

**City and County of Honolulu  
Public Transportation System  
Bus and Paratransit Operations**  
Financial Statements and Supplemental Schedules  
June 30, 2012 and 2011

**City and County of Honolulu  
Public Transportation System – Bus and Paratransit Operations  
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## Report of Independent Auditors

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

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, 2012 and 2011 and the related statements of revenues, expenses and change in net assets and cash flows for the 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 1, 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, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City and County of Honolulu, Public Transportation System – Bus and Paratransit Operations as of June 30, 2012 and 2011, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on pages 3 through 6 and schedules of funding progress on page 23 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bus and Paratransit Operations financial statements as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Accuity LLP*

Honolulu, Hawaii  
October 19, 2012

# **City and County of Honolulu**

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

### **Management’s Discussion and Analysis**

#### **June 30, 2012 and 2011**

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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, 2012. 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 decreased by \$7.1 million or 4.4% in fiscal year 2012. The term “net assets” refers to the difference between assets and liabilities.
- Operating revenues increased by \$3.1 million or 5.9% over the prior fiscal year.
- Transfers and contributions decreased by \$15.3 million or 8.8% over the prior fiscal year.
- Total expenses for the fiscal year 2012 increased by approximately \$5.4 million or 2.5% compared to 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 change 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).

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.

**City and County of Honolulu**  
**Public Transportation System – Bus and Paratransit Operations**  
**Management’s Discussion and Analysis**  
**June 30, 2012 and 2011**

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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 as of and for the years ended June 30, 2012 and 2011.

**Financial Analysis**

A condensed summary of the Bus and Paratransit Operations’ net assets at June 30, 2012, 2011 and 2010 is shown below:

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

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Current and other assets	\$ 24,696	\$ 35,234	\$ 29,493
Restricted assets	2,666	1,219	1,114
Capital assets, net	<u>169,949</u>	<u>168,185</u>	<u>160,663</u>
Total assets	<u>197,311</u>	<u>204,638</u>	<u>191,270</u>
Current liabilities	11,781	12,430	10,921
Noncurrent liabilities	<u>29,587</u>	<u>29,122</u>	<u>27,740</u>
Total liabilities	<u>41,368</u>	<u>41,552</u>	<u>38,661</u>
Net assets			
Invested in capital assets	169,949	168,185	160,663
Unrestricted	<u>(14,006)</u>	<u>(5,099)</u>	<u>(8,054)</u>
Total net assets	<u>\$ 155,943</u>	<u>\$ 163,086</u>	<u>\$ 152,609</u>

The total assets exceed liabilities by approximately \$155.9 million, \$163.1 million and \$152.6 million at June 30, 2012, 2011 and 2010, respectively. Net assets decreased by approximately \$7.1 million or 4.4% from June 30, 2011, and increased by approximately \$10.5 million or 6.9% from June 30, 2010. 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 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, 2012 and 2011**

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A summary of operations and changes in net assets for the fiscal years ended June 30, 2012, 2011 and 2010 follows:

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

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Operating revenues	\$ 56,796	\$ 53,657	\$ 47,638
Total revenues	<u>56,796</u>	<u>53,657</u>	<u>47,638</u>
Depreciation	12,827	15,830	16,515
Other operating expenses	210,564	202,060	190,211
Nonoperating expenses	186	279	103
Total expenses	<u>223,577</u>	<u>218,169</u>	<u>206,829</u>
Loss before transfers and contributions	(166,781)	(164,512)	(159,191)
Transfers and contributions	<u>159,638</u>	<u>174,988</u>	<u>170,335</u>
Change in net assets	<u>\$ (7,143)</u>	<u>\$ 10,476</u>	<u>\$ 11,144</u>

The change in net assets is an indicator of whether the overall fiscal condition of the Bus and Paratransit Operations improved or declined during the fiscal year. The total net assets 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, 2012, the Bus and Paratransit Operations had \$170 million invested in capital assets as shown in Table 3. There was a net increase (additions, deductions and depreciation) of \$1.8 million or 1% and \$7.5 million or 5% for the fiscal years ended June 30, 2012 and 2011, respectively.

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

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Buses	\$ 203,731	\$ 203,775	\$ 200,146
Buildings and improvements	80,304	77,671	73,048
Shop and office equipment	27,556	27,538	29,368
Paratransit vans	14,716	14,489	13,131
Automobiles and trucks	<u>2,842</u>	<u>2,733</u>	<u>2,489</u>
	329,149	326,206	318,182
Less: Accumulated depreciation	<u>220,927</u>	<u>213,618</u>	<u>211,929</u>
	108,222	112,588	106,253
Land	53,985	53,985	53,985
Construction in progress	<u>7,742</u>	<u>1,612</u>	<u>425</u>
Total	<u>\$ 169,949</u>	<u>\$ 168,185</u>	<u>\$ 160,663</u>

# **City and County of Honolulu**

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

### **Management’s Discussion and Analysis**

#### **June 30, 2012 and 2011**

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Major capital asset additions and disposals to the public transportation system for the fiscal year ended June 30, 2012, included the following:

- Acquisition of 3 diesel buses for \$1.3 million.
- Acquisition of various bus maintenance equipment for \$1 million.
- Acquisition of 15 diesel buses for \$6.5 million, which remain in construction in progress.
- Installation of a photovoltaic system for the Pearl City maintenance building and lighting improvements for the Kalihi maintenance building for \$2.6 million.
- Disposal of older buses, Paratransit vans, and equipment with an original cost of \$5.5 million that were fully depreciated.
- Acquisition of 26 Paratransit vans for \$3.1 million.

#### **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. In July 2010, the management agreement between the City and County of Honolulu and OTS was extended. The extension provides for the City and County of Honolulu to pay OTS \$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 paratransit operation, and the Hawaii Teamster and Allied Workers Union, Local 996, expired March 12, 2012. An extension has been ratified, although no agreement has been finalized.

Based on the Public Transit Division’s operating budget approved by the City Council for fiscal year 2013, bus operations were adjusted in August 2012 to a level consistent with available funds.

#### **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, 2012 and 2011**

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	2012	2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 8,476,206	\$ 18,978,572
Accounts receivable	2,033,644	2,072,745
Parts, supplies and fuel inventories	7,353,845	7,989,635
Advance to Oahu Transit Services, Inc. for accrued expenses	6,800,296	5,376,112
Other assets	31,678	817,418
Total current assets	<u>24,695,669</u>	<u>35,234,482</u>
Restricted assets held by Oahu Transit Services, Inc.	2,665,809	1,218,403
Capital assets, net	<u>169,948,612</u>	<u>168,184,637</u>
Total assets	<u>\$ 197,310,090</u>	<u>\$ 204,637,522</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Accounts payable	\$ 4,030,607	\$ 4,039,490
Reserve for insurance claims payable	5,535,422	6,264,402
Deferred income	2,214,595	2,126,419
Total current liabilities	<u>11,780,624</u>	<u>12,430,311</u>
Noncurrent payable to Oahu Transit Services, Inc.		
Accrued sick leave	6,857,521	8,637,285
Postretirement liability	13,812,539	12,120,642
Reserve for insurance claims payable, noncurrent	<u>8,916,779</u>	<u>8,363,696</u>
Total liabilities	<u>41,367,463</u>	<u>41,551,934</u>
Commitments and contingencies		
Net assets		
Invested in capital assets	169,948,612	168,184,637
Unrestricted	<u>(14,005,985)</u>	<u>(5,099,049)</u>
Total net assets	<u>155,942,627</u>	<u>163,085,588</u>
Total liabilities and net assets	<u>\$ 197,310,090</u>	<u>\$ 204,637,522</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 Change in Net Assets**  
**Years Ended June 30, 2012 and 2011**

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	<b>2012</b>	<b>2011</b>
<b>Operating revenues</b>		
Passenger fares for transit services	\$ 56,382,601	\$ 53,336,723
Nontransportation revenue	<u>413,481</u>	<u>320,014</u>
Total operating revenues	<u>56,796,082</u>	<u>53,656,737</u>
<b>Operating expenses</b>		
Contract services	151,071,609	147,858,890
Fuel and lubricants	22,454,221	19,351,992
Materials and supplies	12,956,704	13,133,437
Depreciation	12,827,519	15,829,547
Insurance	9,631,795	8,449,133
Outside services	8,140,544	7,663,481
State fuel taxes	3,382,372	3,086,784
Utilities, rentals and others	<u>2,926,759</u>	<u>2,515,916</u>
Total operating expenses	<u>223,391,523</u>	<u>217,889,180</u>
Loss from operations	(166,595,441)	(164,232,443)
<b>Nonoperating income (expense)</b>		
Loss on disposal of equipment and parts	(185,760)	(278,600)
Noncapital contributions	<u>21,025,718</u>	<u>21,441,143</u>
Loss before transfers and capital contributions	<u>20,839,958</u>	<u>21,162,543</u>
Loss before transfers and capital contributions	(145,755,483)	(143,069,900)
<b>Transfers</b>	124,556,108	130,937,022
<b>Capital contributions</b>	<u>14,056,414</u>	<u>22,609,402</u>
Change in net assets	(7,142,961)	10,476,524
<b>Net assets</b>		
Beginning of year	<u>163,085,588</u>	<u>152,609,064</u>
End of year	<u>\$ 155,942,627</u>	<u>\$ 163,085,588</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, 2012 and 2011**

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	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities</b>		
Cash received from passengers	\$ 56,509,965	\$ 53,566,123
Cash paid to suppliers	(106,095,173)	(102,958,844)
Cash paid to reimburse OTS for its employees	<u>(104,516,498)</u>	<u>(97,624,562)</u>
Net cash used in operating activities	<u>(154,101,706)</u>	<u>(147,017,283)</u>
<b>Cash flows from noncapital financing activities</b>		
Transfers and noncapital contributions	<u>145,581,826</u>	<u>152,378,165</u>
Net cash provided by noncapital financing activities	<u>145,581,826</u>	<u>152,378,165</u>
<b>Cash flows from capital and related financing activities</b>		
Purchases of capital assets	<u>(535,080)</u>	<u>(742,027)</u>
Net cash used in capital and related financing activities	<u>(535,080)</u>	<u>(742,027)</u>
Net increase (decrease) in cash and cash equivalents	(9,054,960)	4,618,855
<b>Cash and cash equivalents</b>		
Beginning of year	<u>20,196,975</u>	<u>15,578,120</u>
End of year (including \$2,665,809 and \$1,218,403 of cash and cash equivalents in restricted assets in 2012 and 2011, respectively)	<u>\$ 11,142,015</u>	<u>\$ 20,196,975</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, 2012 and 2011**

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	2012	2011
<b>Reconciliation of loss from operations to net cash used in operating activities</b>		
Loss from operations	\$ (166,595,441)	\$ (164,232,443)
Adjustments to reconcile loss from operations to net cash used in operating activities		
Depreciation	12,827,519	15,829,547
Loss on disposal of equipment and parts	(185,760)	(278,600)
Changes in assets and liabilities		
Accounts receivable	39,101	(391,121)
Parts, supplies and fuel inventories	635,790	272,459
Advance to Oahu Transit Services, Inc. for accrued expenses	(1,424,184)	(290,292)
Other assets	785,740	(817,418)
Accounts payable	(8,883)	766,180
Payable to Oahu Transit Services, Inc. for accrued benefits	(87,867)	3,677,670
Reserve for insurance claims payable	(175,897)	(2,173,712)
Deferred income	88,176	620,447
Net cash used in operating activities	<u>\$ (154,101,706)</u>	<u>\$ (147,017,283)</u>
<b>Supplemental disclosure of noncash capital and related financing activities</b>		
Contribution of capital assets from the City and County of Honolulu	\$ 14,056,414	\$ 22,609,402

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, 2012 and 2011**

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**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 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, *The Financial Reporting Entity*, and No. 39, *Determining Whether Certain Organizations Are Component Units*.

The collective bargaining agreement between OTS, for its bus operation, and the Hawaii Teamsters and Allied Workers Union, Local 996, is effective through June 30, 2013. The collective bargaining agreement between OTS, for its paratransit operation, and the Hawaii Teamsters and Allied Workers Union, Local 996, expired March 12, 2012. An extension has been ratified, although no agreement has been finalized.

**2. Summary of Significant Accounting Policies**

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.

**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.

**Use of Estimates**

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

**City and County of Honolulu**  
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**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.

**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, 2012 and 2011 to be fully collectible. Accordingly, no allowance for doubtful accounts has been established.

**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.

**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

**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 assets.

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.

**Deferred Income**

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

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**Public Transportation System – Bus and Paratransit Operations**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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**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 three 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.

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 values of investment securities will occur in the near term, and that such changes 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.

**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.

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.

**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,

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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.

**Revenue and Expenses**

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

**Transfers**

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

**Contributions**

Contributions from the City for capital 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.

**New Accounting Pronouncements**

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants pronouncements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2011. Management does not expect that this Statement will have a material effect on the Bus and Paratransit Operations financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement establishes guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The requirements of this Statement are effective for reporting periods beginning after December 15, 2011. Management has not yet determined the effect this Statement will have on the Bus and Paratransit Operations financial statements.

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 resource to ensure consistency in financial reporting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012. Management has not yet determined the effect this Statement will have on 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 requirements of this Statement are effective for reporting periods beginning after December 15, 2012. Management does not expect that this Statement will have a material effect on the Bus and Paratransit Operations financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Statement revises and establishes new financial reporting requirements for most governments that provide their employees with pension benefits. The requirements of



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this Statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this Statement will have on the Bus and Paratransit Operations financial statements.

**Reclassifications**

Certain amounts in the 2011 financial statements have been reclassified to conform to the 2012 presentation. Such reclassifications had no effect on the net assets and change in net assets as previously reported.

**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 assets include reimbursements paid to OTS for labor and fringe benefits. The agreement provided for the City to pay OTS an annual management fee of approximately \$469,000 for the fiscal years ended June 30, 2012 and 2011. The current agreement with the City, effective July 2010, 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 assets 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. 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, 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.

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At June 30, 2012 and 2011, the restricted assets held by OTS consisted of cash and cash equivalents that were uninsured and uncollateralized.

Restricted assets as of June 30, 2012 and 2011 consisted of the following:

	<b>2012</b>	<b>2011</b>
Cash	\$ 107,376	\$ 566,876
Money market mutual fund	2,558,433	651,527
	<u>\$ 2,665,809</u>	<u>\$ 1,218,403</u>

**6. Capital Assets**

The changes in capital assets were as follows:

	<b>Balance July 1, 2011</b>	<b>Additions</b>	<b>Retirements/ Transfers</b>	<b>Balance June 30, 2012</b>
Buses	\$ 203,774,606	\$ 2,279,778	\$ (2,323,951)	\$ 203,730,433
Buildings and improvements	77,670,970	2,633,357	-	80,304,327
Shop and office equipment	27,538,003	328,235	(309,980)	27,556,258
Paratransit vans	14,488,618	3,087,289	(2,859,933)	14,715,974
Automobiles and trucks	2,733,293	133,001	(24,516)	2,841,778
	<u>326,205,490</u>	<u>8,461,660</u>	<u>(5,518,380)</u>	<u>329,148,770</u>
Less: Accumulated depreciation	<u>(213,618,217)</u>	<u>(12,827,519)</u>	<u>5,518,380</u>	<u>(220,927,356)</u>
	112,587,273	(4,365,859)	-	108,221,414
Land	53,985,443	-	-	53,985,443
Construction in progress	1,611,921	7,692,020	(1,562,186)	7,741,755
Capital assets, net	<u>\$ 168,184,637</u>	<u>\$ 3,326,161</u>	<u>\$ (1,562,186)</u>	<u>\$ 169,948,612</u>

  

	<b>Balance July 1, 2010</b>	<b>Additions</b>	<b>Retirements/ Transfers</b>	<b>Balance June 30, 2011</b>
Buses	\$ 200,146,426	\$ 15,431,244	\$ (11,803,064)	\$ 203,774,606
Buildings and improvements	73,047,694	4,623,276	-	77,670,970
Shop and office equipment	29,368,485	332,058	(2,162,540)	27,538,003
Paratransit vans	13,130,890	1,430,487	(72,759)	14,488,618
Automobiles and trucks	2,488,959	414,929	(170,595)	2,733,293
	<u>318,182,454</u>	<u>22,231,994</u>	<u>(14,208,958)</u>	<u>326,205,490</u>
Less: Accumulated depreciation	<u>(211,929,933)</u>	<u>(15,829,547)</u>	<u>14,141,263</u>	<u>(213,618,217)</u>
	106,252,521	6,402,447	(67,695)	112,587,273
Land	53,985,443	-	-	53,985,443
Construction in progress	424,791	1,573,794	(386,664)	1,611,921
Capital assets, net	<u>\$ 160,662,755</u>	<u>\$ 7,976,241</u>	<u>\$ (454,359)</u>	<u>\$ 168,184,637</u>

Depreciation expense was \$12,827,519 and \$15,829,547 for the fiscal years ended June 30, 2012 and 2011, respectively.

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**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, 2012 and 2011, were as follows:

	Balance July 1, 2011	Incurred	Payments	Balance June 30, 2012	Amounts Due Within One Year
Automotive and general liability	\$ 3,908,451	\$ 4,366,388	\$ (3,931,103)	\$ 4,343,736	\$ 1,544,196
Workers' compensation	10,719,647	5,379,457	(5,990,639)	10,108,465	3,991,226
Reserve for insurance claims payable	<u>\$ 14,628,098</u>	<u>\$ 9,745,845</u>	<u>\$ (9,921,742)</u>	<u>\$ 14,452,201</u>	<u>\$ 5,535,422</u>

  

	Balance July 1, 2010	Incurred	Payments	Balance June 30, 2011	Amounts Due Within One Year
Automotive and general liability	\$ 4,350,365	\$ 4,826,132	\$ (5,268,046)	\$ 3,908,451	\$ 1,831,504
Workers' compensation	12,451,445	3,942,944	(5,674,742)	10,719,647	4,432,898
Reserve for insurance claims payable	<u>\$ 16,801,810</u>	<u>\$ 8,769,076</u>	<u>\$ (10,942,788)</u>	<u>\$ 14,628,098</u>	<u>\$ 6,264,402</u>

The OTS's workers' compensation loss and allocated loss adjustment expense ("ALAE") reserve as of June 30, 2012 for accidents occurring from March 1, 1998 to June 30, 2012 is estimated to be \$10.1 million on an undiscounted basis and \$9.0 million on a discounted basis (discounted at 4.5%). The OTS's liability loss and ALAE reserve as of June 30, 2012 for accidents occurring from January 1, 2000 through June 30, 2012, is estimated to be \$4.3 million on an undiscounted basis and \$4.0 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.

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**8. Employee Benefit Plans**

**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:

Division	Period	Fixed Rate Per Straight-time Hour
Bus operations	March 1, 2010 to February 28, 2011	\$ 4.10
	March 1, 2011 to February 29, 2012	4.40
	March 1, 2012 to February 28, 2013	4.60
	March 1, 2013 to June 30, 2013	4.80
Paratransit operations – dispatchers, schedulers, reservationists, maintenance employees, customer service and administrative clerks	January 1, 2010 to December 31, 2010	2.50
	January 1, 2011 to December 31, 2011	2.65
	January 1, 2012 to July 31, 2013	2.80
Paratransit operation – operator employees	March 1, 2010 to February 28, 2011	2.50
	March 1, 2011 to February 29, 2012	2.65
	March 1, 2012 to July 31, 2013	2.80

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. The additional pension contribution for Paratransit operations employees became effective on March 1, 2008.

Pension expense under the multiemployer plan was approximately \$14,723,000, \$13,926,000 and \$13,050,000 for the fiscal years ended June 30, 2012, 2011, and 2010, 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 \$1,588,000 and \$1,685,000 for the fiscal years ended June 30, 2012 and 2011, 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.

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**Notes to Financial Statements**  
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OTS's annual pension cost and net prepaid pension cost for the single-employer pension plan at June 30, 2012 and 2011 were as follows:

	<b>2012</b>	<b>2011</b>
Annual required contribution	\$ 1,133,921	\$ 1,268,686
Interest on net pension asset	(980,651)	(899,113)
Adjustment to annual required contribution	<u>1,434,905</u>	<u>1,315,597</u>
Annual pension cost	1,588,175	1,685,170
Less: Contributions made	<u>3,220,000</u>	<u>2,925,000</u>
Increase in net pension cost	1,631,825	1,239,830
Net pension asset		
Beginning of year	<u>14,759,300</u>	<u>13,519,470</u>
End of year	<u>\$ 16,391,125</u>	<u>\$ 14,759,300</u>

The annual required contribution ("ARC") of the single-employer pension plan for the current and prior fiscal years were determined as part of the March 1, 2011 (the most recent actuarial valuation date) and March 1, 2010 actuarial valuations using the projected unit credit method. The actuarial assumptions include (a) 7.0% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.0% per year. The actuarial value of assets was determined using the market value. The remaining amortization period at June 30, 2012 and 2011 was three years and four 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, 2010	\$ 1,673,406	190%	\$ 13,519,470
June 30, 2011	\$ 1,685,170	174%	\$ 14,759,300
June 30, 2012	\$ 1,588,175	203%	\$ 16,391,125

**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, 2012, 2011 and 2010, amounted to approximately \$187,000, \$335,000 and \$331,000, respectively. As of June 30, 2012, 58 participants are eligible to receive benefits.

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.

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**Public Transportation System – Bus and Paratransit Operations**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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The following table presents the components of OTS's annual OPEB cost for the fiscal years ended June 30, 2012 and 2011, the amount actually contributed to the plan, and change in the net OPEB obligation:

	<b>2012</b>	<b>2011</b>
Annual required contribution	\$ 2,302,428	\$ 4,198,277
Interest on net OPEB obligation	561,809	407,555
Adjustment to annual required contribution	<u>(1,162,493)</u>	<u>(843,312)</u>
Annual OPEB cost	1,701,744	3,762,520
Contributions made	<u>(186,847)</u>	<u>(334,663)</u>
Increase in net OPEB obligation	1,514,897	3,427,857
Net OPEB obligation		
Beginning of year	<u>12,484,642</u>	<u>9,056,785</u>
End of year	13,999,539	12,484,642
Less: Current portion (included in Advance to Oahu Transit Services, Inc. for accrued expenses)	<u>187,000</u>	<u>364,000</u>
Noncurrent portion due to OTS	<u>\$ 13,812,539</u>	<u>\$ 12,120,642</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, 2012, 2011 and 2010 were as follows:

**Three-Year Trend Information**

<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, 2010	\$ 3,212,300	10%	\$ 9,056,785
June 30, 2011	\$ 3,762,520	9%	\$ 12,484,642
June 30, 2012	\$ 1,701,744	11%	\$ 13,999,539

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, 2012 and 2011**

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The June 30, 2012 and 2011 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 UAAL is being amortized as a level dollar open amortization period. The remaining amortization period at June 30, 2012 and 2011 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 the following amounts per straight-time compensable hour earned on behalf of Bus and Paratransit Operations employees:

Division	Period	Fixed Rate Per Straight-time Hour
Bus operations	March 1, 2010 to February 28, 2011	\$ 0.57
	March 1, 2011 to February 29, 2012	0.64
	March 1, 2012 to February 28, 2013	0.72
	March 1, 2013 to June 30, 2013	0.81
Paratransit operations	January 1, 2010 to December 31, 2010	0.14
	January 1, 2011 to December 31, 2011	0.17
	January 1, 2012 to July 31, 2013	0.20

Contributions for the fiscal years ended June 30, 2012, 2011 and 2010 were approximately \$1,917,000, \$1,714,000 and \$1,519,000, respectively.

**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. 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 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, 2012, there was no retirement credit for employees not covered by a collective bargaining agreement. At June 30, 2012 and 2011, 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.

**City and County of Honolulu**  
**Public Transportation System – Bus and Paratransit Operations**  
**Notes to Financial Statements**  
**June 30, 2012 and 2011**

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Changes in the accrued sick leave balance as of June 30, 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
Beginning of year	\$ 9,656,156	\$ 9,319,759
Qualified benefits earned	1,640,138	1,433,038
Change in benefits	(1,780,311)	-
Payments	<u>(1,631,958)</u>	<u>(1,096,641)</u>
End of year	7,884,025	9,656,156
Less: Current portion (included in Advance to Oahu Transit Services, Inc. for accrued expenses)	<u>1,026,504</u>	<u>1,018,871</u>
Noncurrent portion due to OTS	<u>\$ 6,857,521</u>	<u>\$ 8,637,285</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 receives significant support for operations from the City and the Federal Transit Administration (“FTA”). Transfers from the City totaled approximately \$124.6 million and \$130.9 million for the fiscal years ended June 30, 2012 and 2011, respectively. In addition, capital and noncapital contributions for the fiscal years ended June 30, 2012 and 2011 were as follows:

	<b>2012</b>	<b>2011</b>
Federal capital contributions	\$ 7,439,397	\$ 6,368,184
City capital contributions	<u>6,617,017</u>	<u>16,241,218</u>
Total capital contributions	<u>\$ 14,056,414</u>	<u>\$ 22,609,402</u>
FTA preventative maintenance funds	\$ 21,000,000	\$ 21,000,000
Other federal non-operating revenues	25,718	164,817
City non-operating revenues	<u>-</u>	<u>276,326</u>
Noncapital contributions	<u>\$ 21,025,718</u>	<u>\$ 21,441,143</u>

**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  
Required Supplementary Information Other Than MD&A  
Schedules of Funding Progress  
June 30, 2012**

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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**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability ("AAL") Entry Age</b>	<b>Unfunded AAL ("UAAL")</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
March 1, 2009	\$ 13,719,728	\$ 25,117,582	\$ 11,397,854	55%	\$ 6,844,698	167%
March 1, 2010	\$ 13,353,538	\$ 24,454,782	\$ 11,101,244	55%	\$ 6,932,183	160%
March 1, 2011	\$ 15,462,957	\$ 26,720,582	\$ 11,257,625	58%	\$ 7,283,579	155%

**Postretirement Health Benefit Plans**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability ("AAL") Entry Age</b>	<b>Unfunded AAL ("UAAL")</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
June 30, 2010	\$ -	\$ 32,792,784	\$ 32,792,784	0%	\$ 6,343,546	517%
June 30, 2011	\$ -	\$ 18,097,690	\$ 18,097,690	0%	\$ 7,624,449	237%
June 30, 2012	\$ -	\$ 13,147,311	\$ 13,147,311	0%	\$ 8,004,127	164%

# **Supplemental Schedules**

**City and County of Honolulu**  
**Public Transportation System – Bus and Paratransit Operations**  
**Supplemental Schedule – Detailed Statement of Net Assets**  
**June 30, 2012**

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	Bus Operations	Paratransit Operations	Eliminations		Total
			Debit	Credit	
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 8,475,606	\$ 600	\$ -	\$ -	\$ 8,476,206
Accounts receivable	2,019,564	14,080	-	-	2,033,644
Parts, supplies and fuel inventories	6,779,703	574,142	-	-	7,353,845
Advance to Oahu Transit Services, Inc. for accrued expenses	5,276,296	1,524,000	-	-	6,800,296
Other assets	31,678	-	-	-	31,678
Intercompany receivables	33,366,490	-	-	33,366,490	-
Total current assets	55,949,337	2,112,822	-	33,366,490	24,695,669
Restricted assets held by Oahu Transit Services, Inc.	2,665,809	-	-	-	2,665,809
Capital assets, net	146,100,221	23,848,391	-	-	169,948,612
Total assets	<u>\$ 204,715,367</u>	<u>\$ 25,961,213</u>	<u>\$ -</u>	<u>\$ 33,366,490</u>	<u>\$ 197,310,090</u>

**City and County of Honolulu**  
**Public Transportation System – Bus and Paratransit Operations**  
**Supplemental Schedule – Detailed Statement of Net Assets**  
**June 30, 2012**

	Bus Operations	Paratransit Operations	Eliminations		Total
			Debit	Credit	
<b>Liabilities and Net Assets</b>					
Current liabilities					
Accounts payable	\$ 3,172,641	\$ 857,966	\$ -	\$ -	\$ 4,030,607
Intercompany payables	-	33,366,490	33,366,490	-	-
Reserve for insurance claims payable	5,535,422	-	-	-	5,535,422
Deferred income	2,214,595	-	-	-	2,214,595
Total current liabilities	10,922,658	34,224,456	33,366,490	-	11,780,624
Noncurrent payable to Oahu Transit Services, Inc.					
Accrued sick leave	6,170,402	687,119	-	-	6,857,521
Postretirement liability	13,512,257	300,282	-	-	13,812,539
Reserve for insurance claims payable, noncurrent	8,916,779	-	-	-	8,916,779
Total liabilities	39,522,096	35,211,857	33,366,490	-	41,367,463
Net assets					
Invested in capital assets	146,100,221	23,848,391	-	-	169,948,612
Unrestricted	19,093,050	(33,099,035)	-	-	(14,005,985)
Total net assets	165,193,271	(9,250,644)	-	-	155,942,627
Total liabilities and net assets	\$ 204,715,367	\$ 25,961,213	\$ 33,366,490	\$ -	\$ 197,310,090

**City and County of Honolulu**  
**Public Transportation System – Bus and Paratransit Operations**  
**Supplemental Schedule – Detailed Statement of Net Assets**  
**June 30, 2011**

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	Bus Operations	Paratransit Operations	Eliminations		Total
			Debit	Credit	
<b>Assets</b>					
Current assets					
Cash and cash equivalents	\$ 18,977,972	\$ 600	\$ -	\$ -	\$ 18,978,572
Accounts receivable	2,017,588	55,157	-	-	2,072,745
Parts, supplies and fuel inventories	7,332,892	656,743	-	-	7,989,635
Advance to Oahu Transit Services, Inc. for accrued expenses	4,266,177	1,109,935	-	-	5,376,112
Other assets	817,418	-	-	-	817,418
Intercompany receivables	31,288,136	-	-	31,288,136	-
Total current assets	64,700,183	1,822,435	-	31,288,136	35,234,482
Restricted assets held by Oahu Transit Services, Inc.	1,218,403	-	-	-	1,218,403
Capital assets, net	143,629,953	24,554,684	-	-	168,184,637
Total assets	<u>\$ 209,548,539</u>	<u>\$ 26,377,119</u>	<u>\$ -</u>	<u>\$ 31,288,136</u>	<u>\$ 204,637,522</u>

**City and County of Honolulu**  
**Public Transportation System – Bus and Paratransit Operations**  
**Supplemental Schedule – Detailed Statement of Net Assets**  
**June 30, 2011**

	Bus Operations	Paratransit Operations	Eliminations		Total
			Debit	Credit	
<b>Liabilities and Net Assets</b>					
Current liabilities					
Accounts payable	\$ 3,441,789	\$ 597,701	\$ -	\$ -	\$ 4,039,490
Intercompany payables	-	31,288,136	31,288,136	-	-
Reserve for insurance claims payable	6,264,402	-	-	-	6,264,402
Deferred income	2,126,419	-	-	-	2,126,419
Total current liabilities	11,832,610	31,885,837	31,288,136	-	12,430,311
Noncurrent payable to Oahu Transit Services, Inc.					
Accrued sick leave	7,771,474	865,811	-	-	8,637,285
Postretirement liability	11,601,121	519,521	-	-	12,120,642
Reserve for insurance claims payable, noncurrent	8,363,696	-	-	-	8,363,696
Total liabilities	39,568,901	33,271,169	31,288,136	-	41,551,934
Net assets					
Invested in capital assets	143,629,953	24,554,684	-	-	168,184,637
Unrestricted	26,349,685	(31,448,734)	-	-	(5,099,049)
Total net assets	169,979,638	(6,894,050)	-	-	163,085,588
Total liabilities and net assets	\$ 209,548,539	\$ 26,377,119	\$ 31,288,136	\$ -	\$ 204,637,522

**City and County of Honolulu**  
**Public Transportation System – Bus and Paratransit Operations**  
**Supplemental Schedule – Detailed Statement of Revenues, Expenses and Change in Net Assets**  
**Year Ended June 30, 2012**

	Bus Operations	Paratransit Operations	Eliminations		Total
			Debit	Credit	
<b>Operating revenues</b>					
Passenger fares for transit services	\$ 54,745,207	\$ 1,637,394	\$ -	\$ -	\$ 56,382,601
Nontransportation revenue	385,152	28,329	-	-	413,481
Total operating revenue	<u>55,130,359</u>	<u>1,665,723</u>	<u>-</u>	<u>-</u>	<u>56,796,082</u>
<b>Operating expenses</b>					
Contract services	126,559,417	24,512,192	-	-	151,071,609
Fuel and lubricants	19,626,690	2,827,531	-	-	22,454,221
Materials and supplies	11,604,118	1,352,586	-	-	12,956,704
Depreciation	9,891,156	2,936,363	-	-	12,827,519
Insurance	8,198,778	1,433,017	-	-	9,631,795
Outside services	4,464,257	3,676,287	-	-	8,140,544
State fuel taxes	2,977,750	404,622	-	-	3,382,372
Utilities, rentals and others	2,647,848	278,911	-	-	2,926,759
Intercompany revenue (expense)	31,288,136	(31,288,136)	-	-	-
Total operating expenses	<u>217,258,150</u>	<u>6,133,373</u>	<u>-</u>	<u>-</u>	<u>223,391,523</u>
Loss from operations	(162,127,791)	(4,467,650)	-	-	(166,595,441)
<b>Nonoperating income (expense)</b>					
Loss on disposal of equipment and parts	(185,760)	-	-	-	(185,760)
Noncapital contributions	21,025,718	-	-	-	21,025,718
	<u>20,839,958</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,839,958</u>
Loss before transfers and capital contributions	(141,287,833)	(4,467,650)	-	-	(145,755,483)



**City and County of Honolulu**  
**Public Transportation System – Bus and Paratransit Operations**  
**Supplemental Schedule – Detailed Statement of Revenues, Expenses and Change in Net Assets**  
**Year Ended June 30, 2012**

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	<b>Bus Operations</b>	<b>Paratransit Operations</b>	<b>Eliminations</b>		<b>Total</b>
			<b>Debit</b>	<b>Credit</b>	
Loss before transfers and capital contributions	(141,287,833)	(4,467,650)	-	-	(145,755,483)
<b>Transfers</b>	124,556,108	-	-	-	124,556,108
<b>Capital contributions</b>	11,945,358	2,111,056	-	-	14,056,414
Change in net assets	(4,786,367)	(2,356,594)	-	-	(7,142,961)
<b>Net assets</b>					
Beginning of year	169,979,638	(6,894,050)	-	-	163,085,588
End of year	<u>\$ 165,193,271</u>	<u>\$ (9,250,644)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,942,627</u>

**City and County of Honolulu**  
**Public Transportation System – Bus and Paratransit Operations**  
**Supplemental Schedule – Detailed Statement of Revenues, Expenses and Change in Net Assets**  
**Year Ended June 30, 2011**

	Bus Operations	Paratransit Operations	Eliminations		Total
			Debit	Credit	
<b>Operating revenues</b>					
Passenger fares for transit services	\$ 51,699,588	\$ 1,637,135	\$ -	\$ -	\$ 53,336,723
Nontransportation revenue	292,021	27,993	-	-	320,014
Total operating revenues	<u>51,991,609</u>	<u>1,665,128</u>	<u>-</u>	<u>-</u>	<u>53,656,737</u>
<b>Operating expenses</b>					
Contract services	124,556,172	23,302,718	-	-	147,858,890
Fuel and lubricants	16,937,419	2,414,573	-	-	19,351,992
Depreciation	13,302,174	2,527,373	-	-	15,829,547
Materials and supplies	11,485,391	1,648,046	-	-	13,133,437
Insurance	6,570,707	1,878,426	-	-	8,449,133
Outside services	4,671,520	2,991,961	-	-	7,663,481
State fuel taxes	2,788,094	298,690	-	-	3,086,784
Utilities, rentals and others	2,241,479	274,437	-	-	2,515,916
Intercompany revenue (expense)	27,572,507	(27,572,507)	-	-	-
Total operating expenses	<u>210,125,463</u>	<u>7,763,717</u>	<u>-</u>	<u>-</u>	<u>217,889,180</u>
Loss from operations	(158,133,854)	(6,098,589)	-	-	(164,232,443)
<b>Nonoperating income (expense)</b>					
Loss on disposal of equipment and parts	(278,600)	-	-	-	(278,600)
Noncapital contributions	21,441,143	-	-	-	21,441,143
	<u>21,162,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>21,162,543</u>
Loss before transfers and capital contributions	(136,971,311)	(6,098,589)	-	-	(143,069,900)

**City and County of Honolulu**  
**Public Transportation System – Bus and Paratransit Operations**  
**Supplemental Schedule – Detailed Statement of Revenues, Expenses and Change in Net Assets**  
**Year Ended June 30, 2011**

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	<b>Bus Operations</b>	<b>Paratransit Operations</b>	<b>Eliminations</b>		<b>Total</b>
			<b>Debit</b>	<b>Credit</b>	
Loss before transfers and capital contributions	(136,971,311)	(6,098,589)	-	-	(143,069,900)
<b>Transfers</b>	130,937,022	-	-	-	130,937,022
<b>Capital contributions</b>	20,341,852	2,267,550	-	-	22,609,402
Change in net assets	14,307,563	(3,831,039)	-	-	10,476,524
<b>Net assets</b>					
Beginning of year	155,672,075	(3,063,011)	-	-	152,609,064
End of year	<u>\$ 169,979,638</u>	<u>\$ (6,894,050)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 163,085,588</u>