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November 30, 2021

N&K CPAs, Inc.
999 Bishop Street, Suite 2200
Honolulu, HI 96813

Dear N&K CPAs, Inc:

This representation letter is provided in connection with your audits of the financial statements of Honolulu Authority for Rapid Transportation (HART), a component unit of the City and County of Honolulu (City), which comprise the statement of financial position as of June 30, 2021 and 2020, and the statements of revenues, expenses, and changes in net position, and cash flows for the fiscal years then ended, and the disclosures (collectively, the "financial statements"), for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted 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 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. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of November 30, 2021, the following representations made to you during your audit.

Financial Statements

- 1) We have fulfilled our responsibilities, as set out in the terms of the acknowledgement letter dated March 31, 2021, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP.
- 3) 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.
- 4) We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates are reasonable and reflect our judgement based on our knowledge and experience about past and current events, and our assumptions appropriately reflect management's intent and ability to carry out specific courses of action.
- 6) The disclosures related to accounting estimates are complete and accurate.

- 7) Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees; amounts receivable from or payable to related parties; and transactions with the City, have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 8) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 9) The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.
- 10) Guarantees, whether written or oral, under which HART is contingently liable, if any, have been properly recorded or disclosed.
- 11) We have not been informed by the Federal Transit Administration that the City is in breach of the grant agreement.
- 12) We are not aware of any direct or indirect legal or moral obligation for any debt of any organization, public or private, that is not disclosed in the financial statements.
- 13) We have complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance. In connection therewith, we specifically represent that we are responsible for determining that we are not subject to the requirements of the Single Audit Act because we have not received, expended or otherwise been the beneficiary of the required amount of federal awards during the period of this audit.
- 14) We report cash held in the City's investment pool as cash and cash equivalents in accordance with GASB Statement No. 9, Paragraph 8, and Subparagraph 5. Accordingly, we do not include various disclosures related to credit risk. We have determined that the disclosure of equipment related leases are not material to the financial statements.
- 15) We have recorded a liability for estimated claims payable under the owner controlled insurance program, which includes an estimated component for incurred but not reported (IBNR). We are aware of the requirements of GASB Codification Section C50, paragraph 114 to incorporate the effects of inflation and other societal and economic factors when determining IBNR which are typically performed by an actuary. We did not obtain an actuarial estimate to determine IBNR as we believe that the IBNR component is not material to the financial statements and our analysis and computation is sufficient.
- 16) As of June 30, 2021 and 2020, HART has recorded approximately \$32.0 million and \$2.0 million, respectively, related to delay claims resulting primarily from design and site access matters. These amounts have been included in other long-term liabilities (current) in the accompanying statements of net position.

Outstanding delay/construction claims from contractors against HART include a claim from Hitachi Rail Honolulu Joint Venture (HRHJV), formerly Ansaldo Honolulu Joint Venture, the Project's Core Systems Contractor. HRHJV's claims were submitted in association with actual delays in work causing incurred costs to the contractor and prospective schedule changes which will impact the remaining contract. Originally, the completion of the project was scheduled in 2019 but was pushed out to an estimated completion of 2027. As a result of this change and a delay in the first operating segment of the rail system, HRHJV pursued a resolution to address the impacts on the contract and the incurred costs. The negotiations took place over several years due to the magnitude of contract impacts.

In 2018, HART disclosed in its financial statements, potential delay claim settlements related to HRHJV of approximately \$300 million. In 2019, HART negotiated a final settlement with HRHJV in the amount of \$168.75 million. The final settlement resulted in HART executing a change order for \$160 million to resolve all HRHJV claims related to delays and changes in the scope of the scheduled work. In addition, this final settlement amount is also inclusive of a previously executed change order for a provisional sum of \$8.75 million. The final settlement re-categorized the provisional sum to become the final settlement for the delay claims related to the delay of the first operating segment. As of June 30, 2021, the \$8.75 million delay claim has been paid.

The change order for \$160 million contains provisions, including the following six milestones, which must be met in order for HART to pay out for future schedule shifts. As of June 30, 2021, the first milestone was substantially complete and a liability of \$32 million was recorded as other long-term liabilities – current in the statements of net position and have been capitalized as construction work in progress.

<u>Milestone #</u>	<u>Payment as % of Statement</u>	<u>Milestone Description</u>
1	20%	When the Maintenance and Storage Facility is (MSF) is completely operational and certified.
2	10%	When the Functional Section subsystem testing is completed and is operational in automatic mode as a pinched loop, controlled from the Operation Control Center.
3	20%	Readiness for passenger service for Interim Opening No. 1
4	20%	Readiness of Airport Segment for Pre-Operational System Testing
5	10%	Completion of installation and acceptance of installation reports of Train Control in four stations of City Center Segment
6	20%	Readiness for passenger service for Full Opening

- 17) Prior to fiscal year 2020, HART was required to submit a Recovery Plan to the FTA to demonstrate, among other things, the capacity and capability to complete the Project with the originally established project scope. The submission of such a Recovery Plan was a condition of continuing to receive federal funds. During the fiscal year ended June 30, 2020, the FTA approved the Updated 2019 Recovery Plan. That Recovery Plan included a total project cost of \$8.299 billion, excluding financing costs.

The approval of the 2019 Recovery Plan did not result in a release of the remaining approximately \$744 million in federal funding to HART. The FTA conditioned the release of these federal funds on (1) the award of contracts for the construction of the remaining significant portions of the Project, the City Center Guideway and Stations and the Pearl Highlands parking structure, and (2) HART’s ability to fund the contracts within its existing financial plan.

In March 2021, HART announced a revised estimated cost of completing the project of \$11.37 billion, excluding financing costs. This revised cost estimate, and a related impact to the Project’s completion schedule, will require a revised Recovery Plan to be submitted to the FTA. HART intends to prepare and submit a revised Recovery Plan to the FTA in the second half of fiscal year 2022. The current cost estimates indicate that the project will not have

sufficient revenues to complete the construction of all twenty-one stations and associated 20 miles of elevated guideway. A plan for addressing this funding situation is required to be included in the revised Recovery Plan. If the revised Recovery Plan is not approved by the FTA, HART could be required to return the \$806 million of federal funds that have been disbursed for the project to date.

As of June 30, 2021 and 2020, no potential impact of the aforementioned items is reflected in the amounts reported in the financial statements.


- 18) We have no knowledge of any uncorrected misstatements in the financial statements.
- 19) We believe that the actuarial assumptions and methods used to measure pension and other postemployment benefit (OPEB) liabilities, deferred outflows of resources, deferred inflows of resources and costs (benefits) for financial accounting purposes are appropriate in the circumstances.
- 20) We agree with the findings of the specialists in evaluating the completeness and accuracy of the OPEB liability (and related deferred outflows of resources and deferred inflows of resources) and the net pension liability (and related deferred outflows of resources and deferred inflows of resources) and have adequately considered the qualifications of each 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.

Information Provided

- 21) 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, such as records, documentation, and other matters.
 - b) Additional information that you have requested from us for the purpose of the audit.
 - c) Unrestricted access to persons within the HART from whom you determined it necessary to obtain audit evidence.
 - d) Minutes of the meetings of HART or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 22) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 23) 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.
- 24) We have no knowledge of any fraud or suspected fraud that affects HART and involves:
 - Management,
 - Employees who have significant roles in internal control, or
 - Others where the fraud could have a material effect on the financial statements.
- 25) We have no knowledge of any allegations of fraud or suspected fraud affecting HART's financial statements communicated by employees, former employees, regulators, or others.

- 26) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or waste or abuse, whose effects should be considered when preparing financial statements.
- 27) We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements.
- 28) We have disclosed to you the names of HART's related parties and all the related party relationships and transactions, including any side agreements.
- 29) We have disclosed to you all matters concerning environmental remediation and delay claims. The assumptions and measurement processes used to derive the environmental remediation and delay claim liabilities are considered to be appropriate and accurately reflect these liabilities based on our knowledge and experience about past and current events.
- 30) Payments of approximately \$550,000 were made for relocation assistance during the year ended June 30, 2021.
- 31) The currently effective version of the Memorandum of Understanding (MOU) with the City which covers the terms, conditions, and covenants of the general obligation bonds was effective May 7, 2015, along with Amendment No.1 and Restatement of the MOU effective July 26, 2017.
- 32) During the course of your audit, you may have accumulated records containing data that should be reflected in our books and records. All such data have been so reflected. Accordingly, copies of such records in your possession are no longer needed by us.

Government-specific

- 33) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices.
 - 34) We have a process to track the status of audit findings and recommendations.
 - 35) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
 - 36) We have identified to you any investigations or legal proceedings that have been initiated with respect to the period under audit.
 - 37) We have provided our views on reported findings, conclusions, and recommendations, as well as our planned corrective actions, for the report.
 - 38) HART has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
 - 39) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
 - 40) We have identified and disclosed to you all instances of identified and suspected fraud and noncompliance with provisions of laws, regulations, contracts and grant agreements that we believe have a material effect on the financial statements.
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- 41) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 42) HART has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 43) HART has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
- 44) The financial statements properly classify all funds and activities in accordance with GASBS No.34, as amended.
- 45) Components of net position (net investment in capital assets; restricted; and unrestricted) and classifications of fund balance (non-spendable, restricted, committed, assigned, and unassigned) are properly classified and, if applicable, approved.
- 46) Provisions for uncollectible receivables have been properly identified and recorded.
- 47) Expenses have been appropriately classified in or allocated to functions and programs in the statement of revenues, expenses, and changes in net position, and allocations have been made on a reasonable basis.
- 48) Revenues are appropriately classified in the statement of revenues, expenses, and changes in net position.
- 49) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 50) Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated or amortized.
- 51) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signature: 
Lori M.K. Kahikina, P.E.
Interim Executive Director and CEO

Signature: 
Richard C. Keene
Deputy Executive Director and COO

Signature: 
Neal Matsueda
Internal Control Analyst III