

Financial Statements and Independent Auditor's Report

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

June 30, 2015 and 2014



A Hawaii Limited Liability Partnership

January 21, 2016

To the Board of Directors
Honolulu Authority for Rapid Transportation
City and County of Honolulu

Ladies and Gentlemen:

We have completed our financial audit of the Honolulu Authority for Rapid Transportation, a component unit of the City and County of Honolulu, (HART) as of and for the fiscal year ended June 30, 2015. The audit was performed in accordance with our agreement dated June 22, 2015.

Objective of the audit

The primary purpose of our audit was to form an opinion on the fairness of the presentation of HART's financial statements as of and for the fiscal year ended June 30, 2015

Scope of the audit

Our audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of HART for the fiscal year ended June 30, 2015.

Organization of the report

This report is organized into five parts:

- PART I. FINANCIAL STATEMENTS
- PART II. REQUIRED SUPPLEMENTARY INFORMATION
- PART III. REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
- PART IV. SCHEDULE OF FINDINGS
- PART V. RESPONSE OF THE AFFECTED AGENCY

At this time, we wish to thank HART's personnel for their cooperation and assistance extended to us during our audit. We will be happy to respond to any questions that you may have on this report.

Very truly yours,

A handwritten signature in black ink that reads "KMH LLP".

KMH LLP

Honolulu Hawaii
January 21, 2016

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PART I
FINANCIAL STATEMENTS



A Hawaii Limited Liability Partnership

Independent Auditor's Report

To the Board of Directors
Honolulu Authority for Rapid Transportation
City and County of Honolulu

Report on the Financial Statements

We have audited the accompanying financial statements of the Honolulu Authority for Rapid Transportation (HART), a component unit of the City and County of Honolulu, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the HART's basic 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 Honolulu Authority for Rapid Transportation, as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note A to the basic financial statements, in 2015 the HART adopted Governmental Accounting Standards Board (GASB) Statements no. 68 (GASB 68), *Accounting and Reporting for Pensions (an amendment of GASB Statement No. 27)* and GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. As a result of adopting these standards and management's determination that the restatement of the basic financial statements as of and for the year ended June 30, 2014 is not practical, the HART has elected to restate beginning net position for fiscal year ended June 30, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 and the schedule of the HART's proportionate share of the net pension liability, schedule of HART's contributions and schedule of funding progress for the Hawaii Employer-Union Health Benefits Trust Fund on pages 42, 43, and 44, respectively 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2016 on our consideration of the HART's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HART's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, HI
January 21, 2016

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015 and 2014

The Honolulu Authority for Rapid Transportation (HART) is a semi-autonomous government unit of the City and County of Honolulu (City), which came into being on July 1, 2011 pursuant to a 2010 amendment to the Revised Charter of the City and County of Honolulu (RCH). HART consists of a board of directors (Board), executive director, and staff. HART is authorized under the RCH to “develop, operate, maintain and expand the city fixed guideway system.”

The Honolulu Rail Transit Project (the Project) consists of design and construction of a 20-mile, grade-separated fixed rail system from East Kapolei to the Ala Moana Center in Honolulu, Hawaii. The Project begins in East Kapolei, proceeds to the University of Hawaii at West Oahu, then turns east to Pearl Harbor and the Honolulu International Airport, and ends at Kona Street adjacent to the Ala Moana Center. The Project will operate in an exclusive right-of-way and will be elevated except for a 0.6-mile, at-grade section near Leeward Community College. The Project includes 21 transit stations; a maintenance and storage facility; 80 light metro fully automated (driverless) rail vehicles and associated core systems; and four park-and-ride facilities at several locations.

This section presents the management's discussion and analysis of HART's financial condition and activities for the fiscal years ended June 30, 2015 and 2014. This summary is designed to provide an introduction to the financial statements and the financial condition of HART. This information should be read in conjunction with the financial statements. Prior to July 1, 2011, the financial position and results of operations of the Project were reported as a governmental fund in the City's Comprehensive Annual Financial Reports.

Overview of the Financial Statements

The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting, whereby revenues and expenses are recognized in the period earned or incurred.

The basic financial statements include statements of net position, statements of revenues, expenses and changes in net position, statements of cash flows, and notes to the financial statements. The statements of net position present the resources and obligations of HART at June 30, 2015 and 2014 respectively. The statement of revenues, expenses and changes in net position present information showing how HART's net position changed during the past two fiscal years.

The statements of cash flows present changes in cash and cash equivalents resulting from operating, investing, capital and related financing activities, and non-capital financing activities.

The notes to the financial statements provide required disclosures and other information necessary for the fair presentation of the financial statements. The notes detail information about HART's significant accounting policies, account balances, related party transactions, employee benefit plans, commitments, contingencies, and other significant events. Supplementary information on pension and post-employment benefits is also included.

Honolulu Authority for Rapid Transportation
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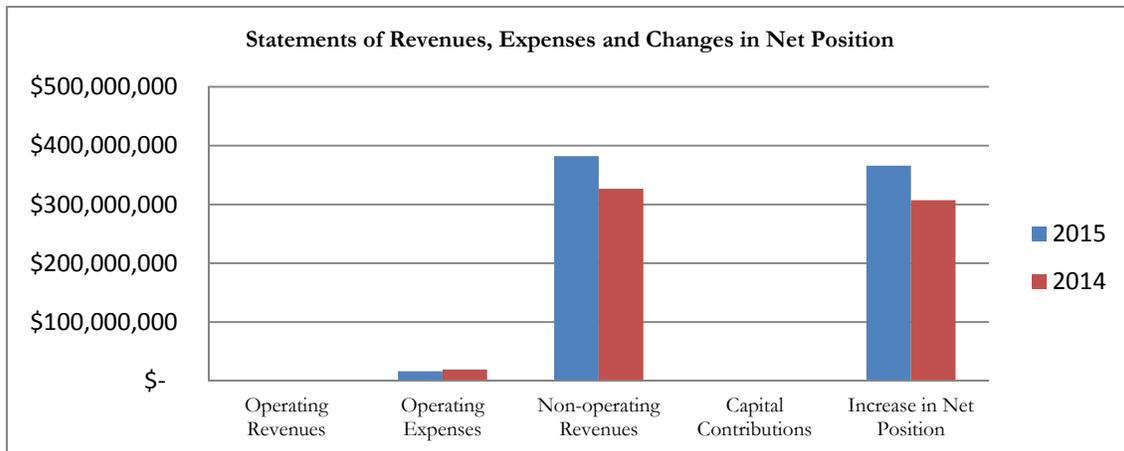
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015 and 2014

Financial Highlights

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2015	2014	Increase (decrease)	% Change
Operating expenses	17,730,898	19,416,780	(1,685,882)	-9%
Operating loss	(17,730,898)	(19,416,780)	1,685,882	-9%
Non-operating revenues and expenses	382,273,978	326,582,755	55,691,223	17%
Increase in net position	364,543,080	307,165,975	57,377,105	19%
Net position at beginning of year, as previously reported	1,592,374,173	1,285,208,198	N/A	N/A
Restatement due to change in accounting principle	(13,081,777)	-	(13,081,777)	N/A
Net position at beginning of year, as restated	1,579,292,396	-	N/A	N/A
Net position at end of year	<u>\$ 1,943,835,476</u>	<u>\$ 1,592,374,173</u>	<u>\$ 351,461,303</u>	<u>22%</u>



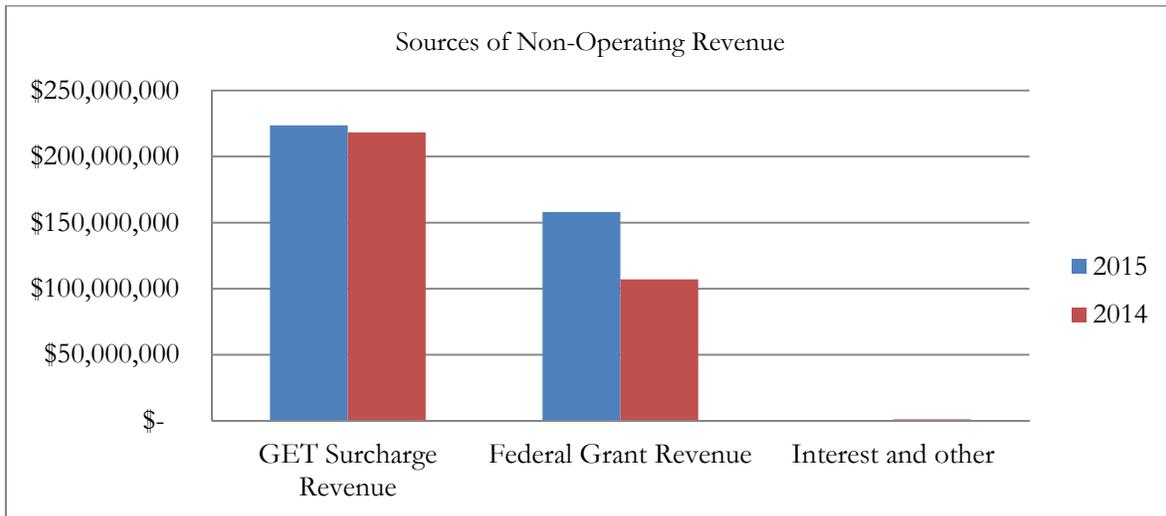
Honolulu Authority for Rapid Transportation
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MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015 and 2014

Financial Highlights (continued)

HART's primary non-operating revenue sources are the 0.5% county surcharge on the State of Hawaii's General Excise Tax (GET) and grant assistance from the U.S. Department of Transportation's Federal Transit Administration (FTA). Pursuant to Section 248-2.6 of the Hawaii Revised Statutes, the State Department of Taxation remits 90% of the surcharge to the City on a quarterly basis. During FY 2015 and FY 2014, HART recognized \$223,666,342 and \$218,390,853, respectively from the GET county surcharge. In FY 2015 and FY 2014 HART also recognized \$158,034,519 and \$107,116,948, respectively in FTA grant assistance. During FY 15, HART also recognized a prior period adjustment of \$13,081,777 related to the implementation of GASB Statement No. 68, which reduced beginning net assets.



Honolulu Authority for Rapid Transportation
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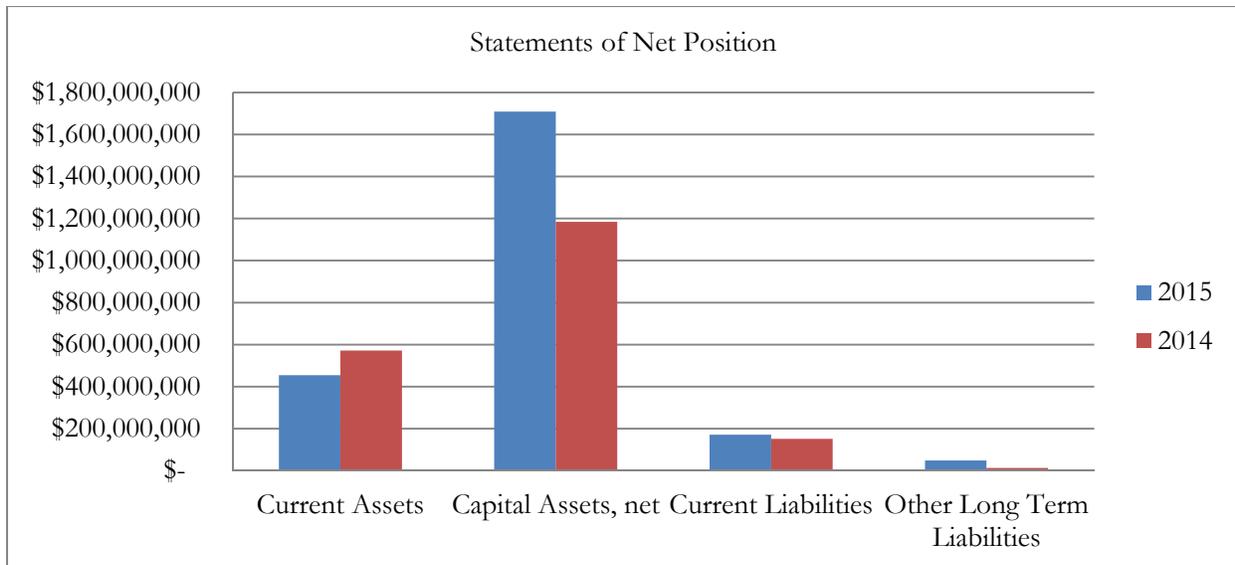
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015 and 2014

Financial Highlights (continued)

Condensed Statements of Net Position

	2015	2014	Increase (decrease)	% Change
Assets				
Current assets				
Cash and cash equivalents	\$ 293,010,823	\$ 441,011,319	\$ (148,000,496)	-34%
Receivables	133,672,108	129,991,834	3,680,274	3%
Prepaid expenses	27,800,740	1,217,390	26,583,350	2184%
Capital assets, net	1,708,618,647	1,184,636,596	523,982,051	44%
DEFERRED OUTFLOWS OF RESOURCES	2,913,149	-	2,913,149	N/A
Total assets	\$ 2,166,015,467	\$ 1,756,857,139	409,158,328	23%
Liabilities				
Current liabilities				
Current liabilities	171,750,169	\$ 151,431,453	\$ 20,318,716	13%
Other long-term liabilities - noncurrent	48,757,933	13,051,513	35,706,420	274%
DEFERRED INFLOWS OF RESOURCES	1,671,889	-	1,671,889	N/A
Total liabilities	222,179,991	164,482,966	57,697,025	35%
Net position	1,943,835,476	1,592,374,173	351,461,303	22%
Total liabilities and net position	\$ 2,166,015,467	\$ 1,756,857,139	409,158,328	23%



Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015 and 2014

Financial Highlights (continued)

Total assets and deferred outflows at year-end FY 2015 and FY 2014 were \$2,166,015,467 and \$1,756,857,139, respectively. Total liabilities and deferred inflows at year-end FY 2015 and FY 2014 were \$222,179,991 and \$164,482,966, respectively. Net position increased by \$364,543,080 primarily due to intergovernmental revenues and federal grants.

The Project has executed \$2,486,920,607 in contracts since October 2009 to date for the planning, design, and construction of the Project. This amounts to 56.7% of the anticipated total project cost.

The Project will affect an estimated 224 parcels of real property. As of June 30, 2015, HART has acquired title to or use of 120 parcels of real property.

As of June 30, 2015, 9.3% of the utilities have been relocated. Utility relocations are performed by the respective companies owning the equipment.

Overall design progress is 85.7% based on the weighted average progress of the individual final design contracts and the design levels of effort of the Design-Build (DB) and Design-Build-Operate-Maintain (DBOM) construction contracts.

The construction of the west guideway aerial structure from East Kapolei Station to Leeward Community College (LCC) is well underway as part of the West Oahu/Farrington Highway (WOFH) Guideway design-build project. Additionally, the Kamehameha Highway (KHG) Guideway design-build project continues with wet and dry utility relocations as well as roadway widening work in preparation for the production drilled shaft and segmented guideway construction from LCC to Aloha Stadium.

Over three miles of the elevated guideway between east Kapolei and Waipahu has been completed with more than 180 columns built and nearly 1,600 guideway segments erected. The balanced cantilever construction work over the westbound side of the H-1 Freeway for the West Oahu Farrington Highway segment and the elevated rail guideway over the Fort Weaver Road overpass have been completed.

The design-build construction of the HART Maintenance and Storage Facility (MSF) is progressing as planned with substantial completion expected in April 2016.

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2015 and 2014

Financial Highlights (continued)

Capital Assets and Long-Term Debt

As of the end of FY 2015, HART had \$1,708 million invested in capital assets. This amount represents an increase (including additions and deductions) of approximately \$524 million, or 44%, over last year.

	<u>2015</u>	<u>2014</u>
Equipment and machinery	\$ 68,778	\$ 86,500
Land	91,102,437	64,768,559
Construction in progress	<u>1,617,447,432</u>	<u>1,119,781,537</u>
Total	<u>\$ 1,708,618,647</u>	<u>\$ 1,184,636,596</u>

HART has not issued any long-term bonds. Additional information on HART's capital assets and long-term liabilities can be found in note D to the financial statements.

Risks

On June 29, 2012, HART submitted the City's request to the FTA for a Full Funding Grant Agreement (FFGA) which was awarded on December 19, 2012. The maximum Federal New Starts financial contribution under the FFGA is \$1.55 billion for the Project; however the annual appropriation amounts may be reduced and appropriated over a longer period than planned.

The project faces the normal risks associated with a multi-year, major construction project that includes unanticipated construction delays, cost inflation over the period of construction, and economic downturns that impact revenues. See Notes J and L for a discussion on pending litigation and the liquidity risk to the project.

Request for Information

This financial report is designed to provide a general overview of HART's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Honolulu Authority for Rapid Transportation, 1099 Alakea Street, Suite 1700, Honolulu, Hawaii 96813.

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

STATEMENTS OF NET POSITION

June 30, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash & cash equivalents	\$ 293,010,823	\$ 441,011,319
Receivables	133,672,108	129,991,834
Prepaid expenses	27,800,740	1,217,390
Total current assets	454,483,671	572,220,543
Capital assets:		
Equipment and machinery	171,540	171,540
Accumulated depreciation	(102,762)	(85,040)
	68,778	86,500
Land	91,102,437	64,768,559
Construction work in progress	1,617,447,432	1,119,781,537
Capital assets, net	1,708,618,647	1,184,636,596
Total assets	2,163,102,318	1,756,857,139
DEFERRED OUTFLOWS OF RESOURCES		
Total assets and deferred outflows of resources	2,913,149	-
	\$ 2,166,015,467	\$ 1,756,857,139
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 137,921,888	\$ 115,552,902
Accrued liabilities	373,203	392,537
Other long-term liabilities	33,455,078	35,486,014
Total current liabilities	171,750,169	151,431,453
Other long-term liabilities - noncurrent	48,757,933	13,051,513
Total liabilities	220,508,102	164,482,966
DEFERRED INFLOWS OF RESOURCES		
Total liabilities and deferred inflows of resources	1,671,889	-
	222,179,991	164,482,966
NET POSITION		
Net investment in capital assets	1,506,183,913	1,069,158,564
Unrestricted	437,651,563	523,215,609
Total net position	1,943,835,476	1,592,374,173
Total liabilities, deferred inflows of resources, and net position	\$ 2,166,015,467	\$ 1,756,857,139

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

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ended June 30, 2015 and 2014

	2015	2014
OPERATING EXPENSES		
Administration and general	\$ 11,721,853	\$ 12,015,351
Fringe benefits	4,383,253	3,835,579
Insurance	1,092,851	1,909,200
Contractual services	357,133	1,145,619
Utilities	83,590	221,445
Materials and supplies	69,422	245,541
Depreciation	17,722	36,622
Maintenance	5,074	7,423
Total operating expenses	17,730,898	19,416,780
Operating loss	(17,730,898)	(19,416,780)
NON-OPERATING REVENUES AND EXPENSES		
Intergovernmental revenues:		
County surcharge	223,666,342	218,390,853
Federal grants	158,034,519	107,116,948
Interest income	208,245	298,748
Other revenue	364,872	776,206
Total nonoperating revenues	382,273,978	326,582,755
Change in net position	364,543,080	307,165,975
Net position at beginning of year, as previously reported	1,592,374,173	1,285,208,198
Restatement due to change in accounting principle	(13,081,777)	-
Net position at beginning of year, as restated	1,579,292,396	-
Net position at end of year	\$ 1,943,835,476	\$ 1,592,374,173

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

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

STATEMENTS OF CASH FLOWS

Years ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities		
Cash payments to suppliers for goods and services	\$ (11,028,378)	\$ (10,594,843)
Cash payments to employees	(12,301,128)	(11,566,726)
Net cash used in operating activities	(23,329,506)	(22,161,569)
Cash flows from noncapital financing activities		
Intergovernmental revenues	376,704,770	332,188,472
Net cash provided by noncapital financing activities	376,704,770	332,188,472
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(501,584,005)	(263,024,043)
Net cash used in capital and related financing activities	(501,584,005)	(263,024,043)
Cash flows from investing activities		
Interest on cash and cash equivalents	208,245	298,748
Net cash provided by investing activities	208,245	298,748
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(148,000,496)	47,301,608
Cash and cash equivalents at beginning of year	441,011,319	393,709,711
Cash and cash equivalents at end of year	\$ 293,010,823	\$ 441,011,319

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

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

STATEMENTS OF CASH FLOWS (continued)

Years ended June 30, 2015 and 2014

	2015	2014
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (17,730,898)	\$ (19,416,780)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	17,722	36,622
Changes in assets and liabilities		
Increase in deferred outflows of resources	(1,311,007)	-
Increase in deferred inflows of resources	1,671,889	-
Decrease (increase) in receivables	1,680,689	(1,627,203)
(Increase) decrease in prepaid expenses	(26,583,350)	1,848,984
(Decrease) in accounts payable	(46,782)	(262,808)
(Decrease) increase in accrued liabilities	(19,334)	31,119
Increase (decrease) in other liabilities	18,991,565	(2,771,503)
Total adjustments	(5,598,608)	(2,744,789)
Net cash used in operating activities	\$ (23,329,506)	\$ (22,161,569)

Non-cash capital financing activities:

During the year ended June 30, 2015 and 2014, HART accrued additional costs as construction in progress of \$22,415,768 and \$63,684,666, respectively.

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

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Operations

The Revised Charter of the City and County of Honolulu authorizes the Honolulu Authority for Rapid Transportation (HART) to develop, operate, maintain and expand the city fixed guideway system. HART is a semi-autonomous government unit of the City and County of Honolulu (City). It is a component unit of the City. HART is in the process of developing the rail transit system and has not begun revenue operations.

2. Financial Statement Presentation

The accounting policies of HART conform to accounting principles generally accepted in the United States of America as applicable to enterprise activities of governmental units, as promulgated by the Government Accounting Standards Board (GASB).

Recently Adopted Accounting Pronouncements

Effective July 1, 2014 the HART implemented Governmental Accounting Standards Board (GASB) Statement No. 68 (GASB 68), *Accounting and Reporting for Pensions (an amendment of GASB Statement No. 27)* and GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*. GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employer, nonemployee contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

GASB 68 replaces the requirements of GASB Statement No. 27 (GASB 27), *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50 (GASB 50), *Pension Disclosures*, as they related to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of GASB 27 and 50 remain applicable for pensions that are not covered by the scope of GASB 68.

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Financial Statement Presentation (continued)

GASB 71 is required to be implemented simultaneously with GASB 68 and amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of GASB 68 by employers and nonemployer contributing entities.

As permitted in GASB 68, management determined that the restatement of fiscal year 2014 is not practical; the cumulative effect of adopting GASB 68 related to prior fiscal years has been recorded as a restatement adjustment to beginning net position for the fiscal year ended June 30, 2015. The adoption of GASB 68 and 71 has resulted in the restatement of the HART's fiscal year 2015 beginning net position by \$(14,683,919) and \$1,602,142 related to changes in net pension liability and deferred outflows, respectively, from prior fiscal years. See Note G for further information.

Recently Issued Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement enhances the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The provisions of this Statement are effective for periods beginning after June 15, 2015. The HART has not yet determined the effect this Statement will have on its financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replacing Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57 *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This statement establishes new accounting and financial reporting requirements for OPEB plans. This Statement requires governments providing defined benefit OPEB plans to recognize their long-term obligation for OPEB as a liability for the first time, and to more comprehensively and comparably measure the annual cost of OPEB benefits. The provisions of this Statement are effective for periods beginning after June 15, 2017. The HART has not yet determined the effect this Statement will have on its financial statements.

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Financial Statement Presentation (continued)

In August 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify the hierarchy of generally accepted principles used to prepare financial statements of state and local governments. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statements. The provisions of this Statement are effective for periods beginning after June 15, 2015. The HART has not yet determined the effect this Statement will have on its financial statements.

3. Basis of Accounting

The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The operating revenues of HART are the result of providing services in connection with the delivery of transportation services of the rail system, which is not yet operational. The operating expenses of HART include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

4. 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 disclosure of contingent liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Specifically, management has made estimates based on assumptions for intergovernmental receivables, construction delay claims, environmental remediation liabilities and net pension liability. Actual results could differ from those estimates.

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Deferred Outflows and Inflows of Resources

Deferred outflows of resources represent consumptions of net position that apply to future periods and will not be recognized as an outflow of resources (expenditures) until then. Deferred inflows represent acquisitions of net position that apply to future periods and will not be recognized as an inflow of resources (revenues).

According to paragraph 33 of GASB No. 68, differences between expected and actual experience and changes in assumptions are recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined as of the beginning of the measurement period. The average of expected remaining service lives for the purposes of recognizing the applicable deferred outflows and inflows of resources established in the 2014 fiscal year is 5.7661 years.

Additionally, differences between projected and actual earnings on pension plan investments are recognized in pension expense using a systematic and rational method over a closed five-year period.

Contributions to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period are reported as deferred outflows.

6. Revenue Recognition

Revenue sources that are considered susceptible to accrual when earned include a county surcharge on the State of Hawaii's General Excise Tax (GET) and grant assistance from the U.S. Department of Transportation's Federal Transit Administration (FTA). GET revenue is recognized when earned. Revenues on cost reimbursement contracts are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source. No allowance for doubtful accounts was recorded as of June 30, 2015 and 2014.

7. Cash and Cash Equivalents

HART considers all cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition to be cash and cash equivalents.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Capital Assets

Capital assets are generally those assets with an individual price in excess of \$5,000 for equipment and machinery and \$100,000 for infrastructure, buildings, and structures with a useful life of more than one year. Capital assets are stated at cost and include contributions by governmental agencies at cost or estimated value. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs related to repairs and maintenance is expensed as incurred.

Assets are depreciated over the individual asset's estimated useful life using the straight-line method. Depreciation on both purchased and contributed assets is charged against operations

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

	<u>Years</u>
Infrastructure	50-75
Buildings and improvements	30-50
Equipment and machinery	5-25
Rail vehicles	25-35

9. Compensated Absences

HART accrues accumulated vacation when earned by the employee. Vacation benefits accrue at a rate of one and three-quarters working days per month. Each employee is allowed to accumulate a maximum of 90 days of accrued vacation as of the end of the calendar year (see Note F).

Sick leave accumulates at the rate of one and three-quarters working days for each month. Sick leave is taken only in the event of illness and is not convertible to pay; accordingly, sick leave is not accrued in the accompanying financial statements. Employees who retire or leave government service in good standing with 60 or more unused sick leave days are entitled to an additional service credit in the retirement system. At June 30, 2015 and 2014, accumulated sick leave amounted to approximately \$2,063,000 and \$1,771,000, respectively.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Deferred Compensation Plan

All full-time employees of HART are eligible to participate in the City and County of Honolulu's Public Employees' Deferred Compensation Program (Plan), adopted pursuant to Internal Revenue Code Section 457. The Plan permits eligible employees to defer a portion of their salary until future years by contributing to a fund managed by a plan administrator. The deferred compensation amounts are not available to employees until termination, retirement, death, or unforeseeable emergency.

A trust fund was established to protect Plan assets from claims of general creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. Plan assets of approximately \$3,497,000 and \$3,280,000 are not reported in the accompanying financial statements at June 30, 2015 and 2014, respectively.

11. Net Position

Net position comprises the various net earnings (losses) from operating and non-operating revenues, expenses and contributed capital. Net position is classified in the following two components: net investment in capital assets or unrestricted net position. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, or improvement of those assets. Unrestricted net position consists of all other net position not included in net investment in capital assets.

12. Risk Management

HART is exposed to various risks for losses related to torts; theft of or 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 the 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.

13. Reclassifications

Certain reclassifications were made to prior year's financial statements to conform to the 2015 presentation. Such reclassifications had no impact on the previously reported change in net position.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

14. Subsequent Events

Management has evaluated subsequent events through January 21, 2016, the date on which the financial statements were available to be issued.

NOTE B - CASH AND CASH EQUIVALENTS

Cash deposited with the City is maintained by the Department of Budget and Fiscal Services of the City. The City maintains a cash and investment pool that is used by all of the City's funds and HART. Information pertaining to credit risk and interest rate risk is available for only the total cash and investment pool, which is disclosed in the City's Comprehensive Annual Financial Report (CAFR) available at the City's website: www.honolulu.gov/budget/budget-cafr.html.

The respective portion of this pool is displayed in the accompanying financial statements as cash and cash equivalents. The Hawaii Revised Statutes (HRS) provide for the City's Director of Budget and Fiscal Services to deposit the cash with any national or state bank or federally insured financial institution authorized to do business in the State of Hawaii, provided that all deposits are fully insured or collateralized with securities held by the City or its agents in the City's name.

State statutes also authorize the City to invest in obligations of the U.S. Treasury and U.S. agencies, obligations of other states, cities and counties, mutual funds and bank repurchase agreements. Investments in repurchase agreements are primarily U.S. government or federal agency securities. The City does not have a policy relative to interest rate risk. Maturity date for all investments is less than one year.

NOTE C – RECEIVABLES

Receivables as of June 30, 2015 and 2014 were comprised of the following amounts:

	2015	2014
Intergovernmental		
General excise tax	\$ 52,330,383	\$ 49,457,334
Federal grants	81,265,823	78,777,909
	<u>133,596,206</u>	<u>128,265,243</u>
Other	75,902	1,756,591
Total receivables	<u>\$ 133,672,108</u>	<u>\$ 129,991,834</u>

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE D - CAPITAL ASSETS

Capital assets activity during 2015 and 2014 were as follows:

	Balance July 1, 2014	Additions	Reductions	Balance June 30, 2015
Equipment and machinery	\$ 171,540	\$ -	\$ -	\$ 171,540
Less: accumulated depreciation	(85,040)	(17,722)	-	(102,762)
	86,500	(17,722)	-	68,778
Land	64,768,559	26,333,878	-	91,102,437
Construction in progress	1,119,781,537	497,665,895	-	1,617,447,432
Total	<u>\$1,184,636,596</u>	<u>\$523,982,051</u>	<u>\$ -</u>	<u>\$1,708,618,647</u>
	Balance July 1, 2013	Additions	Reductions	Balance June 30, 2014
Equipment and machinery	\$ 144,569	\$ 26,971	\$ -	\$ 171,540
Less: accumulated depreciation	(48,418)	(36,622)	-	(85,040)
	96,151	(9,651)	-	86,500
Land	50,163,534	14,605,025	-	64,768,559
Construction in progress	807,704,824	312,076,713	-	1,119,781,537
Total	<u>\$857,964,509</u>	<u>\$326,672,087</u>	<u>\$ -</u>	<u>\$1,184,636,596</u>

NOTE E - COMMITMENTS

1. Leases

HART leases office space and equipment under operating leases expiring through fiscal year 2021. The future minimum rental payments for operating leases at June 30, 2015 are approximately as follows:

Fiscal Year	Annual
2016	1,252,000
2017	1,138,000
2018	751,000
2019	770,000
2020	795,000
2021	342,000
Total Minimum Payments	<u>\$ 5,048,000</u>

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE E – COMMITMENTS (continued)

1. Leases (continued)

Additionally, these leases provide for payment of common area charges. Office and equipment rental expenses were approximately \$2,172,000 and \$2,316,000 for the years ended June 30, 2015 and 2014, respectively and are included in administration and general expenses in the accompanying statements of revenues, expenses and changes in net position.

2. Other Commitments

HART has contractual commitments at June 30, 2015 of approximately \$2,150,438,000. These include contracts for construction, design, and professional services.

NOTE F – OTHER LONG-TERM LIABILITIES

The following is a summary of changes in other long-term liabilities during the fiscal years ended June 30, 2015 and 2014:

	Balance June 30, 2014 (as restated)	Additions	Reductions	Balance June 30, 2015	Approximate amounts due within one year
Accrued vacation	\$ 1,043,092	\$ 622,708	\$ 499,154	\$ 1,166,646	\$ 94,128
Other postemployment benefits	1,652,481	544,000	97,000	2,099,481	-
Delay claims	44,341,954	58,256,511	42,902,530	59,695,935	33,360,950
Environmental remediation	1,500,000	3,345,000	-	4,845,000	-
Net pension liability*	14,683,919	-	277,970	14,405,949	-
Total	<u>\$ 63,221,446</u>	<u>\$ 62,768,219</u>	<u>\$ 43,776,654</u>	<u>\$ 82,213,011</u>	<u>\$ 33,455,078</u>
					Approximate amounts due within one year
	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014	
Accrued vacation	\$ 1,020,250	\$ 457,111	\$ 434,269	\$ 1,043,092	\$ 95,014
Other postemployment benefits	1,353,481	299,000	-	1,652,481	-
Delay claims	48,935,299	26,580,817	31,174,162	44,341,954	35,391,000
Environmental remediation	-	1,500,000	-	1,500,000	-
Total	<u>\$ 51,309,030</u>	<u>\$ 28,836,928</u>	<u>\$ 31,608,431</u>	<u>\$ 48,537,527</u>	<u>\$ 35,486,014</u>

* For the purposes of this note, the balance at June 30, 2014 was restated to reflect the impact of the adoption of GASB Statement No. 68. See notes A and G for further discussion.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS

1. Defined Benefit Plan

Description of Plan

All eligible employees of the State and counties are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the ERS. Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS's website at <http://ers.hawaii.gov/>.

Benefits Provided

The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement membership classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory plan members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any 3 years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5% per year.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

1. Defined Benefit Plan (continued)

Noncontributory Class:

Retirement Benefits

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

1. Defined Benefit Plan (continued)

Contributory Class for Employees Hired prior to July 1, 2012:

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

For service-connected deaths, the designated beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 1 year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

1. Defined Benefit Plan (continued)

Contributory Class for Employees Hired After June 30, 2012:

Retirement Benefits

Judges and elected officers' retirement benefits are determined as 3.0% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with 10 years of credited service are eligible to retire at age 60.

Disability and Death Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of services for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory class members hired after June 30, 2012 are generally the same as those for contributory class members hired June 30, 2012 and prior.

Hybrid Class for Employees Hired Prior to July 1, 2012:

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

1. Defined Benefit Plan (continued)

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation to the surviving spouse/reciprocal beneficiary until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 5 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Employees Hired After June 30, 2012:

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and EMT's may retire with 25 years of credited service at age 55.

Disability and Death Benefits

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 120%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary or if less than 10 years of service, return of member's contributions and accrued interest.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

1. Defined Benefit Plan (continued)

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The HART's contributions requirements as of June 30, 2015, 2014, and 2013 were approximately \$1,305,000, \$1,168,000, and \$1,029,000, respectively. The contribution rate was 16.50, 16.00, and 15.50 percent for the years ended June 30, 2015, 2014 and 2013, respectively.

The employer is required to make all contributions for members in the noncontributory plan. For contributory class employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary. For contributory class employees hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired prior July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

The HART's payroll for employees covered by the plan was approximately \$7,912,000, \$7,301,000, and \$6,638,000 for 2015, 2014, and 2013, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

At June 30, 2015 HART reported a liability of approximately \$14.41 million for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. HART's proportion of the net pension liability was based on a projection of HART's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of ERS, actuarially determined. At June 30, 2014 HART's proportionate share was .18% which was an increase of .02% from its proportionate share measured as of June 30, 2013.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2014, and the reporting date, June 30, 2015, that are expected to have a significant effect on the proportionate share of the net pension liability.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

1. Defined Benefit Plan (continued)

For the fiscal year ended June 30, 2015, HART recognized pension expense of approximately \$1,862,000. At June 30, 2015, HART reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ 183,192	\$ -
Net difference between projected and actual earnings on pension plan investments	-	1,671,889
Changes in proportion and differences between employer contributions and proportionate share of contributions	950,760	-
HART contributions subsequent to the measurement date	1,779,197	-
Total	\$ 2,913,149	\$ 1,671,889

\$1.78 million reported as deferred outflows of resources related to pensions resulting from HART contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Years ending June 30:	
2016	\$ (180,052)
2017	(180,052)
2018	(180,052)
2019	(180,052)
2020	182,271
	\$ (537,937)

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

1. Defined Benefit Plan (continued)

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions for general employees, applied to all periods included in the measurement:

Inflation	3.00%
Projected Salary Increases	4.00% to 8.00%*
Investment Rate of Return	7.75% *
Payroll Growth Rate	3.50%

*including inflation

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA.

Post-retirement mortality rates are based on Client Specific Tables and the 1994 US Group Annuity Mortality Statistic Tables for police and firefighters. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five year period ended June 30, 2010. ERS updates their experience study every five years.

The long-term expected rate of return on pension plan investments was determined using a “top down approach” of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as “re-sampling with replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

1. Defined Benefit Plan (continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30%	8.5%
International equity	26	9.0
Fixed income	20	3.1
Real estate	7*	8.5
Private equity	7*	11.8
Real return	5*	6.1
Covered calls	5	7.7
Total	100%	

*The real estate, private equity, and real return targets will be the percentage actually invested up to 7%, 7%, and 5%, respectively, of the total fund. Changes in the real estate, private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

The discount rate used to measure the net pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

The following presents HART's proportionate share of the net pension liability calculated using the single discount rate of 7.75%, as well as what HART's proportionate share of the net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rates:

	1 percent Decrease (6.75%)	Current Discount Rate (7.75%)	1 percent Increase (8.75%)
HART's proportionate share of the net pension liability	\$18,259,259	\$14,405,949	\$10,552,639

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

1. Defined Benefit Plan (continued)

Pension plan fiduciary net position

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at <http://www.ers.hawaii.gov>.

Payables to the Pension Plan

As of June 30, 2015, HART had no payable to ERS.

2. Post-Retirement Health Care and Life Insurance Benefits

The HART provides certain other postemployment benefits (OPEB) other than pensions to all qualified employees. Pursuant to Chapter 87A of the HRS, the HART contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) an agent multi-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF currently provides medical, dental, vision, and life insurance benefits. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

Eligibility

For employees hired before July 1, 1996, the HART pays 100% of the monthly health care premium for employees retiring with 10 or more years of credited service, and 50% of the monthly premium for employees retiring with fewer than 10 years of credited service.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

2. Post-Retirement Health Care and Life Insurance Benefits (continued)

For employees hired after June 30, 1996 and retiring with 25 years or more of service, the HART pays the entire health care premium. For employees retiring with at least 15 years of service but fewer than 25 years of service, the HART pays 75% of the monthly Medicare or non-Medicare premium. For those retiring with at least 10 years but less than 15 years of service, the HART pays 50% of the retired employees' monthly Medicare or non-Medicare premium. For those retiring with less than 10 years of service, the HART makes no contributions.

For employees hired after June 30, 2001 and retiring with over 25 years of service, the HART will pay 100% of the monthly premium based on the self- plan. For those who retire with at least 15 years but fewer than 25 years of service, the HART will pay 75% of the retired employees' monthly Medicare or non-Medicare premium based on the self- plan. For those retiring with at least 10 years but fewer than 15 years of service, the HART pays 50% of the retired employees' monthly Medicare or non-Medicare premium based on the self- plan. For those with fewer than 10 years of service, the HART makes no contributions.

The HART also reimburses 100% of Medicare premium costs for retirees and qualified dependents (through the State), who are at least 65 years of age and have at least 10 years of service.

For active employees, the employer's contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

The HART is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over 30 years.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

2. Post-Retirement Health Care and Life Insurance Benefits (continued)

Annual OPEB Cost

The following table displays for the years ended June 30, 2015, 2014 and 2013, the components of the annual OPEB cost, the amount actually contributed to the plan, the changes to the net OPEB obligation, and the percentage of annual OPEB cost contributed:

	2015	2014	2013
Annual required contribution	\$ 532,000	\$ 292,000	\$ 282,000
Interest on net OPEB obligation	55,000	34,000	-
Adjustment to the annual required contribution	(43,000)	(27,000)	-
Annual OPEB Cost	544,000	299,000	282,000
Contributions made	(97,000)	-	-
Increase in net OPEB obligation	447,000	299,000	282,000
Net OPEB obligation – beginning of year	789,000	490,000	208,000
Net OPEB obligation – end of year	<u>\$ 1,236,000</u>	<u>\$ 789,000</u>	<u>\$ 490,000</u>
Percentage of annual OPEB cost contributed	18%	0%	0%

Funded Status and Funding Progress

The following is the schedule of the funded status and funding progress of the plan as of the most recent actuarial valuation date, that are, July 1, 2013 and July 1, 2011:

	July 1, 2013	July 1, 2011
Actuarial accrued liability	\$ 3,413,000	\$ 1,964,000
Actuarial value of plan assets	9,000	-
Unfunded actuarial liability (UAAL)	<u>\$ 3,404,000</u>	<u>\$ 1,964,000</u>
Funded ratio	0.3%	0.0%
Covered payroll (Active plan members)	\$ 6,760,000	\$ 5,385,000
UAAL as a percentage of covered payroll	50.4%	36.5%

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

2. Post-Retirement Health Care and Life Insurance Benefits (continued)

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. 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.

On July 3, 2013, the Governor signed into law Act 268, SLH of 2013. Act 268 requires the EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund post-employment health and other benefit costs for retirees and their beneficiaries. It establishes the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make annual required contributions effective fiscal year 2014. Commencing fiscal year 2019, the annual public employer contribution shall be equal to the annual required contribution, as determined by an actuary retained by the EUTF board.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan 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 short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the most recent actuarial valuation, dated as of July 1, 2013, the entry age normal actuarial cost method was used. The actuarial assumptions included a discount rate of 7.0%, which was based on EUTF's anticipated asset investment return and the HART's anticipated funding level. Actuarial assumptions also included an annual health cost trend rate for PPO plans of 9.0% for 2014, declining to a rate of 5% after 10 years, and HMO plans of 7.5% for 2014, declining to a rate of 5% after 10 years; expected payroll increases of 3.5% to amortize unfunded liabilities, projected salary increases based on the ERS July 1, 2013 assumptions to determine the actuarial accrued liability, and an inflation rate of 3.0%. The unfunded actuarial accrued liability is being amortized over a 30 year closed period as a level percentage of projected payrolls.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

2. Post-Retirement Health Care and Life Insurance Benefits (continued)

The EUTF issues a stand-alone financial report that includes financial statements and required supplementary information, which may be obtained at the following address: State of Hawaii Employer-Union Health Benefits Trust Fund, 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

NOTE H - RELATED PARTY TRANSACTIONS

1. Intergovernmental Revenues and Federal Grants

During the year ended June 30, 2015 and 2014, the HART recognized intergovernmental revenues of \$223,666,342 and \$218,390,853, respectively, from the General Excise Tax (GET) county surcharge and \$158,034,519 and \$107,116,948, respectively, in Federal Transit Authority (FTA) grant assistance.

2. Central Administrative Services Expense Fee

HART has an agreement with the City to pay a Central Administrative Services Expense (CASE) fee for treasury, personnel, purchasing, legal, and other services that the City provides to HART on an on-going basis. CASE fees totaled \$621,389 and \$923,621 for the years ended June 30, 2015 and 2014, respectively, and is included as part of administration and general expense in the statements of revenues, expenses and changes in net position.

NOTE I – DELAY CLAIM COSTS

As of June 30, 2015 and 2014, HART has recorded approximately \$59.7 million and \$44.3 million, respectively, related to delayed claims resulting from the HonoluluTraffic.com, et. al. v. Federal Transit Administration, et. al. and the Kaleikini v. Formby et al. cases which were settled in fiscal year 2014. These amounts have been included in other long-term liabilities in the accompanying statements of net position. The increase of approximately \$15.4 million has been included in construction work in process in the accompanying statements of net position.

Honolulu Authority for Rapid Transportation
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE J – LITIGATION

On September 8, 2015, a complaint was filed against the City and County of Honolulu, seeking a declaration that certain votes by the City Council were invalid due to the nondisclosure of alleged conflicts of interest by various Councilmembers, and that therefore the laws resulting from those votes are void and unenforceable. The lawsuit also asks that the City be enjoined from enforcing or continuing to provide funding for the laws in question, until such time as the laws are ratified in accordance with orders of the court. The votes in question relate to ordinances or resolutions that the City Council approved with regard to the Honolulu Rail Transit Project, related issuance and sale of general obligation bond and bond anticipation notes, and real property transfers. An amended complaint was filed on November 6, 2015. The case is in the preliminary stages of litigation, and the outcome or any potential liability is not determinable at this time. The City intends to vigorously defend itself.

NOTE K - ENVIRONMENTAL ISSUES

HART is currently aware of soil contamination at various sites that it has acquired. Based on preliminary studies, HART has determined that as of June 30, 2015 and 2014, the current total estimated costs for remediation are approximately \$4.8 million and \$1.5 million, respectively. These amounts are included in other long-term liabilities in the accompanying statements of net position. The increase of approximately \$3.3 million has been included in land in the accompanying statements of net position.

NOTE L – LIQUIDITY RISK

On December 18, 2014, HART's CEO & Executive Director informed the HART Board of Directors that the projected capital costs of the project would increase by approximately \$600 million while projected revenues would decrease by approximately \$310 million. In total, the project would need additional revenues of \$910 million to cover the additional capital costs and revenue shortfall.

The additional cost estimates included lawsuits and delay claims of \$190 million, construction cost escalations, utility relocations and project enhancements of \$170 million and allocated contingency of \$240 million. The revenue shortfall consisted of \$100 million of general excise tax (GET) surcharge shortfall, and \$210 million for the deletion of federal section 5307 funds from the project revenue per Honolulu City Council Resolution No. 15-18.

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2015 and 2014

NOTE L – LIQUIDITY RISK

In May 2015, the Hawaii State Legislature passed House Bill 134 extending the GET surcharge for the construction of the rail project for another five years from December 31, 2022 to December 31, 2027. The extension, which was signed into law as Act 240 on July 14, 2015, requires the Honolulu City Council to adopt the tax extension before July 1, 2016. It is estimated that the five-year extension will generate additional GET surcharge revenues of \$1.5 billion which would cover the anticipated cost increases and revenue shortfall.

On October 15, 2015 the HART Board of Directors were presented with updated cost estimates based on recent contract bids, and updated construction industry cost escalation estimates and current economic conditions in Hawaii. The revised projected capital costs were increased by \$714 million, including \$299 million for unallocated contingency, bringing the total cost increase to \$1.314 billion. The additional increases are attributable to an 18-month extension of the project completion date from January 2020 to June 2021, and to continuing escalation of construction costs in Hawaii.

The FTA issued a letter dated November 12, 2015 expressing concern that the City has not yet completed the actions needed to extend the GET surcharge that is critical to completing the project. The letter states that “until FTA has agreed to a revised cost estimate and schedule, and a financial plan which includes a commitment of all of the local funds needed to cover the cost estimate, FTA cannot award the Fiscal Year 2015 increment of Section 5309 funds (\$250 million) under the terms of the FFGA.”

As of January 21, 2016, City Council Bill 23 to adopt the GET surcharge extension has not been adopted. In its current form, Bill 23 would extend the one half percent GET surcharge from January 1, 2023 to December 31, 2027 and requires that the expenditures of surcharge moneys be limited to \$4.815 billion and expended only on the minimum operable segment and associated debt financing costs. It is anticipated that Bill 23 will be enacted by the City Council at its January 27, 2016 meeting.

In the event that the City Council does not adopt Bill 23 and extend the GET surcharge beyond 2022, it is currently estimated that the project would not have sufficient revenues to complete the construction of all twenty-one stations and associated elevated guideway. In addition, should the GET surcharge extension not be extended, the FTA may declare the City in breach of the grant agreement, and discontinue awarding the remaining portions of the \$1.55 billion federal grant. The FTA may also require the City to return the \$503 million of federal funds that have been disbursed for the project to date of which \$412 million was received as of June 30, 2015 and \$91 million was received subsequent to year end. As of June 30, 2015, the potential impact of the aforementioned items, including but not exclusive to any potential impairment to capital assets, is not reflected in the amounts reported in the financial statements.

PART II
REQUIRED SUPPLEMENTARY INFORMATION

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

SCHEDULE OF THE HART'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

LAST 10 FISCAL YEARS

Year Ended June 30,	<u>Proportion of Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate share of the net pension liability as a percentage of its covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability</u>
2015	0.1797%	\$ 14,405,949	\$ 7,301,318	197.31%	63.92%
2014	0.1644%	14,683,919	6,231,742	235.63%	57.96%
2006 - 2013*					

* Information for this period is not available. The table will be compiled prospectively

See independent auditor's report

Honolulu Authority for Rapid Transportation
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SCHEDULE OF CONTRIBUTIONS

LAST 4 FISCAL YEARS

Year Ended June 30,	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Excess (Deficiency)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2015	\$ 1,305,429	\$ 1,305,429	\$ -	\$ 7,911,690	16.50%
2014	1,168,211	1,168,211	-	7,301,318	16.00%
2013	1,028,869	1,028,869	-	6,637,865	15.50%
2012	782,968	782,968	-	5,219,792	15.00%

See independent auditor's report

Honolulu Authority for Rapid Transportation
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SCHEDULE OF FUNDING PROGRESS FOR
HAWAII EMPLOYER-UNION HEALTH BENEFITS TRUST FUND

June 30, 2015

Actuarial valuation date	Actuarial value of assets	Actuarial accrued liability (AAL)	Unfunded AAL (UAAL)	Funded ratio	Covered payroll	UAAL as a percentage of covered payroll
July 1, 2013	9,000	\$ 3,413,000	\$ 3,404,000	0.3%	\$ 6,760,000	50.4%
July 1, 2011	-	\$ 1,964,000	\$ 1,964,000	0.0%	\$ 5,385,000	36.5%

See independent auditor's report

PART III
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS



A Hawaii Limited Liability Partnership

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

Independent Auditor's Report

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Honolulu Authority for Rapid Transportation (HART), as of and for the year ended June 30 2015, and the related notes to the financial statements, which collectively comprise HART's basic financial statements, and have issued our report thereon dated January 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HART's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HART's internal control. Accordingly, we do not express an opinion on the effectiveness of HART's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HART's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2015-01.

HART's Response to Finding

HART's response to the finding identified in our audit is described in the accompanying response of the affected agency. HART's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KMH LLP

KMH LLP

Honolulu, Hawaii
January 21, 2016

PART IV
SCHEDULE OF FINDINGS

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

Schedule of Findings

June 30, 2015

Finding No.: 2015-01 Timely Submission of Weekly Payroll Information
Type of Finding: Non-Compliance with Grant Agreements

Criteria: 29 CFR Subtitle A section 5.5 states that the contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the appropriate federal agency if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the appropriate federal agency. The payrolls submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on weekly transmittals. Instead the payrolls shall only need to include an individually identifying number for each employee (e.g., the last four digits of the employee's social security number). The required weekly payroll information may be submitted in any form desired. The prime contractor is responsible for the submission of copies of payrolls by all subcontractors.

Condition, cause, and context: During our audit, we noted that the HART has not been diligent in requiring prime contractors to submit weekly payroll information within the required timeframe. Although the prime contractors are responsible to submit weekly payroll information, the HART's current practice allows prime contractors to aggregate several weeks of the required weekly payroll information and submit that information in batches at various intervals during the period (i.e., every two weeks or monthly).

We tested 60 payroll submissions and noted the following:

- 50 instances where certified payrolls were not submitted within 7 days (weekly) of the pay period end date.
- 1 instance where a non-performance report was missing.

Effect: Failure to provide weekly payroll information within the required timeframe resulted in non-compliance with the program requirements.

Recommendation: The HART should require its prime contractors to submit weekly payroll information within the required timeframe.

PART V
RESPONSE OF THE AFFECTED AGENCY

Honolulu Authority for Rapid Transportation
(a component unit of the City and County of Honolulu)

Response of Affected Agency

June 30, 2015

FINDING 2015-01 – Timely Submission of Weekly Payroll Information

Response of Management

Management has hired a full time staff person who will be responsible for verifying that all required weekly payroll reports from contractors are being submitted on a timely basis.

Policies and procedures will also be put in place that will require contractors to submit weekly required payroll reports and notifications when such reports are not being filed on a timely basis.