>
Loss before transfers and capital contributions	\$(111,821,952)	\$ (38,454,018)	\$ -	\$(150,275,970)
Interfund transfer	(33,366,490)	33,366,490	-	-
Transfers	140,774,885	-	-	140,774,885
Capital contributions	<u>22,880,268</u>	<u>120,107</u>	-	<u>23,000,375</u>
Changes in net position	18,466,711	(4,967,421)	-	13,499,290
<b>Net Position</b>				
Beginning of year	<u>165,193,271</u>	<u>(9,250,644)</u>	-	<u>155,942,627</u>
End of year	<u>\$ 183,659,982</u>	<u>\$ (14,218,065)</u>	<u>\$ -</u>	<u>\$ 169,441,917</u>