HONOLULU AUTHORITY for RAPID TRANSPORTATION

MINUTES

Government Affairs/Audit/Legal Matters Committee
Mission Memorial Annex
550 South King Street, Honolulu, Hawaii
Thursday, November 21, 2013, 8:30 A.M.

PRESENT:	Robert "Bobby" Bunda	Donald Horner
	Ivan Lui-Kwan	Carrie Okinaga
	Michael Formby	
ALSO IN ATTENDANCE:	Dwayne Takeno	Daniel Grabauskas
(Sign-In Sheet and Staff)	Charles Goodin	Diane Arakaki
	Joe Magaldi	Joyce Oliveira
	Lori Hiraoka	Gary Takeuchi
	Matt Caires	Cindy Matsushita
	John White	Andrea Tantoco
	Harrison Rue	Jeanne Mariani-Belding
	Shannon Wood	Karley Halsted
	Doug Chun	Allison Gammel
	Henry Oviedo	Matt Scanlon

I. Call to Order by Chair

Government Affairs/Audit/Legal Matters Committee Chair Robert "Bobby" Bunda called the meeting to order at 8:33.

II. Public Testimony on All Agenda Items

Mr. Bunda called for public testimony, and there was none.

III. Approval of Minutes of the June 13, 2013 Government Affairs/Audit/Legal Matters Committee Meeting

Mr. Bunda called for approval of the minutes of the June 13, 2013 Government Affairs/Audit/Legal Matters Committee Meeting. There being no objections, the minutes were unanimously approved.

IV. Report on the Financial Audit by PKF Pacific Hawaii LLP

HART Chief Financial Officer Diane Arakaki introduced HART staff Accountant Andrew Kim, Internal Control Analyst Doug Cullison, Fiscal Officer Bruce Sakihama, and Accountant Duy Ninh, who all contributed to the production of the audit report, a copy of which is attached hereto as Attachment A. Mr. Bunda thanked HART staff for their work.

Dwayne Takeno and Charles Goodin of PKF Pacific Hawaii LLP presented the audit report. Mr. Takeno reported that HART was given an unqualified opinion, and that the audit was conducted employing Generally Accepted Accounting Principles. He directed the members' attention to page 35, which details the one audit finding related to delays in seeking reimbursements from the federal government. HART management's response to this finding, which includes the recruitment of a full-time federal grants manager, is contained on page 37. Mr. Takeno said that the finding in the previous year had been remediated by HART's corrective action in hiring more staff. He concluded by saying that the current year's audit was much more efficient than the previous year's.

Committee member Ivan Lui-Kwan thanked the auditors and HART staff for their hard work, which contributed to the unqualified opinion.

At Committee member Carrie Okinaga's request, Ms. Arakaki explained management's response to the finding. She said that HART would draft policies and procedures regarding the federal grant procedure to ensure timely recovery of revenue. She explained that the finding was due in part to the transition in handling the federal grant from City staff to HART staff, and partly due to HART staff having many other tasks.

Ms. Okinaga asked if there were best practices regarding the receipt of federal funds. Ms. Arakaki said that the best practice is to recover funds as soon as possible, usually monthly. Mr. Horner requested a date by which HART staff would put controls in place to avoid the same situation on the next audit. He said that timely reimbursement would allow HART to save on interest. Ms. Arakaki stated that she would provide the Board with a timeline and action plan.

Mr. Horner expressed the need for a firewall to delineate cash received by the City for HART, as the monies are commingled in the City treasury. Mr. Bunda asked how often HART reconciles its cash position, and Ms. Arakaki replied that it was done monthly, and a monthly cash report is made to the Board. She suggested that the firewall be addressed when HART and the City enter into discussions about a debt financing Memorandum of Understanding, and how it is to be managed and reported to HART.

Mr. Bunda thanked HART staff and PKF.

V. Litigation Update

Deputy Corporation Counsel Gary Takeuchi gave a litigation update. He reported that, in the HonoluluTraffic.com case, the parties were still awaiting a decision after oral argument before the Ninth Circuit Court of Appeals on August 15, 2013. In the matter before Judge Tashima in District Court, the defendants notified the court of their compliance with the ruling regarding three areas of additional study. Mr. Takeuchi reported that plaintiffs had filed an objection to the Notice of Compliance only with regard to the Beretania Street tunnel alternative. Judge Tashima has set a status conference for December 11, 2013 in San Francisco, to include counsel for the plaintiffs and federal and City defendants, but not the intervening defendants.

VI. Executive Session

There was no need for executive session.

VII. Adjournment

There being no further business before the committee, Mr. Bunda adjourned the meeting at 8:53 a.m.

Respectfully Submitted,

Cindy Matsushita
Board Administrator

Approved:

Robert "Bobby" Bunda
Chair, Government Affairs/Audit/Legal Matters Committee

12/18/14
Date

ATTACHMENT A

PKF Pacific Hawaii LLP
Accountants & Business Advisors

PKF

November 15, 2013

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

We have audited the financial statements of the Honolulu Authority for Rapid Transportation ("HART") as of and for the year ended June 30, 2013, and have issued our report thereon dated November 15, 2013. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit
As communicated in our engagement letter dated July 18, 2013, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, as part of our audit, we considered the internal control of HART solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

We have provided our findings regarding a material weakness over financial reporting and other matters noted during our audit in a separate letter to you dated November 15, 2013.

Planned Scope and Timing of the Audit
We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence
The engagement team, others in our firm, as appropriate, our firm, and our network firms have complied with all relevant ethical requirements regarding independence.

Management of HART has prepared a draft of the financial statements and related notes to the financial statements. We have proposed changes to the financial statements and related notes to the financial statements and discussed them with management. We also proposed certain changes to management's estimate of delay claim accruals. Management has also completed a financial statement disclosure checklist.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by HART is included in Note A to the financial statements. As described in Note A2 to the financial statements, during the year, HART adopted Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The adoption of GASB 62 and GASB 63 did not have a material impact to HART's financial statements. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are the federal grant receivable and the accrual of construction delay costs.

Management's estimate of the federal grant receivable is based on total construction costs incurred reduced by ineligible expenditures and federal reimbursements received. Management's estimate of the accrual of construction delay costs is based on incurred direct costs on its construction contracts. We evaluated the key factors and assumptions used to develop the federal grant receivable and accrual of construction delay costs and determined that they are reasonable in relation to the basic financial statements taken as a whole.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. The attached schedule summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management: We proposed an adjustment to record unbilled receivables for federal grants of $83,783,523 as of June 30, 2013.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to HART's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management, which are included in the attached letter dated November 15, 2013.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with HART, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as HART's auditors.

Other Matter

With respect to HART's required supplementary information we applied certain limited procedures to this information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquires 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 that we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on this information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

This information is intended solely for the information and use of the Board of Directors and management of HART and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

PKF Pacific Hawaii LLP

Attachments: Management Representation Letter
Summary of Unrecorded Misstatements

HART

IN REPLY REFER TO:
CMS-AP00-00565

HONOLULU AUTHORITY for RAPID TRANSPORTATION

Daniel A. Grabauskas
EXECUTIVE DIRECTOR AND CEO

November 15, 2013

PKF Pacific Hawaii, LLP
1132 Bishop Street
Suite 2500
Honolulu, Hawaii 96813

Dear Sir or Madam:

This representation letter is provided in connection with your audit of the statements of net position, statements of revenues, expenses, and changes in net position, and cash flows of the Honolulu Authority for Rapid Transportation ("HART") as of June 30, 2013, and 2012, and for the years then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the basic financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of HART in conformity with accounting principles generally accepted for governments in the United States of America ("U.S. GAAP").

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of November 15, 2013:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated July 18, 2013, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.

2. We acknowledge our responsibility for 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.

3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

4. We acknowledge our responsibility for compliance with the laws, regulations, and provisions of contracts and grant agreements.

5. We have reviewed, approved, and taken responsibility for the financial statements and related notes.

6. We have a process to track the status of audit findings and recommendations. We have provided to you our views on reported audit findings, conclusions, and recommendations, as well as planned corrective actions.

7. We have identified and communicated to you all previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.

8. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

9. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

10. All events subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

11. The effects of uncorrected misstatements summarized in the attached schedule and aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the financial statements as a whole.

12. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

13. All funds and activities are properly classified.

14. All funds that meet the quantitative criteria in GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus* as amended, for presentation as major are identified and presented as such and all other funds that are presented as major are considered important to financial statement users.

15. All components of net position (invested in capital assets, net of related debt; restricted; and unrestricted), nonspendable fund balance, and restricted, committed, assigned, and unassigned fund balance are properly classified and, if applicable, approved.

16. All interfund transactions and balances have been properly classified and reported.

17. Deposit and investment risks have been properly and fully disclosed.

18. Capital assets, including infrastructure assets, are properly capitalized, reported, and if applicable, depreciated.

19. All required supplementary information is measured and presented within the prescribed guidelines.

20. With respect to the required supplementary information accompanying the financial statements:
    a. We acknowledge our responsibility for the presentation of the required supplementary information in accordance with U.S. GAAP.
    b. We believe the required supplementary information, including its form and content, is measured and fairly presented in accordance with US GAAP.
    c. The methods of measurement or presentation have not changed from those used in the prior period.

21. We agree with the findings of specialists in evaluating the liability for other post-retirement benefits and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the independence or objectivity of the specialists.

22. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

23. Receivables recorded in the financial statements represent valid claims against debtors for sales or charges for services provided or other charges arising on or before the statement of net position date and have been appropriately reduced to their estimated net realizable value.

24. We believe the actuarial assumptions and methods used to measure pension and other postretirement benefit liabilities and costs for financial accounting purposes are appropriate in the circumstances.

25. You provided a non-attest service by assisting us with drafting the financial statements. In connection with this non-attest service, we confirm that we (a) made all management decisions and performed all management functions, (b) have suitable skill, knowledge, and experience to evaluate the accuracy and completeness of the financial statements, and (c) accept responsibility for such financial statements.

26. You provided a non-attest service by assisting us with preparing the accruals for delay claims and related financial statement disclosures. In connection with this non-attest service, we confirm that we (a) made all management decisions and performed all management functions, (b) have suitable skill, knowledge, and experience to evaluate the accuracy and completeness of the income tax accruals and related disclosures, and (c) accept responsibility for such accruals and disclosures.

Information Provided

1. We have provided you with:
   a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements of HART, such as records, documentation, meeting minutes, and other matters;
   b. Additional information that you have requested from us for the purpose of the audit; and
   c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All transactions have been recorded in the accounting records and are reflected in the financial statements.

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
   a. Management;
   b. Employees who have significant roles in internal control; or
   c. Others where the fraud could have a material effect on the financial statements.

5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, vendors, regulators, or others.

6. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

7. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

8. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in accounting, internal control, or financial reporting practices.

9. HART has no plans or intentions that may materially affect the carrying value or classification of assets and liabilities.

10. We have disclosed to you all guarantees, whether written or oral, under which HART is contingently liable.

11. We have disclosed to you all significant estimates and material concentrations known to management that are required to be disclosed in accordance with GASB Statement No. 62 (GASB-62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Significant estimates are estimates at the statements of net position date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.

12. We have identified and disclosed to you the laws, regulations, and provisions of contracts and grant agreements that could have a direct and material effect on financial statement amounts, including legal and contractual provisions for reporting specific activities in separate funds.

13. There are no:
    a. Violations or possible violations of laws or regulations, or provisions of contracts or grant agreements whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, including applicable budget laws and regulations.
    b. Unasserted claims or assessments that our lawyer has advised are probable of assertion and must be disclosed in accordance with GASB-62.
    c. Other liabilities or gain or loss contingencies that are required to be accrued or disclosed by GASB-62.

14. HART has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset or future revenue been pledged as collateral, except as disclosed to you.

15. We have complied with all aspects of grant agreements and other contractual agreements that would have a material effect on the financial statements in the event of noncompliance.

Daniel A. Grabauskas, Executive Director and CEO

Diane Arakaki, Chief Financial Officer

Honolulu Authority for Rapid Transportatior
Summary of Unrecorded Misstatements
June 30, 2013

JE No.	Account Description	Debit	Credit	Increase (Decrease) Assets	Liabilities	Net Position	Change in Net Position
201	Fringe Benefits	$ 754,028				$ (754,028)	$ (754,028)
	Unreserved Fund Balance		$ 754,028			754,028	
To pass on adjusting prior year OPEB liability.							
202	WIP	452,106		452,106			
	Interest on Vendor Claims		452,106			452,106	452,106
To pass on capitalization of interest expense.							
203	Intergovernmental Revenue	1,422,229				(1,422,229)	(1,422,229)
	Net Position		1,422,229			1,422,229	
	To pass adjustment for prior year federal grant receivable.						
	Total Passed Adjustments			$ 452,106	$ -	$ 452,106	$ (1,724,151)
	Total Rpt Balance Before PAJES			$ 1,389,009,690	$ 103,801,492	$ 1,285,208,198	$ 322,811,266
	Effect on PAJES's on Total Rpt Bal			0%	0%	0%	-1%

HONOLULU AUTHORITY for RAPID TRANSPORTATION

MINUTES

Joint Meeting of
Finance Committee and
Project Oversight Committee
Ali'i Place, Suite 150
1099 Alakea Street, Honolulu, Hawaii
Thursday, July 17, 2014, 9:00 a.m.

PRESENT:	Keslie Hui	George Atta
	Damien Kim	Carrie Okinaga
	Ivan Lui-Kwan	William "Buzz" Hong
	Michael Formby	Robert "Bobby" Bunda
ALSO IN ATTENDANCE: (Sign-In Sheet and Staff)	Daniel Grabauskas	Cindy Matsushita
	Diane Arakaki	Joyce Oliveira
	Michael McGrane	Andrea Tantoco
	Duane Sayers	Corey Ellis
	David Sagherian	Karley Halsted
	Gary Takeuchi	Matt Scanlon
	Lisa Hirahara	Akira Fujita
	Lisa Barnett	Brent Uechi
	Paula Youngling	Rainer Hombach
	Joyce Oliveira	Lance Wilhelm
	Lorenzo Garrido	Gary Omori
EXCUSED:	Donald G. Horner	Ford Fuchigami

I. Call to Order by Chair

Finance Committee Chair Keslie Hui called the meeting to order at 9:17 a.m.

II. Public Testimony on all Agenda Items

Mr. Hui called for public testimony. There was none.

III. Approval of the May 15, 2014 Minutes of the Joint Meeting of the Finance Committee and Project Oversight Committee

Mr. Hui called for approval of the May 15, 2014 minutes of the Joint Meeting of the Finance Committee and Project Oversight Committee. There being no objections, the minutes were approved as circulated.

IV. Change Order Review

A. West Oahu/Farrington Highway (WOFH) Standard Specification Revision 2.0

HART Director of Design and Construction Lorenzo Garrido introduced HART Deputy Director of Design In-Tae Lee and WOFH Project Manager Karley Halsted, who would present the change order for standard specification revision. A copy of the presentation and change order documentation are attached hereto as Attachment A. The change order is for revised HART standard specifications for drilled concrete shaft foundations – the base that holds up the concrete columns. The new specifications include videographic requirements for wet and dry shafts, crosshole sonic logging (CSL) testing for dry shafts, and additional shaft bottom cleaning requirements. The contractor's cost proposal was $5.2 million, which HART negotiated down to $2.65 million.

Mr. Garrido said that HART had established a baseline quality standard regarding the shafts prior to the issuance of the WOFH contract. Once the contract was let, design discussions between HART and the contractor led to the interpretation and refinement of the baseline quality specifications, some of which were not within the scope of the WOFH contract. These revised specifications were then included in the scope of subsequent contracts. HART and Kiewit took quite some time to agree on the cost associated with this change, as the base scope requirements had to be separated from the additional requirements. He said that all columns since the start of construction had been built under this specification.

Ms. Halsted detailed the use of the shaft investigation device, a camera that verifies the cleanliness of the shaft bottom. She also explained the CSL process, which involves tying PVC pipes to rebar cages to accommodate probes that identify any anomalies in the column. Mr. Garrido said that anomalies can then be remedied by pressure injecting grout into the foundations, with the goal of having a solid foundation.

Mr. Garrido stated that the change order covered 164 dry shafts, rock shafts, and wet shafts. The cost of the change order would come out of project contingency.

Mr. Hui asked about the size of the change relative to the overall WOFH contract. Mr. Garrido responded that the total WOFH contract was $84 million, so the $2.6 million change order cost was a small percentage of that cost. He said that the average cost of the change order per shaft is $9,500 per shaft, which is a small percentage of the $150,000 total cost of construction for each shaft.

Committee member Robert "Bobby" Bunda asked whether testing of the shafts were included in the original budget. Mr. Garrido responded that testing was only a requirement for wet shafts, because the industry standard is to employ CSL for wet shafts, but not dry shafts.

Committee member Damien Kim asked how many columns had been constructed using this method. Mr. Garrido replied that all of them had, and that HART and the contractor had been negotiating on a fair and reasonable price for this effort.

Committee member George Atta asked about the impetus for the change. Mr. Garrido said that due to the large diameter of the shafts on the rail project – eight feet – HART wanted to ensure that every shaft that supports the guideway undergoes CSL testing. He stated that the testing should have been included from the beginning.

Mr. Atta asked if there was a reason for the change in the abandonment depth. Mr. Garrido said that method shafts and load tests were abandoned in place because of concerns over possible conflicts.

Committee member Michael Formby asked if the change order was for WOFH only, and Mr. Garrido confirmed it was, as CSL was included in the contracts for the remainder of the alignment. Mr. Formby asked for the breakdown of cost. Ms. Halsted said that 60% of the cost was for cleaning, 20% was for testing, and 20% was for CSL.

Mr. Bunda voiced his concern over potentially higher bids for future contracts because of untested soil content in other portions of the alignment. Mr. Hui acknowledged his concern, but said that the change cost is less than half a percent of the total contract value.

Mr. Hui said that he recognized the need for a safe system, but was concerned about seeing a return on investment. Mr. Grabauskas said that at the conclusion of the work, HART staff would report back on data collected. He said that HART could reconsider the requirement if there is no data on anomalies. However, he stressed the importance of the soundness of the columns that support the guideway. Mr. Lee said that because of Hawaii's complex geology, one anomaly could jeopardize the integrity of the system, and that CSL would guarantee the soundness of underground foundations.

Mr. Bunda asked Mr. Garrido if he thought there would be more anomalies as work progresses eastward. Mr. Garrido confirmed that that was the purpose of the change order.

Committee member William "Buzz" Hong asked whether the Federal Transit Administration (FTA) had mandates regarding shaft testing. Mr. Garrido said that there is no specific FTA standard, and that design specifics vary from state to state. Mr. Lee said that HART follows the latest industry standards.

Mr. Formby said that while he agreed with the need for the change order, he echoed Mr. Bunda's concern about its impact on the rest of the project in the form of higher bids in future contracts. Mr. Lee stated that he was not aware of any other future concerns.

Mr. Hui called for public testimony.

Barbra Armentrout expressed her concern about the effect of the decline in state tax revenues and General Excise Tax revenues on the project. Mr. Hui stated that the Board would be hearing a presentation on project risks later that day. Ms. Armentrout also opined that it would be more cost effective to construct two bathrooms at rail stations instead of one.

Rick Paulino of the Hawaii Sheet Metal Workers union testified on behalf of Art Tolentino, encouraging the Board to provide local jobs for local people on the project.

Mr. Hui called for a motion to approve the change order. Ms. Okinaga so moved, and Mr. Lui-Kwan seconded the motion. All being in favor, the motion carried unanimously.

B. Right of Way Consultant Contract Amendment

Mr. Grabauskas introduced HART Director of Planning, Utilities, Permits and Right of Way Elizabeth Scanlon and Deputy Director of Right of Way Morris Atta, who would be presenting the change order for the right of way consultant contract amendment. A copy of the change order documentation is attached hereto as Attachment B.

Ms. Scanlon reminded the joint committee that the partial injunction in the Federal lawsuit had halted certain real estate acquisition activities. Faced with a compressed timeframe as a result, HART's goal was to obtain site control of all properties by December 2014. She said that the change order cost of $3.3 million was a not-to-exceed amount, as staff recognized the need for effective management of the contract. The change order includes acquisition and relocation agents, support staff, and their related expenses. Mr. Atta added that the change order would increase the level of the contractor's effort, to mitigate the effects of time lost as a result of the injunction. He said that additional staffing is required so that properties can be dealt with simultaneously. Ms. Scanlon said that the original contract value is $3 million.

Mr. Hong asked whether the additional staff would be able to achieve HART's real estate acquisition goals. Ms. Scanlon replied that HART would be able to meet the December goal with the additional assistance.

Mr. Lui-Kwan voiced his concern over the contractor possibly taking advantage of HART's compromised position. He emphasized the need for staff to ensure that the work is performed adequately and on time. Ms. Scanlon said that as HART shared those concerns, it had included cost control measures, such as the advance approval of overtime requirement.

Mr. Lui-Kwan requested that the president and CEO of contractor Paragon Partners, Ltd., Neilia LaValle, address the joint committee. Ms. LaValle said that she had over 30 years of experience in right of way acquisitions, and Paragon had worked with such transit agencies as the California high speed rail, and BART. When Paragon initially submitted its bid for right of way consulting in 2010, it submitted its best and final offer based on a minimum of 40 hours per acquisition, and 80 hours per relocation. However, HART had instead requested the flat cost of a certain number of positions and hours instead of a per-parcel estimate, which Ms. LaValle felt was unrealistic. She said that the accelerated schedule would require even more time, particularly because Paragon strives to be sensitive to landowners. She said that Paragon and HART would work together as a team to fulfill its mission, which would also require the Board's support.

Mr. Lui-Kwan asked about Paragon's billing practices. Ms. LaValle responded that Paragon bills by the hour on a time and materials basis, including labor and overhead. Mr. Lui-Kwan asked if the cost of the property manager indicated in the proposal was part of the original contract, and Ms. LaValle said it was not. Mr. Lui-Kwan asked how that cost was broken down. Ms. Scanlon said that HART was working with Paragon on the number of individuals required to perform the property management task, which would occur after acquisition and relocation. She said that the "initial labor" and "additional labor" categories were based on actual salaries, overhead rates, and GET. She emphasized that HART would pay the actual costs as billed.

Mr. Hui also expressed his concern over personnel costs and expenses. Ms. Scanlon said that price is consistent with HART's existing professional services contract with Paragon. She said that HART was working with Paragon on cost effective travel and housing. Mr. Atta said that an additional cost saving measure was for Paragon to recruit locally when possible, to avoid incurring other direct costs. Mr. Kim asked whether acquisition agents would be mainland hires. Mr. Atta said that acquisition hires would be local if possible. Ms. Scanlon said that relocation agents, who must have FTA relocation regulation knowledge, would probably come from the mainland.

Mr. Lui-Kwan asked why HART didn't simply obtain rights of entry. Mr. Atta said that HART rights of entry were not the favored mechanism because they could be revoked. To the extent possible, HART was not utilizing rights of entry because of the level of risk.

Mr. Hong commended HART for hiring locally. He pointed out that property acquisitions, along with utility relocations and lawsuits, were the three things that could impact HART's ability to deliver the project on time and on budget.

Mr. Formby observed that it was difficult to discern the appropriateness of the amounts in the change order. Ms. Scanlon committed that HART would scrutinize every dollar, and would work with Paragon on its charges.

Mr. Hui asked if Corporation Counsel was prepared for the large number of right of way acquisitions. Mr. Atta said that HART had been working with Corporation Counsel, which has identified 13 deputies to assist HART with acquisitions.

Mr. Lui-Kwan asked Ms. LaValle what assurances Paragon could provide that the job will be done properly and timely, as it is the Board's duty to taxpayers to ensure public monies are spent wisely. Ms. LaValle committed that Paragon would do everything it could to make it happen. She said that HART had an aggressive schedule, which could be met if HART and Paragon worked together. She also said that political will would be required.

Mr. Hui emphasized that the acquisition and relocation must be done in a respectful manner. Ms. Okinaga agreed, and emphasized that the political will exists, but the change order is putting a lot of faith on the frontline workers to get the job done. They must have good communication and work together.

Mr. Hui called for public testimony. There was none.

Mr. Grabauskas thanked the Board, and said that staff would report back on costs. He said that the right of way change order is an additional cost that was the result of the federal lawsuit.

Mr. Hui called for a motion to approve the change order. Mr. Lui-Kwan moved to approve the change order with the proviso that staff ensures monies are effectively utilized. Mr. Bunda seconded the motion. All being in favor, the motion carried unanimously.

V. Executive Session

There was no need for executive session.

VI. Adjournment

Mr. Hui adjourned the meeting at 10:36 a.m.

Respectfully Submitted,

Cindy Matsushita
Board Administrator

Approved:

Damien Kim
Chair, Project Oversight Committee

Keslie Hui
Chair, Finance Committee

OCT 23 2014
Date

Financial Statements and Independent Auditor's Report

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

June 30, 2013 and 2012

PKF Pacific Hawaii LLP
Accountants & Business Advisors

November 15, 2013

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, 2013. The audit was performed in accordance with our agreement dated April 17, 2012.

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, 2013.

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, 2013.

Organization of the report
This report is organized into five parts:

PART I	FINANCIAL STATEMENTS
PART II	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. We will be happy to respond to any questions that you may have on this report.

Very truly yours,

PKF Pacific Hawaii LLP

PKF Pacific Hawaii LLP | 1132 Bishop Street | Suite 2500 | Honolulu | HI 96813-2864
Tel: 808 536 0066 | Fax: 808 523 8590 | www.pkfpacifichawaii.com

Contents

PART I
FINANCIAL STATEMENTS

PKF Pacific Hawaii LLP
Accountants & Business Advisors

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, 2013 and 2012, and the related notes to the financial statements, which collectively comprise HART's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

HART's 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HART as of June 30, 2013 and 2012, 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.

PKF Pacific Hawaii LLP | 1132 Bishop Street | Suite 2500 | Honolulu | HI 96813-2864
Tel: 808 536 0066 | Fax: 808 523 8590 | www.pkfpacifichawaii.com

Other Matter
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6-11 and the schedule of funding progress on page 30 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 November 15, 2013 on our consideration of 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.

PKF Pacific Hawaii LLP

Honolulu, Hawaii
November 15, 2013

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2013 and 2012

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, 2013 and 2012. 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, 2013 and 2012 respectively. The statements 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.

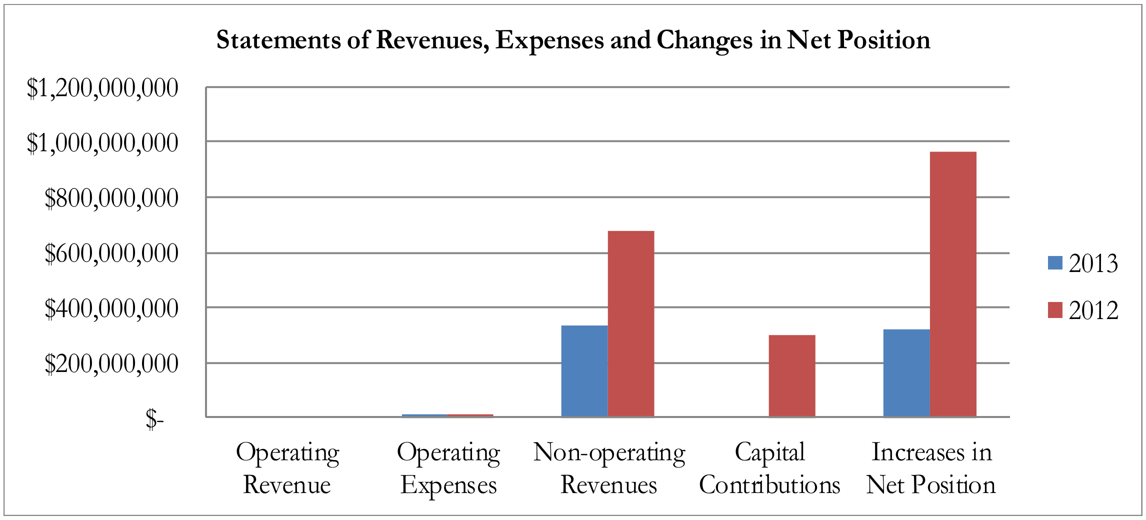
The notes to the financial statements provide required disclosures and other information necessary for the fair presentation of the financial statements. The notes detail information about HART's significant accounting policies, account balances, related party transactions, employee benefit plans, commitments,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

Financial Highlights

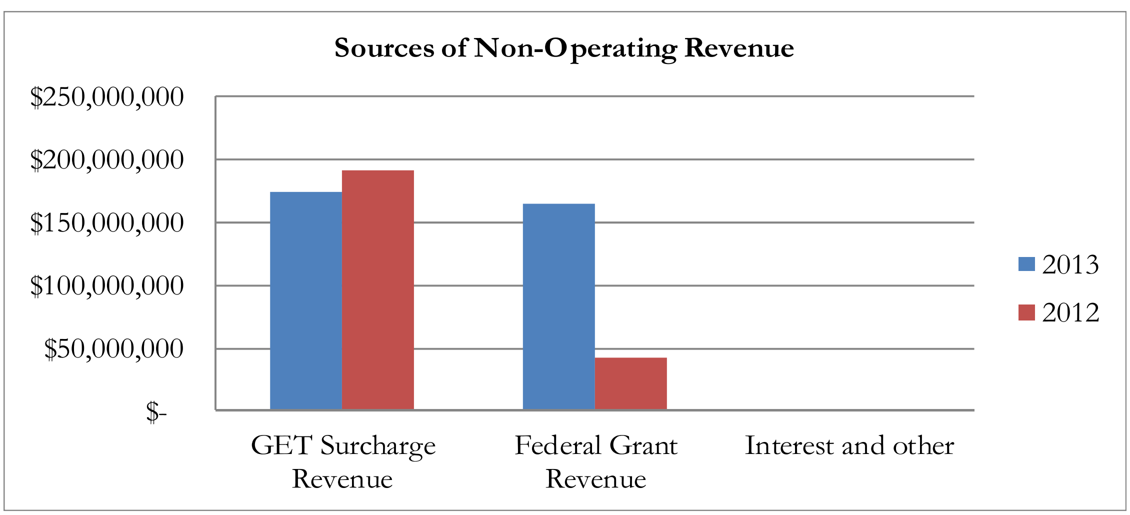
Condensed Statements of Revenues, Expenses and Changes in Net Position

	2013	2012	Increase (decrease)	% Change
Operating expenses				
Administration and general	$ 8,491,401	$ 9,248,406	$ (757,005)	-8%
Fringe benefits	2,927,337	3,554,872	(627,535)	-18%
Contractual services	1,943,572	2,501,403	(557,831)	-22%
Insurance	1,864,032	326,600	1,537,432	471%
Other operating expense	197,990	273,152	(75,162)	-28%
Total operating expenses	15,424,332	15,904,433	(480,101)	-3%
Operating loss	(15,424,332)	(15,904,433)	480,101	-3%
Non-operating revenues and expenses				
Intergovernmental revenues	173,822,505	631,760,417	(457,937,912)	-72%
Federal grants	164,053,218	42,662,749	121,390,469	285%
Net interest income and other	359,875	487,724	(127,849)	-26%
Total non-operating revenues	338,235,598	674,910,890	(336,675,292)	-50%
Income before operating transfers	322,811,266	659,006,457	(336,195,191)	-51%
Capital contributions	-	303,390,475	(303,390,475)	-100%
INCREASE IN NET POSITION	322,811,266	962,396,932	(639,585,666)	-66%
Net position at beginning of year	962,396,932	-	962,396,932	N/A
Net position at end of year	$ 1,285,208,198	$ 962,396,932	$ 322,811,266	34%

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 2013 and FY 2012, HART recognized $173,822,505 and $190,664,993, respectively from the GET county surcharge. In FY 2013 and FY 2012 HART also recognized $164,053,218 and $42,662,749, respectively in FTA grant assistance. During FY 2012, HART recognized additional intergovernmental revenues consisting of $447,284,489 of net assets of the City's Transit Fund, less certain other City liabilities as of June 30, 2011 of $6,189,065. Additional non-operating revenue sources include interest income and property rental income.



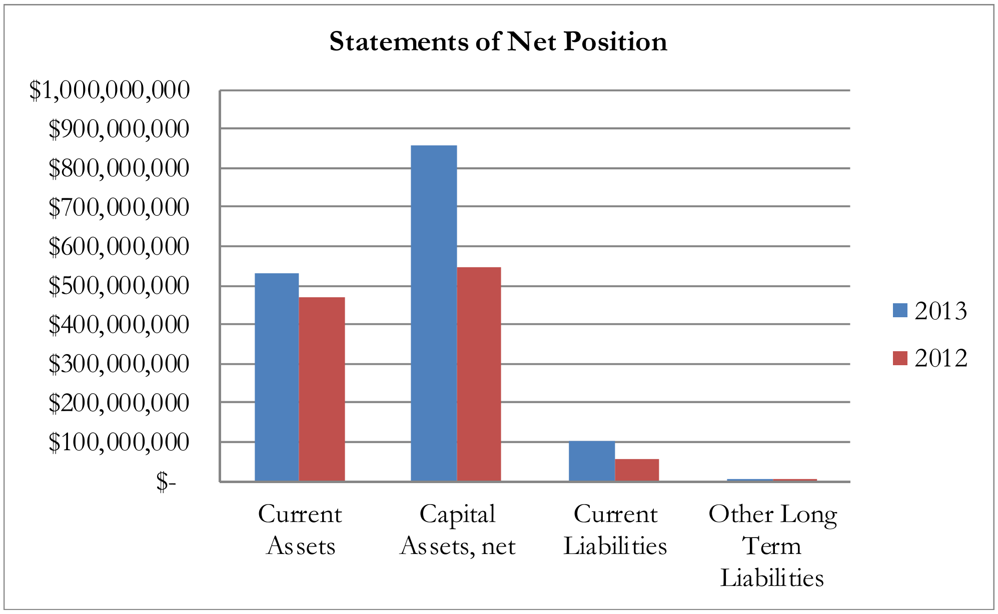
Financial Highlights (continued)

The Project has executed $2,104,631,696 in contracts since October 2009 to date for the planning, design, and construction of the Project. This amounts to 49.5% of the anticipated cost of the total project.

Condensed Statements of Net Position

	2013	2012	Increase (decrease)	% Change
Assets				
Current assets				
Cash and cash equivalents	$ 393,709,711	$ 417,956,751	$ (24,247,040)	-6%
Receivables	134,269,096	48,614,490	85,654,606	176%
Prepaid expenses	3,066,374	4,906,695	(1,840,321)	-38%
Capital assets, net	857,964,509	548,631,678	309,332,831	56%
Total assets	$ 1,389,009,690	$ 1,020,109,614	$ 368,900,076	36%
Liabilities				
Current liabilities	$ 101,472,751	$ 55,843,585	$ 45,629,166	82%
Other long-term liabilities - noncurrent	2,328,741	1,869,097	459,644	25%
Total liabilities	103,801,492	57,712,682	46,088,810	80%
Net position	1,285,208,198	962,396,932	322,811,266	34%
Total liabilities and net position	$ 1,389,009,690	$ 1,020,109,614	$ 368,900,076	36%

Financial Highlights (continued)



Total assets at year-end FY 2013 and FY 2012 were $1,389,009,690 and $1,020,109,614, respectively. Total liabilities at year-end FY 2013 and FY 2012 were $103,801,492 and $57,712,682, respectively. Net position increased by $322,811,266 primarily due to intergovernmental revenues and federal grants.

Construction on the Project was suspended on August 24, 2012 after a ruling by the Hawaii Supreme Court requiring the completion of the Archaeological Inventory Survey (AIS) in the Kaleikini v. Formby et. al. litigation. During the suspension period final design work continued on all contracts that were awarded prior to the Supreme Court ruling. HART has completed the AIS requirements and construction was restarted on September 16, 2013.

The Project will affect an estimated 170 parcels of real property. As of June 30, 2013, HART has acquired title to or use of 35 parcels of real property.

As of June 30, 2013, 4.9% of the utilities have been relocated. Utility relocations are performed by the respective companies owning the equipment.

The design work of the guideway structure continues. The first segment, from Kapolei to Waipahu, is 96% completed. The second segment, from Waipahu to Pearlridge is 95% completed, and design on the third segment from Pearlridge to Aloha Stadium is 94% completed. The design work on the maintenance and storage facility is 90% completed.

Capital Assets and Long-Term Liabilities

As of the end of FY 2013, HART had $858 million invested in capital assets. This amount represents an increase (including additions and deductions) of just over $309 million, or 56%, over last year.

	2013	2012
Equipment and machinery	$ 96,151	$ 128,064
Land	50,163,534	31,882,014
Construction in progress	807,704,824	516,621,600
Total	$ 857,964,509	$ 548,631,678

HART has not issued any long-term bonds. Additional information on HART's capital assets and long-term liabilities can be found in notes D and F 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.

HART is party to various legal proceedings arising in the normal course of business. Further information regarding these legal proceedings can be found in note I to the financial statements.

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,

	2013	2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 393,709,711	$ 417,956,751
Receivables	134,269,096	48,614,490
Prepaid expenses	3,066,374	4,906,695
Total current assets	531,045,181	471,477,936
Capital assets		
Equipment and machinery	144,569	171,540
Accumulated depreciation	(48,418)	(43,476)
	96,151	128,064
Land	50,163,534	31,882,014
Construction work in progress	807,704,824	516,621,600
Capital assets, net	857,964,509	548,631,678
TOTAL ASSETS	$ 1,389,009,690	$ 1,020,109,614
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable	$ 52,131,044	$ 54,835,171
Accrued liabilities	49,296,717	997,492
Other long-term liabilities - current portion	44,990	10,922
Total current liabilities	101,472,751	55,843,585
Other long-term liabilities - noncurrent portion	2,328,741	1,869,097
Total liabilities	103,801,492	57,712,682
NET POSITION		
Net investment in capital assets	806,171,143	494,516,557
Unrestricted	479,037,055	467,880,375
Total net position	1,285,208,198	962,396,932
TOTAL LIABILITIES AND NET POSITION	$ 1,389,009,690	$ 1,020,109,614

The accompanying notes are an integral part of these 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,

	2013	2012
Operating expenses		
Administration and general	$ 8,491,401	$ 9,248,406
Fringe benefits	2,927,337	3,554,872
Contractual services	1,943,572	2,501,403
Insurance	1,864,032	326,600
Utilities	89,990	15,840
Materials and supplies	77,703	231,840
Depreciation	18,529	18,069
Maintenance	11,768	7,403
Total operating expenses	15,424,332	15,904,433
Operating loss	(15,424,332)	(15,904,433)
Non-operating revenues and expenses		
Intergovernmental revenues	173,822,505	631,760,417
Federal grants	164,053,218	42,662,749
Interest income	310,597	240,233
Interest expense	(452,106)	-
Other revenue	501,384	247,491
Total non-operating revenues	338,235,598	674,910,890
Income before operating transfers	322,811,266	659,006,457
Capital contributions	-	303,390,475
INCREASE IN NET POSITION	322,811,266	962,396,932
Net position at beginning of year	962,396,932	-
Net position at end of year	$ 1,285,208,198	$ 962,396,932

The accompanying notes are an integral part of these statements.

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

STATEMENTS OF CASH FLOWS

Years ended June 30,

	2013	2012
Cash flows from operating activities		
Cash payments to suppliers for goods and services	$ (4,217,842)	$ (8,474,929)
Cash payments to employees	(9,927,965)	(8,794,366)
Net cash used in operating activities	(14,145,807)	(17,269,295)
Cash flows from noncapital financing activities		
Intergovernmental revenues	252,391,530	626,133,498
Net cash provided by noncapital financing activities	252,391,530	626,133,498
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(262,737,816)	(191,144,151)
Net cash used in capital and related financing activities	(262,737,816)	(191,144,151)
Cash flows from investing activities		
Interest on cash and cash equivalents	245,053	236,699
Net cash provided by investing activities	245,053	236,699
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(24,247,040)	417,956,751
Cash and cash equivalents at beginning of year	417,956,751	-
Cash and cash equivalents at end of year	$ 393,709,711	$ 417,956,751

The accompanying notes are an integral part of these 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,

	2013	2012
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	$ (15,424,332)	$ (15,904,433)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	18,529	18,069
Changes in assets and liabilities		
Increase in receivables	(55,591)	(73,797)
Decrease (increase) in prepaid expenses	1,840,321	(4,906,695)
(Decrease) increase in accounts payable	(382,372)	720,050
(Decrease) increase in accrued liabilities	(602,006)	1,008,414
Increase in other long-term liabilities	459,644	1,869,097
Total adjustments	1,278,525	(1,364,862)
Net cash used in operating activities	$ (14,145,807)	$ (17,269,295)

Non-cash capital and related financing activities

During the years ended June 30, 2013 and 2012, HART accrued additional costs as construction in progress of $46,613,544 and $54,115,121, respectively.

During the year ended June 30, 2012, HART received capital contributions of $303,390,475.

The accompanying notes are an integral part of these statements.

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. As of July 1, 2011, the net position of the City's Transit Fund was recognized as intergovernmental revenues to HART as discussed in note H to the financial statements.

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).

In December 2010, the GASB issued Statement No. 62 (GASBS 62), *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* GASBS 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedures.

In June 2011, the GASB issued Statement No. 63 (GASBS 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* GASBS 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASBS 63 also amends the net asset reporting requirements by incorporating the deferred outflows and deferred inflows of resources into the definitions of the requirement components of the residual measure and by remaining that measure as net position, rather than net assets.

These statements are effective for periods beginning after December 15, 2011. The adoption of GASBS 62 and GASBS 63 did not have a material impact on HART's 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Basis of Accounting (continued)

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 and construction delay claims. Actual results could differ from those estimates.

5. 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, 2013 and 2012.

6. 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.

7. 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 are 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

7. Capital Assets (continued)

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

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

8. 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.

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, 2013 and 2012, accumulated sick leave amounted to $2,078,026 and $2,604,787, respectively.

9. 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 $2,748,290 and $2,168,873 are not reported in the accompanying financial statements at June 30, 2013 and 2012, respectively.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. 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.

11. 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.

12. Reclassifications

Certain reclassifications have been made to the 2012 financial statements to confirm to the 2013 presentation.

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: http://www1.honolulu.gov/budget/cafr.htm.

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, 2013 and 2012 were comprised of the following amounts:

	2013	2012
Intergovernmental		
General excise tax	$ 50,356,185	$ 46,988,786
Federal grants	83,783,523	1,551,907
	134,139,708	48,540,693
Other	129,388	73,797
Total receivables	$ 134,269,096	$ 48,614,490

NOTE D - CAPITAL ASSETS

Capital assets activity during 2013 and 2012 were as follows:

	Balance July 1, 2012	Contributions	Additions	Deletions	Balance June 30, 2013
Equipment and machinery	$ 171,540	$ -	$ -	$ (26,971)	$ 144,569
Less accumulated depreciation	(43,476)	-	(18,529)	13,587	(48,418)
	128,064	-	(18,529)	(13,384)	96,151
Land	31,882,014	-	18,281,520	-	50,163,534
Construction in progress	516,621,600	-	291,083,224	-	807,704,824
Capital assets, net	$ 548,631,678	$ -	$ 309,346,215	$ (13,384)	$ 857,964,509

	Balance July 1, 2011	Contributions	Additions	Deletions	Balance June 30, 2012
Equipment and machinery	$ -	$ 75,103	$ 96,437	$ -	$ 171,540
Less accumulated depreciation	-	(25,407)	(18,069)	-	(43,476)
	-	49,696	78,368	-	128,064
Land	-	17,673,908	14,208,106	-	31,882,014
Construction in progress	-	285,666,871	230,954,729	-	516,621,600
Capital assets, net	$ -	$ 303,390,475	$ 245,241,203	$ -	$ 548,631,678

NOTE E - COMMITMENTS

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, 2013 are as follows:

Year ended June 30,	
2014	$ 1,182,000
2015	1,219,000
2016	1,252,000
2017	1,138,000
2018	751,000
2019 to 2021	1,907,000
Total minimum payments	$ 7,449,000

Additionally, these leases provide for payment of common area charges. Office and equipment rental expenses were $2,226,747 and $1,490,148 for the years ended June 30, 2013 and 2012, respectively.

Other Commitments

HART has contractual commitments at June 30, 2013 of $2,414,397,326. 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, 2013 and 2012:

	Balance July 1, 2012	Transfers	Additions	Reductions	Balance June 30, 2013	Current portion
Accrued vacation	$ 808,538	$ -	$ 425,644	$ 213,932	$ 1,020,250	$ 44,990
Other postemployment benefits	1,071,481	-	282,000	-	1,353,481	-
	$ 1,880,019	$ -	$ 707,644	$ 213,932	$ 2,373,731	$ 44,990

	Balance July 1, 2011	Transfers	Additions	Reductions	Balance June 30, 2012	Current portion
Accrued vacation	$ -	$ -	$ 808,538	$ -	$ 808,538	$ 10,922
Other postemployment benefits	-	863,481	208,000	-	1,071,481	-
	$ -	$ 863,481	$ 1,016,538	$ -	$ 1,880,019	$ 10,922

NOTE G - EMPLOYEE BENEFIT PLANS

Defined Benefit Pension Plan

Substantially all employees of HART are members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits and is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

The ERS is composed of a contributory and hybrid contributory retirement plan. Prior to June 30, 1984, the plan consisted of only a contributory option. Effective July 1, 1984, legislation was enacted to create a noncontributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the noncontributory plan and receive a refund of employee contributions.

All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively. Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date and prior to January 1, 2003, is based on the three highest years of service, excluding the vacation payment. Effective January 1, 2003, the AFC is the highest three calendar years or highest five calendar years plus lump sum vacation payment, or last 36 credited months or last 60 credited months plus lump sum vacation payment.

Most covered employees under the contributory plan are required to contribute 7.8% of their salary. Prior to July 1, 2005, the funding method used to calculate the total employer contribution requirement was the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS were comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial liability over the remaining period of 29 years from July 1, 2000. Effective July 1, 2008, employer contribution rates are a fixed percentage of compensation, generally 15% for most covered employees. Effective July 1, 2012, employer contribution rates are a fixed percentage of compensation, generally 15.5% for most covered employees. HART's contribution to the ERS for the years ended June 30, 2013 and 2012 was $1,049,223 and $809,516, respectively.

The 2004 State of Hawaii legislative sessions approved a hybrid retirement plan, which took effect on July 1, 2006. Employees who choose to be under this plan are required to contribute 6% of their salary and will receive pensions based on a 2% benefit formula instead of a 1.25% benefit formula under the current noncontributory plan. The hybrid plan does not affect HART's contributions to the ERS.

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

Defined Benefit Pension Plan (continued)

The ERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information, which may be obtained at the following address: Employees' Retirement System of the State of Hawaii, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State of Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer plan provides certain health care (medical, prescription, vision, and dental) and life insurance benefits for retired City employees. Act 88 established the EUTF during the 2001 legislative session and is codified in HRS 87A. Contributions are based on negotiated collective bargaining agreements and are limited by State statute to the actual cost of benefit coverage.

For employees hired before July 1, 1996, the City 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.

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

For employees hired after June 30, 2001 and retiring with over 25 years of service, the City 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 City 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 City 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 City makes no contributions.

The City 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.

Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation

HART is required to contribute the annual required contribution (ARC) of the employer, an actuarially determined amount. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation (continued)

The following table displays for the years ended June 30, 2013 and 2012, the components of the annual OPEB cost, the amount contributed to the plan, the changes to the net OPEB obligation, and the percentage of annual OPEB cost contributed:

	2013	2012
Annual required contribution	$ 282,000	$ 208,000
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	282,000	208,000
Contribution made	-	-
Increase in net OPEB obligation	282,000	208,000
Net OPEB obligation at beginning of fiscal year	208,000	-
Net OPEB obligation at end of fiscal year	$ 490,000	$ 208,000
Percentage of annual OPEB cost contributed	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 is, July 1, 2011:

Actuarial accrued liability	$ 1,964,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	$ 1,964,000
Funded ratio	0.0%
Covered payroll (active plan members)	$ 5,385,000
UAAL as a percentage of covered payroll	36.5%

NOTE G - EMPLOYEE BENEFIT PLANS (continued)

Annual Other Postemployment Benefits (OPEB) Cost and Net OPEB Obligation (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.

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, 2011, 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 of 9.25% for 2012, reduced by decrements to an ultimate rate of 5% after 8 years, expected payroll increases of 3.5% to amortize unfunded liabilities, projected salary increases based on the ERS July 1, 2011 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.

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

Intergovernmental Revenues and Federal Grants

During the year ended June 30, 2013, HART recognized intergovernmental revenues of $173,822,505 from the GET county surcharge and $164,053,218 in FTA grant assistance.

NOTE H - RELATED PARTY TRANSACTIONS (continued)

Intergovernmental Revenues and Federal Grants (continued)

During the year ended June 30, 2012, HART recognized intergovernmental revenues of $631,760,417 which was comprised of $447,284,489 of net assets of the City's Transit Fund as of June 30, 2011, less certain other City liabilities of $6,189,065, as well as $190,664,993 from the GET county surcharge and $42,662,749 in FTA grant assistance.

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 $1,065,418 and $602,212 for the years ended June 30, 2013 and 2012, respectively, and is included as part of administration and general expense in the statements of revenues, expenses and changes in net position.

NOTE I – LITIGATION AND SUBSEQUENT EVENTS

HART is party to various legal proceedings arising in the normal course of business. The outcome of individual matters is not predictable. However, management believes that the ultimate resolution of all such matters will not have a material adverse effect on HART's financial position, results of operations, or liquidity.

HonoluluTraffic.com, et. al. v. Federal Transit Administration, et. al.

In May 2011, a lawsuit was filed against the FTA and the City alleging violations of federal law in approving the City's rail transit project. Among other claims, the allegations were that the defendants improperly studied only the first 20 miles of the project and not the full route, that alternatives to the project were not properly considered, that potential native Hawaiian burial sites were not studied prior to the approval of the project and that defendants failed to comply with the federal Department of Transportation Act.

On November 1, 2012, the District Court ruled in favor of the plaintiffs with regard to three matters, and ruled in favor of the defendants in all other respects. The three matters were that the defendants did not adequately analyze above ground traditional cultural properties (TCP), did not adequately support their rejection of an alternative route involving a tunnel underneath Beretania Street and did not adequately support their determinations regarding the impact of the Project on Mother Waldron Park.

NOTE I – LITIGATION AND SUBSEQUENT EVENTS (continued)

HonoluluTraffic.com, et. al. v. Federal Transit Administration, et. al. (continued)

On December 27, 2012, the court issued a Judgment and Partial Injunction, remanding the matter to the FTA for additional studies and analyses consistent with its findings in the November 2012 order, and enjoining construction and real estate acquisition activities in Section 4 of the project until completion of the additional studies regarding the three matters described above. A study of above-ground TCP is complete, and the FTA has obtained the concurrence of the State Historic Preservation Officer (SHPO) that there are no previously unidentified eligible TCP that would be adversely affected by the project. With respect to the other two matters, on October 8, 2013, the City defendants filed a Notice of Compliance with the District Court, informing the court and all parties that a Final Supplemental Environmental Impact Statement (FSEIS) and amended Record of Decision had been completed for the Mother Waldron Park and Beretania Street Tunnel alternative issues, and that the TCP studies (which were incorporated into the FSEIS) had been approved by the SHPO. On November 7, 2013, the Plaintiffs filed their objection to the sufficiency of the additional studies for the Beretania Street Tunnel alternative only. The District Court will now have to decide if the Summary Judgment Order has been satisfied, at which point any dissatisfied party could appeal to the 9th Circuit.

Separately, the plaintiffs filed an appeal of the District Court's Judgment and Partial Injunction and other prior rulings in the case to the Ninth Circuit Court of Appeals. The appeal was fully briefed, and oral argument was held in San Francisco on August 15, 2013. The parties are awaiting a decision by the court.

Bombardier v. Department of Budget and Fiscal Services, et. al.

Following the disqualification of its Core Systems Design-Build-Operate-Maintain Contract proposal as nonresponsive, Bombardier filed a bid protest with the City Chief Procurement Officer. This bid protest was denied, and Bombardier then appealed to the Office of Administrative Hearings, State Department of Commerce and Consumer Affairs. The Hearings Officer ruled against Bombardier, which then appealed to the First Circuit Court, where the Circuit Court judge affirmed the decision of the Hearings Officer.

Bombardier then appealed to the Intermediate Court of Appeals (ICA). On October 17, 2012, the ICA issued a decision affirming the decisions of the Circuit Court and the Hearings Officer in their entirety. Bombardier did not seek any further appeals.

NOTE I – LITIGATION AND SUBSEQUENT EVENTS (continued)

Kaleikini v. Formby et. al.

On January 31, 2011, Plaintiff filed a lawsuit in the First Circuit Court of the State of Hawaii, challenging the approval of the Final Environmental Impact Statement (FEIS) as well as other approvals for the City's rail transit project that HART is now responsible for developing, operating, maintaining and expanding. Plaintiff alleged various State law violations but primarily alleged that an archaeological inventory survey (AIS) had not first been completed for the entire 20-mile project alignment, in violation of State law. Instead, the project was proposed to be built in four sections, with an AIS to be completed for each section prior to any construction taking place in that section. The case involves both City and State of Hawaii defendants.

The Circuit Court granted the City defendants' Motion to Dismiss Complaint and/or for Summary Judgment, and denied the Plaintiff's Motion for Preliminary Injunction and Motion for Reconsideration. In doing so, the Circuit Court determined that the phased approach for AIS completion proposed for the rail project met applicable State law requirements.

Plaintiff then filed an appeal with the ICA, where the matter was fully briefed by all parties. The case was then transferred to the Hawaii Supreme Court. Shortly after the transfer, the Plaintiff-Appellant filed a motion for injunctive relief pending appeal, which the court denied. Oral argument before the Hawaii Supreme Court occurred on May 24, 2012.

On August 24, 2012, the Supreme Court of the State of Hawaii vacated the Circuit Court's judgment in favor of the City and State, ruling that the administrative rules implementing HRS §§ 6E-8 and 6E-42 do not permit the State Historic Preservation Division (SHPD) of the Department of Land and Natural Resources to concur in the rail project absent a complete AIS for the entire project. The project had received SHPD approval to conduct separate AISs for each of the four construction phases, with construction proceeding in each phase after completion of the AIS for that phase. Based on the Hawaii Supreme Court's decision, ground disturbing construction activities related to the project were halted pending completion of all AIS work. HART continued with property acquisitions, AIS work and other non-ground disturbing activities. HART completed the AIS work and received SHPD's determination letter concurring in the project on August 29, 2013.

While the additional AIS work was being undertaken, the Supreme Court ruled that Plaintiff was entitled to certain fees and costs for the appeal portion of the litigation, and remanded the case to the Circuit Court for further proceedings. The parties entered into a stipulated agreement to resolve remaining issues, and this was approved by the Circuit Court on June 19, 2013. The Circuit's Court's final judgment is pending.

HART estimates that the delay expenses associated with the above litigation and other delays will cost the Project approximately $64 - $120 million.

PART II
SUPPLEMENTARY INFORMATION

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

SCHEDULE OF FUNDING PROGRESS

June 30, 2013

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, 2011	-	$ 1,964,000	$ 1,964,000	0.0%	$ 5,385,000	36.5%

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

Independent Auditor's 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*

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

We have audited 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 financial statements of the Honolulu Authority for Rapid Transportation (HART) as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise HART's basic financial statements, and have issued our report thereon dated November 15, 2013.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified a deficiency in internal control that we consider to be a material weakness.

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 detect and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as 2013-01 to be a material weakness.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PKF Pacific Hawaii LLP | 1132 Bishop Street | Suite 2500 | Honolulu | HI 96813-2864
Tel: 808 536 0066 | Fax: 808 523 8590 | www.pkfpacifichawaii.com

HART's Response to Findings

HART's response to the findings 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.

PKF Pacific Hawaii LLP

Honolulu, Hawaii
November 15, 2013

PART IV
SCHEDULE OF FINDINGS

SCHEDULE OF FINDINGS

June 30, 2013

FINDING 2013-01 – FEDERAL GRANT REIMBURSEMENTS

Criteria
In accordance with accounting principles generally accepted in the United States of America, governments should recognize revenues and intergovernmental receivables from intergovernmental transactions that are either government-mandated or voluntary nonexchange transactions when all eligibility requirements, including time requirements, have been met.

Condition
Certain unbilled amounts for reimbursement of costs from the federal government related to the construction of the Project were discovered by us during the audit.

Cause
The above finding was caused primarily by lack of policies and procedures to ensure that reimbursable expenses are billed in a timely manner.

Effect
An adjustment was proposed by us, which management recorded, to record unbilled receivables of $83,783,523 as of June 30, 2013.

Recommendation
We recommend that management of HART consider implementing policies and procedures to ensure billings related to reimbursable federal expenses are completed in a timely manner. We also recommend that management evaluate the resources required to perform this function.

PART V
RESPONSE OF THE AFFECTED AGENCY

RESPONSE OF THE AFFECTED AGENCY

FINDING 2013-01 – FEDERAL GRANT REIMBURSEMENTS

Response of Management

Management is presently recruiting for a full-time federal grants manager who will be responsible to ensure that all FTA eligible reimbursable costs are submitted in a timely manner.

Policies and procedures will be put in place that will require monthly submissions of reimbursable costs to the FTA as well as monthly reconciliations of expenditures versus reimbursements to date. At year-end, an annual reconciliation will also be performed comparing total actual and accrued expenditures to reimbursement amounts to determine the annual accrual of unreimbursed FTA grant revenue.