Honolulu Authority for Rapid Transportation
City and County of Honolulu

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

Fiscal Years Ended June 30, 2021 and 2020

N&K CPAs, Inc.
ACCOUNTANTS|CONSULTANTS

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HONOLULU AUTHORITY FOR RAPID TRANSPORTATION
CITY AND COUNTY OF HONOLULU

TABLE OF CONTENTS

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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 (the "City"), as of and for the fiscal years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the HART's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the HART as of June 30, 2021 and 2020, and the changes in its financial position and its cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 6 through 11 and the schedules of proportionate share of the net pension liability, contributions (pension), changes in the net OPEB liability and related ratios, and contributions (OPEB) on pages 51 to 58 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 audits 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 30, 2021 on our consideration of the HART's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the HART's 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 the HART's internal control over financial reporting and compliance.

N+K CPAs, INC.

Honolulu, Hawaii
November 30, 2021

The Honolulu Authority for Rapid Transportation (HART) is a semi-autonomous agency of the City and County of Honolulu (City). HART was established July 1, 2011, pursuant to a 2010 amendment to the Revised Charter of the City and County of Honolulu (Charter). Originally, HART was authorized under the Charter to "develop, operate, maintain and expand" the City's fixed guideway rail system. On November 8, 2016, voters of the City approved an amendment to the Charter that transferred the responsibility for operations and maintenance of the rail system to the City's Department of Transportation Services.

Accordingly, HART's responsibilities are for the design and construction of the Honolulu Rail Transit Project (the Project), a 20-mile, grade-separated fixed rail system from East Kapolei to the Ala Moana Center in Honolulu, Hawaii. 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; twenty 4-car light metro, fully automated (driverless) trains and associated core systems; and four park-and-ride facilities.

The following section presents management's discussion and analysis of HART's financial condition and activities for the fiscal years ended June 30, 2021, 2020 and 2019. This summary is designed to provide an introduction to the financial statements and the financial condition of HART and should be read in conjunction with the audited financial statements.

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, 2021 and 2020. The statements of revenues, expenses and changes in net position present information showing how HART's net position changed during the two fiscal years then ended. 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 for the two fiscal years then ended.

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. Required supplementary information on pension and other post-employment benefits is also included.

Financial Highlights

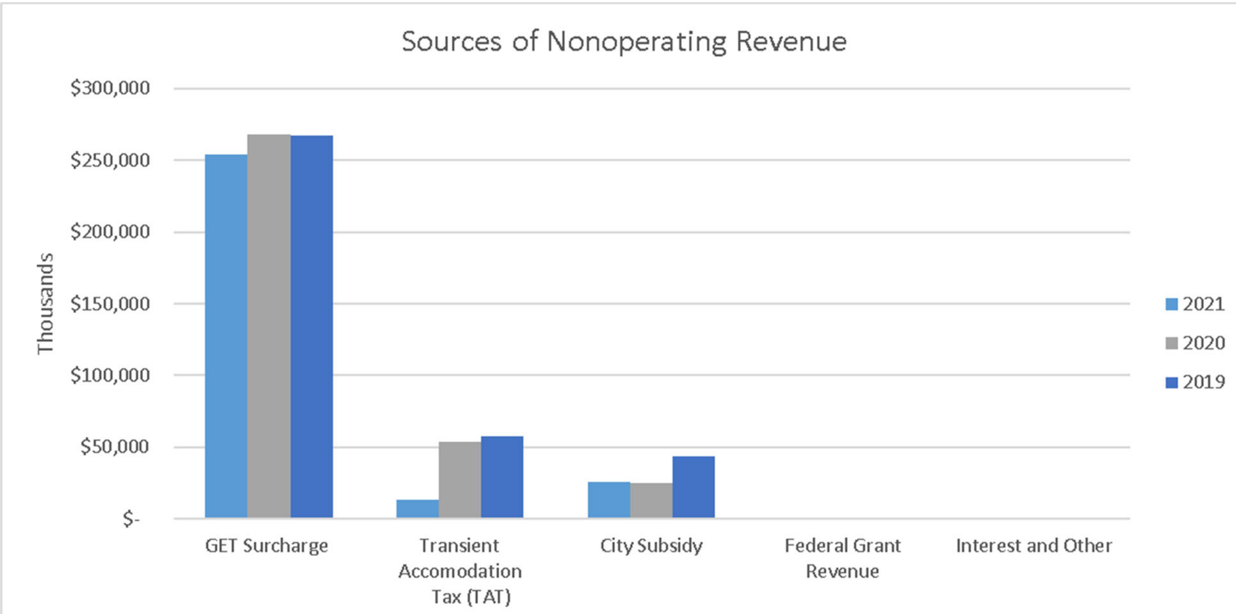
Condensed Statements of Revenues, Expenses and Changes in Net Position (Amounts in thousands)

	2021	2020	2019	2021-2020 Increase (decrease)	2021-2020 % Change	2020-2019 Increase (decrease)	2020-2019 % Change
Operating expenses							
Administration and general	$ 4,861	$ 3,213	$ 3,337	$ 1,648	51%	$ (124)	(4%)
Fringe benefits	1,660	2,086	1,619	(426)	(20%)	467	29%
Contractual services	542	113	217	429	380%	(104)	(48%)
Insurance	33	30	28	3	11%	2	7%
Other operating expense	104	22	31	82	373%	(9)	(29%)
Total operating expenses	7,200	5,464	5,232	1,736	32%	232	4%
Operating loss	(7,200)	(5,464)	(5,232)	(1,736)	32%	232	(4%)
Non-operating revenues and expenses							
Intergovernmental revenues	261,853	321,586	324,736	(59,733)	(19%)	(3,150)	(1%)
Federal grants	--	664	292	(664)	(100%)	372	127%
Net interest income & other	791	2,836	3,261	(2,045)	(72%)	(425)	(13%)
Debt financing fees & interest expense	(16,463)	(17,758)	(12,106)	1,295	(7%)	(5,652)	47%
Total non-operating revenues & expenses	246,181	307,328	316,183	(61,147)	(20%)	(8,855)	(3%)
Increase in net position before capital contribution	238,981	301,864	310,951	(62,883)	(21%)	(9,087)	(3%)
City Contribution	26,000	25,003	44,005	997	4%	(19,002)	(43%)
Change in net position	264,981	326,867	354,956	(61,886)	(19%)	(28,089)	(8%)
Net position at beginning of year	3,634,403	3,307,536	2,952,580	326,867	10%	354,956	12%
Net position at end of year	$ 3,899,384	$ 3,634,403	$ 3,307,536	$ 264,981	7%	$ 326,867	10%

Operating expenses totaled $7.2 million, $5.5 million and $5.2 million for the fiscal years ended June 30, 2021, 2020 and 2019 and were primarily comprised of administrative expenses, including personnel costs and office rent. Due to the nature of the Project and HART's responsibilities under the Charter, there were no operating revenues for 2021, 2020 and 2019.

Non-operating revenues and expenses totaled $246.1 million, $307.3 million and $316.2 million for the fiscal years ended June 30, 2021, 2020 and 2019. The primary category of non-operating revenue is Intergovernmental Revenues which consists of a 0.5% county surcharge on the State of Hawaii's General Excise Tax (GET) and a 1% Transient Accommodation Tax (TAT). For Fiscal Years ended June 30, 2021, 2020 and 2019, HART recognized $248.2 million, $267.7 million and $267.4 million, respectively, from GET and $13.7 million, $53.9 million and $57.4 million, respectively, from TAT. Revenues from the GET surcharge and the TAT will continue through December 31, 2030. Revenues from GET and TAT decreased by $19.5 million and $40.2 million, respectively, in the fiscal year ended June 30, 2021 from the same prior year period. These decreases were attributable from the economic impacts of the COVID-19 pandemic.

Financial Highlights (Continued)



Non-operating revenues also included grant assistance from the U.S. Department of Transportation's Federal Transit Administration (FTA) that totaled $0 million, $664,000 and $292,000 for the fiscal years ended June 30, 2021, 2020 and 2019, respectively. HART also received capital contributions in fiscal years ended June 30, 2021, 2020 and FY2019 of $26.0 million, $25.0 million, and $44.0 million, respectively, from the City.

Financial Highlights (Continued)

Condensed Statements of Net Position (Amounts in thousands)

	2021	2020	2019	2021-2020 Increase (decrease)	2021-2020 % Change	2020 - 2019 Increase (decrease)	2020 - 2019 % Change
Assets							
Current assets							
Cash and cash equivalents	$ 88,229	$ 87,318	$ 115,803	$ 910	1%	$ (28,485)	(25%)
Receivables	79,029	65,253	80,043	13,776	21%	(14,790)	(18%)
Prepaid and Other Assets	9,225	20,102	11,699	(10,877)	(54%)	8,403	72%
Capital assets, net	4,851,171	4,410,070	3,860,148	441,101	10%	549,922	14%
Other noncurrent assets	17,510	11,174	12,248	6,336	57%	(1,074)	(9%)
Total assets	5,045,164	4,593,917	4,079,941	451,246	10%	513,976	13%
DEFERRED OUTFLOWS OF RESOURCES	6,381	7,097	7,595	(716)	(10%)	(498)	(7%)
Total assets and deferred outflows of resources	$ 5,051,545	$ 4,601,014	$ 4,087,536	$ 450,531	10%	$ 513,478	13%
Liabilities							
Current liabilities	$ 134,018	$ 205,270	$ 513,528	$ (71,252)	(35%)	$ (308,258)	(60%)
Other long-term liabilities - noncurrent	1,015,752	759,990	264,997	255,762	34%	494,993	187%
Total liabilities	1,149,770	965,260	778,525	184,510	19%	186,735	24%
DEFERRED INFLOWS OF RESOURCES	2,391	1,351	1,474	1,040	77%	(123)	(8%)
Net position							
Net investment in capital assets	3,738,439	3,485,733	3,119,337	252,706	7%	366,396	12%
Unrestricted	160,945	148,670	188,200	12,275	8%	(39,530)	(21%)
Total Net Position	3,899,384	3,634,403	3,307,537	264,981	7%	326,866	10%
Total liabilities, deferred outflows of resources and net position	$ 5,051,545	$ 4,601,014	$ 4,087,536	$ 450,531	10%	$ 513,478	13%

At June 30, 2021, total assets and deferred outflows of resources were $5.052 billion. This amount consisted primarily of capital assets that totaled $4.851 billion at June 30, 2021 and represented 96% of total assets and deferred outflows of resources.

At June 30, 2021, total liabilities were $1.150 billion. This amount consisted primarily of general obligation bonds outstanding and tax-exempt commercial paper (TECP) that totaled $707 million and $275 million, respectively, which represented 85% of total liabilities as of June 30, 2021. The general obligation bonds and TECP are included in the financial statements under "Advance from City".

HART's net position was $3.899 billion at June 30, 2021, an increase of $265 million from the prior year, primarily due to the excess of intergovernmental revenues over operating expenses.

Capital Assets

At June 30, 2021, capital assets totaled approximately $4.851 billion, an increase of $441 million, or 10%, from the prior year as shown in the following table (amounts in thousands):

				2021-2020		2020-2019	
	2021	2020	2019	Increase (decrease)	% Change	Increase (decrease)	% Change
Equipment and machinery	$ 7	$ 8	$ 12	$ (1)	-13%	(4)	-33%
Land	206,271	187,916	173,263	18,355	10%	14,653	8%
Construction in progress	4,644,893	4,222,146	3,686,873	422,747	10%	535,273	15%
Total	$ 4,851,171	$ 4,410,070	$ 3,860,148	$ 441,101	10%	$ 549,922	15%

As noted earlier, HART's sole responsibility is the design and construction of the Project. Hence, the capitalized assets of the Project comprise the majority of HART's total assets.

In the future, as certain segments of the Project are completed, the capital assets related to the completed segment(s) will be transferred to the City's Department of Transportation Services in order for the assets to be placed into operation.

As of June 30, 2021, construction of the first operating segment, from East Kapolei to Aloha Stadium, was substantially complete. This first segment consists of approximately 10.7 miles of the rail guideway and 9 stations. Testing and certification of this initial operating segment is underway. This segment is anticipated to be ready to transfer to the City's Department of Transportation Services before the end of fiscal year 2022. The first operating segment also includes the Maintenance and Storage Facility, located on a 43 acre site where the fleet of trains will be maintained and from which the rail system will be operated and monitored.

As of June 30, 2021, construction of the second operating segment, from Aloha Stadium to Middle Street, was 87% complete. This section includes 5.2 miles of the rail guideway and 4 stations.

Contracts for the third operating segment from Middle Street to Ala Moana Center have not yet been procured.

Additional information on HART's capital assets can be found in HART's Monthly Progress Report, available on HART's website, and in notes E and F to the financial statements.

Long-Term Debt

HART relies on long-term debt, specifically general obligation bonds, to fund the cash flow needs of construction. Total bonds outstanding at June 30, 2021 totaled $707.4 million. The bonds outstanding are structured such that the bonds will be completely retired by 2031.

No long-term debt was issued during the year ended June 30, 2021. During the fiscal year ended June 30, 2020, the City issued approximately $449.0 million of general obligation bonds (Series 2019E and Series 2020B). A portion of the proceeds from these bonds were used to redeem $350.0 million of variable-rate bonds that had been issued in 2017.

Long-Term Debt (Continued)

During the fiscal years ended June 30, 2021 and 2020, $450.0 million of tax-exempt commercial paper notes (TECP) were available for drawdown to be used for short-term cash flow needs. At June 30, 2021, a total of $275.0 million of TECP was outstanding.

In August 2021, subsequent to the fiscal year ended June 30, 2021, bonds with a principal amount of $329.8 million were issued. The outstanding amount of TECP at June 30, 2021 were repaid from the proceeds of this bond issuance.

Additional information on HART's long-term liabilities can be found in notes G and L to the financial statements.

Request for Information

This report is designed to provide a general overview of HART's financial condition. 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
City and County of Honolulu
STATEMENTS OF NET POSITION
June 30, 2021 and 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 88,228,719	$ 87,318,384
Receivables	79,029,416	65,253,435
Prepaid and other assets	9,225,429	20,101,745
Total current assets	176,483,564	172,673,564
Noncurrent assets		
Capital assets		
Equipment and machinery	171,540	171,540
Accumulated depreciation	(164,360)	(163,113)
	7,180	8,427
Land	206,270,626	187,915,836
Construction work in progress	4,644,893,050	4,222,145,849
Net capital assets	4,851,170,856	4,410,070,112
Other noncurrent assets	17,509,514	11,173,618
Total assets	5,045,163,934	4,593,917,294
DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSION AND OPEB	6,381,303	7,097,233
Total assets and deferred outflows of resources	$ 5,051,545,237	$ 4,601,014,527

See accompanying notes to financial statements.

Honolulu Authority for Rapid Transportation
City and County of Honolulu
STATEMENTS OF NET POSITION (Continued)
June 30, 2021 and 2020

	2021	2020
LIABILITIES		
Current liabilities		
Accounts payable	$ 94,875,845	$ 196,701,072
Insurance claims payable	6,352,426	5,905,462
Accrued liabilities	380,942	424,994
Other long-term liabilities, current portion	32,409,237	2,238,192
Total current liabilities	134,018,450	205,269,720
Noncurrent liabilities		
Advance from City, noncurrent portion	982,447,757	725,832,992
Net pension liability	26,419,426	25,843,729
Net other post employement benefits liability	6,227,778	6,947,578
Other long-term liabilities, noncurrent portion	656,879	1,365,841
Total noncurrent liabilities	1,015,751,840	759,990,140
Total liabilities	1,149,770,290	965,259,860
DEFERRED INFLOWS OF RESOURCES RELATED TO PENSION AND OPEB	2,391,007	1,351,184
NET POSITION		
Net investment in capital assets	3,738,439,272	3,485,732,819
Unrestricted	160,944,668	148,670,664
Total net position	3,899,383,940	3,634,403,483
Total liabilities, deferred inflows of resources and net position	$ 5,051,545,237	$ 4,601,014,527

See accompanying notes to financial statements.

Honolulu Authority for Rapid Transportation
City and County of Honolulu
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
OPERATING EXPENSES		
Administration and general	$ 4,860,769	$ 3,212,935
Fringe benefits	1,659,569	2,085,909
Contractual services	542,025	113,058
Insurance	33,433	30,137
Materials and supplies	95,757	13,192
Depreciation	1,247	4,204
Maintenance	6,851	3,667
Utilities	605	1,025
Total operating expenses	7,200,256	5,464,127
Operating loss	(7,200,256)	(5,464,127)
NONOPERATING REVENUES AND EXPENSES		
Intergovernmental revenues		
County surcharge	261,852,422	321,586,070
Federal grants	--	663,520
Interest income	567,182	2,717,101
Other revenue	223,888	119,269
Interest expense and debt financing fees, net of amortization of bond premiums of $18,385,235 in 2021 and $11,644,455 in 2020	(16,462,779)	(17,758,418)
Total nonoperating revenues & expenses	246,180,713	307,327,542
Change in net position before capital contribution	238,980,457	301,863,415
Capital contribution	26,000,000	25,003,099
Change in net position	264,980,457	326,866,514
Net position at beginning of fiscal year	3,634,403,483	3,307,536,969
Net position at end of fiscal year	$ 3,899,383,940	$ 3,634,403,483

See accompanying notes to financial statements.

Honolulu Authority for Rapid Transportation
City and County of Honolulu
STATEMENTS OF CASH FLOWS
Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Payments to suppliers for goods and services	$ (3,168,042)	$ (327,211)
Payments to employees	(2,899,259)	(2,793,107)
Net cash used in operating activities	(6,067,301)	(3,120,318)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Other revenue	223,888	119,269
Net cash provided by noncapital financing activities	223,888	119,269
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(523,041,758)	(528,239,301)
Net advances from City	275,000,000	184,343,327
Intergovernmental revenues	247,750,677	336,452,768
Net cash collateral deposits	1,504,216	1,074,334
Net cash related to other long term liabilities	446,964	(863,187)
Capital contributions	26,000,000	25,003,099
Net payments for prepaid and other assets	13,054,273	(12,225,681)
Debt financing fees and interest expenses	(34,853,570)	(34,331,673)
Net cash provided by (used in) capital and related financing activities	5,860,802	(28,786,314)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest on cash and cash equivalents	892,946	3,303,314
Net cash provided by investing activities	892,946	3,303,314
NET INCREASE (DECREASE) IN CASH CASH EQUIVALENTS	910,335	(28,484,049)
Cash and cash equivalents at beginning of year	87,318,384	115,802,433
Cash and cash equivalents at end of year	$ 88,228,719	$ 87,318,384

See accompanying notes to financial statements.

Honolulu Authority for Rapid Transportation
City and County of Honolulu
STATEMENTS OF CASH FLOWS (Continued)
Fiscal Years Ended June 30, 2021 and 2020

	2021	2020
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (7,200,256)	$ (5,464,127)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	1,247	4,204
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources.		
Decrease in deferred outflows of resources	715,930	498,030
Increase (decrease) in deferred inflows of resources	1,039,823	(122,642)
Increase (decrease) in accounts payable	110,153	(27,886)
Decrease in accrued liabilities	(44,052)	(3,094)
Increase (decrease) in other liabilities	(690,146)	1,995,197
Total adjustments	1,132,955	2,343,809
Net cash used in operating activities	$ (6,067,301)	$ (3,120,318)

Non-cash capital financing activities:

During the year ended June 30, 2021, accounts payable, claims payable estimates and amortization of prepaid and other assets related to construction work in progress increased (decreased) by ($101,935,379), $446,963 and ($10,012,513), respectively.

During the year ended June 30, 2020, accounts payable, claims payable estimates and amortization of prepaid and other assets related to construction work in progress increased by $40,939,648, $2,432,008 and $3,823,108, respectively.

See accompanying notes to financial statements.

NOTE A - OPERATIONS

The Honolulu Authority for Rapid Transportation (HART) is a semi-autonomous government unit of the City and County of Honolulu (City).The Revised Charter of the City and County of Honolulu authorizes the HART to design and construct the City's fixed-guideway rail system, hereafter referred to as the Project.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) ***Financial Statement Presentation*** - HART is a component unit of the City (the "primary government"). The accompanying financial statements present only the financial position and activities of HART and do not purport to, and do not present, the financial position of the City, the changes in its financial position, or its cash flows.

(2) ***Measurement Focus and Basis of Accounting*** - The accompanying financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

(3) ***Use of Estimates*** - The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the intergovernmental receivables, construction delay claims, insurance claims payable, environmental remediation liabilities, and net pension and other postemployment benefit liabilities. Actual results could differ from those estimates.

(4) ***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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(5) ***Prepaid and Other Assets*** - Prepaid expenses and other assets are comprised of prepaid insurance payments, escrow deposits for land purchases and prepaid interest. Prepaid insurance is amortized on a straight-line basis. During the fiscal years ended June 30, 2021 and 2020, amortization of prepaid insurance of approximately $674,000 and $4,497,000, respectively, were recorded as construction work in progress. (See Note B7)

At June 30, 2021, current prepaid insurance, escrow deposits and prepaid interest were approximately $2,845,000, $6,374,000 and $6,000, respectively. At June 30, 2020, prepaid insurance and escrow deposits were approximately $674,000 and $19,428,000, respectively.

(6) ***Other Noncurrent Assets*** - Other non-current assets are comprised of cash collateral deposits related to HART's Owner Controlled Insurance Program (OCIP) and non-current prepaid insurance. (See Note B13)

(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.

In accordance with HART's capitalization policy, certain operating expenditures are recorded as construction work in progress. For the years ended June 30, 2021 and 2020, approximately $19,254,000 and $18,057,000, respectively, of operating expenditures were capitalized to construction work in progress.

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

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

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

HART evaluates the future service utility of capital assets when events or changes in circumstances have occurred. A diminished service utility of HART's capital assets may result in an impairment loss. (See Note M - Recovery Plan)

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

According to GASB Statement No. 68 (GASB 68), *Accounting and Reporting for Pensions* (an amendment of GASB Statement No. 27) and GASB Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, differences between projected and actual experience and changes in assumptions are recognized in pension/OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions/OPEB through the pension/OPEB plan (active and inactive employees) determined as of the beginning of the measurement period.

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

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

(9) ***Compensated Absences and Sick Leave*** - HART accrues accumulated vacation when earned by the employee. Vacation benefits accrue at a rate of one and three-quarters working days per month. Each employee is allowed to accumulate a maximum of 90 days of accrued vacation as of the end of the calendar year. (See Note G - Other Long-Term Liabilities)

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, 2021 and 2020, accumulated sick leave amounted to approximately $1,931,000 and $2,669,000, respectively.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) ***Pensions*** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System of the State of Hawaii (ERS) and additions to/deductions from ERS's fiduciary net position have been determined using the accrual basis of accounting, which is the same basis as they are reported by ERS. For this purpose, employer and member contributions are recognized in the period in which the contributions are legally due and benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

(11) ***Postemployment Benefits Other Than Pensions (OPEB)*** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, EUTF recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at their fair value, except for investments in commingled and money market funds, which are reported at net asset value (NAV). The NAV is based on the fair value of the underlying assets held by the respective fund less its liabilities.

(12) ***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 (the 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.

(13) ***Risk Management*** - HART is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if 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. The OCIP contract was entered into to 1) provide a single insurance program that ensures HART, enrolled contractors and subcontractors of any tier, along with their eligible employees and other designated parties, are properly covered, 2) ensure proper coverage at a consistent rate and 3) prevent duplication of costs for insurance coverage.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The program manages the risks related to the project. HART has adopted an OCIP which is a single insurance program that is designed to cover liability and loss arising from various types of coverage for eligible project participants.

(14) ***Net Position*** - Net position comprises the residual amount of assets and deferred outflows less liabilities and deferred inflows and is displayed in three components.

Net investment in capital assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources, if any, which are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. See table below for calculation of this component.

Restricted net position - Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments or (2) law through constitutional provisions or enabling legislation, reduced by liabilities and deferred inflows of resources related to those assets. HART does not currently report any balances in this component.

Unrestricted net position - All other amounts that are not included in the determination of net investment in capital assets or the restricted components of net position.

The following table details the balances that comprise the net investment in capital assets component of net position as of June 30, 2021 and 2020:

	2021	2020
Net investment in capital assets		
Capital assets, net	$ 4,851,170,856	$ 4,410,070,112
Less: accounts payable - capital related	(91,831,401)	(190,506,965)
Less: advance from City	(982,447,757)	(725,832,992)
Less: insurance claims payable	(6,352,426)	(5,905,462)
Less: other long-term liabilities	(32,100,000)	(2,091,874)
Net investment in capital assets	$ 3,738,439,272	$ 3,485,732,819

(15) ***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 Transient Accommodation Tax (TAT), and grant assistance from the Federal

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government. GET and TAT revenues are recognized when collected by the State of Hawaii, Department of Taxation and distributed to the Mass Transit Special Fund. Revenues on cost reimbursement contracts from the Federal Transit Administration (FTA) are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source. HART did not recognize any revenue from the contract with the FTA during the years ended June 30, 2021 or 2020. (See Note I - Related Party Transactions)

(16) ***New Accounting Pronouncements*** - The Governmental Accounting Standards Board (the "GASB") issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement were effective for reporting periods beginning after December 15, 2019. Management determined that this Statement does not have a material impact on HART's financial statements.

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Management has not yet determined the effect this Statement will have on HART's financial Statements.

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on the HART's financial statements.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITA) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on the HART's financial statements.

(17) ***Reclassification*** - Certain reclassifications have been made to the prior year's comparative information to conform to the presentation of the current year financial statements. The reclassifications have no effect on the net position of the change in net position for the prior period.

(18) ***Subsequent events*** - Management has evaluated subsequent events through November 30, 2021, the date on which the financial statements were available to be issued.

NOTE C - CASH AND INVESTMENTS

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 the fair value, credit risk and interest rate risk is available for only the total cash and investment pool, which is disclosed in the City's Annual Comprehensive Financial Report (ACFR) available at the City's website: http://www.honolulu.gov/budget/budget-cafr.

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.

NOTE D - RECEIVABLES

Receivables as of June 30, 2021 and 2020 were comprised of the following amounts:

	2021	2020
Intergovernmental		
General excise tax	$ 66,965,941	$ 59,296,346
Transient accommodations tax	11,020,352	4,588,202
Federal grants	908,624	908,624
	78,894,917	64,793,172
Other	134,499	460,263
Total receivables	$ 79,029,416	$ 65,253,435

No allowance for doubtful accounts was recorded as of June 30, 2021 and 2020.

NOTE E - CAPITAL ASSETS

Capital assets activity during the fiscal years ended June 30, 2021 and 2020, were as follows:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Equipment and machinery	$ 171,540	$ --	$ --	$ 171,540
Accumulated depreciation	(163,113)	(1,247)	--	(164,360)
	8,427	(1,247)	--	7,180
Land	187,915,836	18,354,790	--	206,270,626
Construction in progress	4,222,145,849	422,747,201	--	4,644,893,050
Net capital assets	$ 4,410,070,112	$ 441,100,744	$ --	$ 4,851,170,856

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Equipment and machinery	$ 171,540	$ --	$ --	$ 171,540
Accumulated depreciation	(158,909)	(4,204)	--	(163,113)
	12,631	(4,204)	--	8,427
Land	173,262,736	14,653,100	--	187,915,836
Construction in progress	3,686,873,010	535,272,839	--	4,222,145,849
Net capital assets	$ 3,860,148,377	$ 549,921,735	$ --	$ 4,410,070,112

NOTE F - COMMITMENTS

Leases

HART leases office space under an operating lease that will expire on June 30, 2027.

The future minimum rental payments for operating leases are approximately as follows:

FY Ending June 30,	Amount
2022	$ 494,900
2023	509,300
2024	524,000
2025	540,000
2026	554,900
Thereafter	571,100
	$ 3,194,200

Additionally, the lease provides for payment of common area charges and general excise tax. Office rental expenses, including common area charges and general excise tax, were approximately $679,000 and $1,016,000 for the years ended June 30, 2021 and 2020, respectively, and are included, net of capitalized amounts of approximately $1,012,000 and $1,514,000, for the years ended June 30, 2021 and 2020, respectively, in administration and general expenses in the accompanying statements of revenues, expenses and changes in net position. (See Note B7)

Other Commitments

HART has contractual commitments at June 30, 2021 of approximately $1.00 billion. These include contracts for construction, change orders, accrued claims, design, project management and oversight services.

NOTE G - OTHER LONG-TERM LIABILITIES

The following is a summary of changes in other long-term liabilities during the fiscal years ended June 30, 2021 and 2020:

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
Advance from City	$ 725,832,992	$ 275,000,000	18,385,235	$ 982,447,757	$ --
Delay claims	1,991,874	32,000,000	1,991,874	32,000,000	32,000,000
Environmental remediation	100,000	--	--	100,000	--
Accrued vacation	1,512,159	937,791	1,483,834	966,116	409,237
	$ 729,437,025	$ 307,937,791	$ 21,860,943	$ 1,015,513,873	$ 32,409,237

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
Advance from City	$ 553,134,120	$ 504,655,827	$ 331,956,955	$ 725,832,992	$ --
Delay claims	19,500,000	491,874	18,000,000	1,991,874	1,991,874
Environmental remediation	8,100,000	--	8,000,000	100,000	100,000
Accrued vacation	1,370,487	1,512,159	1,370,487	1,512,159	146,318
	$ 582,104,607	$ 506,659,860	$ 359,327,442	$ 729,437,025	$ 2,238,192

NOTE H - EMPLOYEE BENEFIT PLANS

Defined Benefit Plan

Plan description. All eligible employees of the State and counties are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the ERS. Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation.

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

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

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

<u>Noncontributory Class:</u>

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

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

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

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

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

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

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

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

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

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

Contributory Class for Employees Hired After June 30, 2012:

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 60.

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

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

<u>Hybrid Class for Employees Hired Prior to July 1, 2012:</u>

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

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

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

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

<u>Hybrid Class for Employees Hired After June 30, 2012:</u>

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

Disability and Death Benefits - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions. Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. HART's contribution requirements for the years 2021 and 2020 were approximately $2,178,000 and $2,039,000, respectively. The contribution rate was 24.00% and 22.00% for 2021 and 2020, respectively. The employer is required to make all contributions for members in the noncontributory plan. For contributory class employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary. For contributory class employees hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired prior July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

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

At June 30, 2021 and 2020, HART reported a liability of approximately $26.4 million and $25.8 million, respectively, for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. HART's proportion of the net pension liability was based on the actual employer contributions to the pension plan relative to the contributions of all participating members of ERS, actuarially determined. At June 30, 2020, HART's proportionate share was 0.173% which was a decrease of 0.009 from its proportionate share measured as of June 30, 2019. At June 30, 2019, HART's proportionate share was 0.182% which was a decrease of 0.004 from its proportionate share measured as of June 30, 2018.

For the fiscal years ending June 30, 2021 and 2020, HART recognized pension expense of approximately $3,622,000 and $4,045,000, respectively, which are included, net of capitalized amounts, in administration and general expenses in the accompanying statements of revenues, expenses and changes in net position. (See Note B7)

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

At June 30, 2021 and 2020, HART reported deferred outflows and inflows of resources related to pensions come from the following sources:

	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 295,609	$ --
Net difference between projected and actual earnings on pension plan investments	943,453	--
Changes of assumptions	743,595	--
Changes in proportion and differences between HART contributions and proportionate share of contributions	762,608	1,759,533
HART contributions subsequent to the measurement date	2,177,708	--
	$ 4,922,973	$ 1,759,533

	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 452,169	$ 51,724
Net difference between projected and actual earnings on pension plan investments	--	70,942
Changes of assumptions	1,759,537	--
Changes in proportion and differences between HART contributions and proportionate share of contributions	1,233,980	1,180,780
HART contributions subsequent to the measurement date	2,039,297	--
	$ 5,484,983	$ 1,303,446

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

Approximately $2,178,000 was reported as deferred outflows of resources related to pensions at June 30, 2021 resulting from HART contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2022.

Other amounts reported as deferred outflows and inflows of resources related to pension will be recognized in pension expense as follows:

Fiscal Year Ending June 30:	Net Deferred Outflows
2022	$ 723,367
2023	186,873
2024	55,446
2025	64,255
2026	(44,209)
	$ 985,732

Actuarial Assumptions. The actuarial assumptions used in the actuarial valuation as of June 30, 2020 and 2019 were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2020	2019
Inflation	2.50%	2.50%
Investment Rate of Return, including inflation	7.00%	7.00%
Salary increases, including inflation		
Police and fire employees	5.00 % to 7.00%	5.00 % to 7.00%
General employees	3.50 % to 6.50%	3.50 % to 6.50%
Teachers	3.75 % to 5.75%	3.75 % to 5.75%

Mortality rates used in the actuarial valuation as of June 30, 2020 and 2019 were based on the following:

Active members - Multiples of the RP 2014 mortality table for active employees based on the occupation of the member.

Healthy retirees - The 2019 Public Retirees of Hawaii mortality table, generational projection using the BB projection table from the year 2019 and with multipliers based on plan and group experience.

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

Disabled retirees - Base table for healthy retirees' occupation, set forward five years, generational projection using the BB projection table from the year 2019. Minimum mortality rate of 3.5% for males and 2.5% for females.

The actuarial assumptions used in the actuarial valuation as of June 30, 2020 was based on the results of an experience study as of June 30, 2018, with most of the assumptions based on the period from July 1, 2013 through June 30, 2018.

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2020 and 2019 are summarized in the following table:

	June 30, 2020		
Strategic Allocation (Risk-based Classes)	Target Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return*
Broad Growth	63%	7.90%	5.70%
Diversifying strategies	37%	3.70%	1.50%
	100%		

*Uses an expected inflation of 2.20%.

	June 30, 2019		
Strategic Allocation (Risk-based Classes)	Target Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return*
Broad Growth	63%	7.65%	5.40%
Principal Protection	7%	3.00%	0.75%
Real Return	10%	4.55%	2.30%
Crisis Risk Offset	20%	5.15%	2.90%
	100%		

*Uses an expected inflation of 2.25%.

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

Discount Rate. The discount rate used to measure the net pension liability at June 30, 2021 and 2020 was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from HART will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of HART's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents HART's proportionate share of the net pension liability calculated as of the fiscal years ended June 30, 2021 and 2020 using the single discount rate of 7.00%, as well as what HART's proportionate share of the net pension liability would be if it were calculated using a single discount rate that is 1-percentage point lower or 1- percentage-point higher than the current rates:

	June 30, 2021		
	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
HART's proportionate share of the net pension liability	$ 33,929,018	$ 26,419,426	$ 20,228,478

	June 30, 2020		
	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
HART's proportionate share of the net pension liability	$ 33,529,164	$ 25,843,729	$ 20,310,358

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at https://ers.ehawaii.gov/resources/financials.

Payables to the Pension Plan

As of June 30, 2021 and 2020, HART had no payable to ERS.

Post-Retirement Health Care and Life Insurance Benefits

HART provides certain other postemployment benefits (OPEB) other than pensions to all qualified employees. Chapter 87A, Hawaii Revised Statutes (HRS) established the Hawaii Employer-Union Health Benefits Trust Fund (the Trust Fund) to design, provide, and administer health and other benefit plans under a single delivery system for the employees, retirees and their eligible dependents of the State of Hawaii (the State) and the counties of Honolulu, Hawaii, Maui and Kauai beginning July 1, 2003. Chapter 87, HRS that established the Hawaii Public Employees Health Fund was repealed, and its net assets were transferred to the Trust Fund.

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

The Trust Fund is administered by a Board of Trustees (the Board) composed of ten trustees appointed by the Governor of the State. The Board is responsible for determining the nature and scope of benefit plans offered by the Trust Fund, negotiating and entering into contracts with insurance carriers, establishing eligibility and management policies for the Trust Fund, and overseeing all Trust Fund activities. The Board relies on professional services provided by a salaried Administrator, the State Department of Attorney General, a benefits consultant, and an investment consultant. Chapter 87A, HRS was amended on July 9, 2012 to allow the Board to establish a separate trust for the purpose of receiving employer contributions that will prefund other post-employment benefits (OPEB) for retirees and their beneficiaries. Pursuant to this amendment, the Board executed an irrevocable declaration of trust establishing the Hawaii Employer-Union Health Benefits Trust Fund for Other Post-Employment Benefits (the OPEB Trust) effective June 30, 2013. The OPEB Trust is governed by the Trust Fund's Board. Its assets are held for the exclusive purpose of providing OPEB and are legally protected from creditors.

The OPEB Trust financial statements are included as part of the Trust Fund's basic financial statements, collectively referred to as the EUTF.

The EUTF, an agent multiple-employer defined benefit OPEB plan, is administratively attached to the State Department of Budget and Finance.

The EUTF issues a stand-alone financial report that is publicly available at https://eutf.hawaii.gov/. Questions concerning any of the information contained therein or requests for any additional financial information related to that report should be addressed to EUTF, P.O. Box 2121, Honolulu, Hawaii 96805-2121.

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

For employees hired after June 30, 1996 and retiring with 25 years or more of service, the employers pay the entire base monthly contribution. For employees retiring with at least 15 years but fewer than 25 years of service, the employers pay 75.0% of the base monthly contribution. For those retiring with at least ten years but fewer than 15 years of service, the employers pay 50.0% of the base monthly contribution. For those retiring with fewer than ten years of service, the employers make no contributions. If the retiree was hired before July 1, 2001, the employers' contributions are based on the plan (single, two-party or family) selected by the retiree. If the retiree was hired on or after July 1, 2001, the employers are responsible for the single plan base monthly contribution while the retiree must pay the difference if family coverage is elected.

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

Employees Covered by Benefit Terms - The following table provides a summary of the number of employees covered by the benefits terms as of July 1, 2020 and 2019:

	2021	2020
Inactive employees or beneficiaries currently receiving benefits	17	16
Inactive employees entitled but not yet receiving benefits	12	11
Active employees	73	93
	102	120

Contributions. Act 268, SLH 2013 required EUTF to establish and administer separate trust accounts for each public employer for the purpose of receiving irrevocable employer contributions to prefund postemployment health care and other benefit costs for retirees and their beneficiaries. It established the Hawaii EUTF Trust Fund Task Force to examine further steps to address the unfunded liability and requires all public employers to make their annual required contributions (now known as actuarially determined contributions) effective with fiscal year 2014.HART's contribution levels are established by Chapter 87A of the HRS. For the fiscal years ended June 30, 2021 and 2020, HART was required to contribute a minimum amount equal to 100% of the annual required contribution ("ARC"), as determined by an actuary retained by the board of trustees of the EUTF. The ARC represents a level of funding that is sufficient to cover, 1) the normal cost, which is the cost of the other postemployment benefits attributable to the current year of service; and 2) an amortization payment, which is a catch-up payment for past service costs to fund the unfunded actuarial accrued liability over the next thirty years.

OPEB contributions for the fiscal years ended June 30, 2021 and 2020, amounted to approximately $818,000 and $790,000, respectively.

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

Net OPEB Liability. The net OPEB liability as of June 30, 2021 and 2020 was measured as of July 1, 2020 and 2019, respectively, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates. As of June 30, 2021 and 2020, the HART reported a net OPEB liability of $6,227,778 and $6,947,578, respectively.

Actuarial assumptions. The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO	Initial rate of 7.50%, declining to a rate of 4.70% after 13 years
HMO	Initial rate of 7.50%, declining to a rate of 4.70% after 13 years
Part B & base monthly contribution	Initial rate of 5.00%, declining to a rate of 4.70% after 10 years
Dental	Initial rate of 5.00% for first year, followed by 4.00% for all future years
Vision	Initial rates of 0.00% for first year, followed by 2.50% for all future years
Life insurance	0.00%

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO	Initial rate of 8.00%, declining to a rate of 4.86% after 12 years
HMO	Initial rate of 8.00%, declining to a rate of 4.86% after 12 years
Part B & base monthly contribution	Initial rate of 5.00%, declining to a rate of 4.70% after 11 years
Dental	Initial rate of 5.00% for first two years, followed by 4.00%
Vision	Initial rate of 0.00% for first two years, followed by 2.50%
Life insurance	0.00%

Mortality rates used in the actuarial valuation as of July 1, 2020 and 2019 were based on the following:

Active members - Multiples of the RP 2014 mortality table for active employees based on the occupation of the member.

Healthy retirees - The 2019 Public Retirees of Hawaii mortality table, generational projection using the BB projection table from the year 2019 and with multipliers based on plan and group experience.

Disabled retirees - Base table for healthy retirees' occupation, set forward five years, generational projection using the BB projection table from the year 2019. Minimum mortality rate of 3.5% for males and 2.5% for females.

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

The actuarial assumptions used in the actuarial valuation as of June 30, 2020 and 2019 were based on the results of an experience study as of June 30, 2018, with most of the assumptions based on the period from July 1, 2013 through June 30, 2018.

Discount Rate. A single discount rate of 7.0% was used to measure the total OPEB liability as of June 30, 2021 and 2020. The single discount rate was based on the expected rate of return on the EUTF's investments of 7.0%. The funding policy is to pay the recommended actuarially determined contributions, which are based on layered, closed amortization periods. As a result, the OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Long-Term Expected Rate of Return. The long-term expected rate of return on EUTF's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of the EUTF's investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	2021		2020	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Target Allocation	Long-Term Expected Real Rate of Return
Non U.S. equity	16.00%	7.72%	17.00%	6.90%
U.S. equity	14.00%	6.23%	15.00%	5.35%
Private equity	10.00%	9.66%	10.00%	8.80%
Core real estate	10.00%	5.98%	10.00%	3.90%
Trend following	8.00%	2.12%	9.00%	3.25%
U.S. microcap	6.00%	7.50%	7.00%	7.30%
Global options	6.00%	4.65%	7.00%	4.75%
Private credit	6.00%	5.50%	6.00%	5.60%
Long treasuries	6.00%	0.86%	6.00%	2.00%
Alternate risk premium	5.00%	1.56%	5.00%	2.75%
TIPS	5.00%	0.11%	5.00%	1.20%
Core bonds	3.00%	0.08%	3.00%	1.50%
Reinsurance	5.00%	4.34%		
	100.00%		100.00%	

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

Changes in net OPEB liability. The following schedules present the changes in the net OPEB liability for the fiscal years ending June 30, 2021 and 2020:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2020	$ 8,938,641	$ 1,991,063	$ 6,947,578
Changes for the fiscal year:			
Service cost	358,765	--	358,765
Interest on the total OPEB liability	634,898	--	634,898
Difference between expected and actual experience	(841,412)	--	(841,412)
Changes of assumptions	(25,596)	--	(25,596)
Employer contributions	--	790,000	(790,000)
Net investment income	--	38,758	(38,758)
Benefit payments	(96,116)	(96,116)	--
Administrative expense	--	(326)	326
Other	--	18,023	(18,023)
Net changes	30,539	750,339	(719,800)
Balance at June 30, 2021	$ 8,969,180	$ 2,741,402	$ 6,227,778

The healthcare trend assumption was updated in the July 1, 2020 actuarial valuation to reflect the repeal of the “Cadillac Tax” on high-cost employer health plans, which decreased the net OPEB liability as of June 30, 2021.

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2019	$ 7,176,556	$ 1,077,953	$ 6,098,603
Changes for the fiscal year:			
Service cost	420,428	--	420,428
Interest on the total OPEB liability	514,228	--	514,228
Difference between expected and actual experience	972,973	--	972,973
Changes of assumptions	(64,222)	--	(64,222)
Employer contributions	--	810,000	(810,000)
Net investment income	--	74,382	(74,382)
Benefit payments	(81,322)	(81,322)	--
Administrative expense	--	(430)	430
Other	--	110,480	(110,480)
Net changes	1,762,085	913,110	848,975
Balance at June 30, 2020	$ 8,938,641	$ 1,991,063	$ 6,947,578

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

Sensitivity of net OPEB liability to changes in the single discount rate. The following presents HART's net OPEB liability, calculated using a single discount rate of 7.0%, as well as what HART's net OPEB liability would be if it were calculated using a single discount rate that is one percent lower or one percent higher than the current discount rate:

	June 30, 2021		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	$ 7,985,424	$ 6,227,778	$ 4,881,277

	June 30, 2020		
	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	$ 8,752,002	$ 6,947,578	$ 5,570,747

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents HART's net OPEB liability, calculated using the assumed trend rates of 7.0%, as well as what HART's net OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher than the current healthcare cost trend rate:

	June 30, 2021		
	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	$ 4,851,634	$ 6,227,778	$ 8,018,569

	June 30, 2020		
	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	$ 5,541,966	$ 6,947,578	$ 8,778,319

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report.

OPEB Expense, and Deferred Outflows and Deferred Inflows of Resources Related to OPEB. For the fiscal year ended June 30, 2021 and 2020, HART recognized OPEB expense of $835,856 and $989,010, respectively which is included, net of capitalized amounts, in administration and general expenses in the accompanying statements of revenues, expenses and changes in net position.

Deferred Outflows and Inflows. At June 30, 2021, OPEB-related deferred outflows and deferred inflows of resources from the following sources were reported:

	June 30, 2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience, liability	$ 517,307	$ 582,500
Changes of assumptions	4,713	48,974
Difference between projected and actual experience, assets	118,310	--
Employer contributions subsequent to the measurement date	818,000	--
	$ 1,458,330	$ 631,474

At June 30, 2020, OPEB-related deferred outflows and deferred inflows of resources from the following sources were reported:

	June 30, 2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 790,327	$ --
Changes of assumptions	7,217	47,738
Difference between projected and actual experience, assets	24,706	--
Employer contributions subsequent to the measurement date	790,000	--
	$ 1,612,250	$ 47,738

NOTE H - EMPLOYEE BENEFIT PLANS (Continued)

As of June 30, 2021, HART reported $818,000 as deferred outflows of resources related to OPEB resulting from HART contributions subsequent to the measurement date, which will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2022. Amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30:	Net Deferred Outflows (Inflows)
2022	$ 23,537
2023	(3,305)
2024	(36,355)
2025	24,979
	$ 8,856

NOTE I - RELATED PARTY TRANSACTIONS

(1) ***Intergovernmental Revenues and Federal Grants*** - During the year ended June 30, 2021, HART recognized intergovernmental revenues of approximately $261,852,000 comprised of approximately $248,124,000 for the General Excise Tax (GET) surcharge and approximately $13,728,000 for the Transient Accommodation Tax (TAT). HART did not recognize any revenues related to its FTA grant as there are certain stipulations that HART must meet to be eligible to receive the remaining grant funds. No FTA funds were received during the years ended June 30, 2021 and 2020. (See Note M - Recovery Plan)

During the year ended June 30, 2020, HART recognized intergovernmental revenues of approximately $322,250,000, comprised of approximately $267,712,000 for the GET surcharge, approximately $53,874,000 for TAT and approximately $664,000 related to the Brownfields 2017 Assessment and Cleanup Grant.

(2) ***Central Administrative Services Expense Fee*** - HART has an agreement with the City to pay a Central Administrative Services Expense (CASE) fee for treasury, personnel, purchasing, legal, and other services that the City provides to HART on an on-going basis. CASE fees totaled approximately $761,000 and $322,000 for the years ended June 30, 2021 and 2020, respectively, and are included, net of capitalized amounts of approximately $1,457,000 and $682,000 for the years ended June 30, 2021 and 2020, respectively, in administration and general expenses in the accompanying statements of revenues, expenses and changes in net position. (See Note B7)

NOTE I - RELATED PARTY TRANSACTIONS (Continued)

(3) ***City Subsidy*** - The City provides funding to HART to subsidize the cost of administrative and operating expenses of the Project, in accordance with the 2019 Recovery Plan, which was approved by the City Council's adoption of Resolution 18-239, CD1, FD1 and a Memorandum of Agreement between the City and HART. During the years ended June 30, 2021 and 2020, the City made contributions of $26,000,000 and $25,003,000, respectively, to HART and they are recorded as capital contributions in the statements of revenues, expenses, and changes in net position.

(4) ***Debt Interest and Financing Fees*** - HART entered into an agreement with the City for the issuance of general obligation bonds, general obligation commercial paper and other forms of general obligation indebtedness. As part of the agreement, HART must immediately reimburse the City for any fees that are incurred for the issuance of such indebtedness. Debt financing fees were approximately $1,749,000, and $3,202,000 for the years ended June 30, 2021 and 2020, respectively. Interest expense was approximately $33,099,000 and $26,201,000 for the years ended June 30, 2021 and 2020, respectively. (See Note L - Advance From City)

(5) ***Highway Improvement HDOT Agreement for Grant Funds*** - On February 29, 2016, HART and the State of Hawaii signed a Highway Improvement Agreement (the Agreement). The Agreement was entered into to identify funding sources to address updated policy and code changes required by the State of Hawaii, Department of Transportation (HDOT) along both the West Oahu Farrington Highway and the Kamehameha Guideway sections. The Agreement states that HART will be reimbursed for the updates required by HDOT policy and code changes contingent upon HDOT securing with Federal Highway Administration (FHWA) grant funds. Although these grant funds have not been secured, HART is working with FHWA on behalf of HDOT to complete the necessary requirements to obtain the funding. As of June 30, 2021 and 2020, costs incurred to date related to the cost of the updated policy and code changes totaled approximately $27.0 million and $21.0 million, respectively, and has been capitalized to construction work in progress. As of June 30, 2021 and 2020, there is no formal grant agreement between FHWA and HDOT specific to this arrangement.

NOTE J - CONSTRUCTION CLAIM COSTS

As of June 30, 2021 and 2020, HART had recorded construction claims of approximately $32.0 million and $2.0 million, respectively, related to construction of the Project and 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.

In 2019, HART agreed to a delay claim by HRHJV in the amount of $168.8 million. HART executed a change order for $160.0 million to resolve HRHJV claims related to delays and changes in the scope of the scheduled work. This claim settlement includes a previously

NOTE J - CONSTRUCTION CLAIM COSTS (Continued)

executed change order for a provisional sum of $8.8 million, which was re-categorized to become a part of the agreed upon delay claims. As of June 30, 2020, there was an outstanding amount of $1.5 million of the $8.8 million provisional sum, which was paid as of June 30, 2021.

The $160.0 million change order contained provisions, including the following six milestones, which must be met in order for HART to pay out for future schedule shifts.

Milestone #	Payment as % of Settlement	Milestone Description
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

As of June 30, 2021, the first milestone of this change order was substantially complete and a liability of $32.0 million was recorded as other long-term liabilities – current in the accompanying statements of net position and have been capitalized as construction work in progress.

NOTE K - ENVIRONMENTAL ISSUES

HART is currently aware of soil contamination at various sites that it has acquired. HART has determined that the total estimated costs for remediation are approximately $0.1 million, as of both June 30, 2021 and 2020. These amounts are included in other long-term liabilities in the accompanying statements of net position and have been capitalized as construction work in progress.

HART is in the process of acquiring parcels needed for the City Center section of the Project. This section consists of 4.2 miles from Middle Street to the Ala Moana Center. There is a high probability that there are additional environmental issues that will require remediation. Cost estimates for remediation are being developed for this section and will be accrued when HART obligates itself for the remediation activity and the amounts become measureable.

NOTE L - ADVANCE FROM CITY

In May 2015, HART entered into a Memorandum of Understanding (MOU) with the City which details the terms and conditions for the issuance of general obligation bonds, general obligation commercial paper notes or any other form of general obligation indebtedness to be used for the completion of the Project. The MOU was amended on July 26, 2017 and the terms and conditions for the issuance of general obligation bonds, general obligation commercial paper notes or any other form of general obligation indebtedness to be used for the completion of the Project are now described in "Amendment No.1 and Restatement Memorandum of Understanding (Restatement MOU).

During fiscal year 2021, HART requested and received advances of Tax-Exempt Commercial Paper (TECP) funds. At June 30, 2021, cumulative TECP advances at $275.0 million were outstanding. Interest rates on TECP advances varied from 0.15% to 0.19% with time periods ranging from 120 to 180 days. Interest expense related to TECP advances was approximately $201,600. Financing costs related to TECP advances were approximately $1,740,000 for the year ended June 30, 2021.

The general obligation commercial paper notes program with the City provides an aggregate maximum TECP drawdown of $450.0 million to HART. At June 30, 2021, the balance available for TECP drawdown was $175.0 million.

During fiscal year 2021, there were no issuance of general obligation bonds. At June 30, 2021, the total bond reserves deposited with the City associated with bond issuance for Series 2019A, Series 2019E, and Series 2020B was $56.8 million. With the excess amount of $6.1 million held by the City, the Project Bond Reserve Account has a balance of $62.9 million at the year-ended date.

Total debt interest for general obligation bonds for fiscal year 2021 was approximately $32,897,000, consisting of $10,498,000 for bonds Series 2019A; $8,777,000 for bonds Series 2019E; and $13,622,000 for bonds Series 2020B. Financing costs related to general obligation bonds for fiscal year 2021 were approximately $10,000.

On May 21, 2021, HART Board of Directors adopted Resolution 2021-6 requesting approval and authorization from the Honolulu City Council for the issuance and sale of general obligation bonds in an aggregate principal amount not to exceed $550.0 million. On June 10, 2021, the City Council approved HART Board's request and adopted Resolution 21-142 to authorize the Director of Budget and Fiscal Services of City and County of Honolulu to issue and sell in one or more series to a maximum of $550.0 million principal amount of general obligation bonds to finance the capital costs of the HRTP, refunding, or refinancing of the HRTP commercial paper notes.

NOTE L - ADVANCE FROM CITY (Continued)

Balances related to the TECP and general obligation bonds are summarized as follows:

	2021	2020
Tax-Exempt Commercial Paper	$ 275,000,000	$ --
Balance at June 30	$ 275,000,000	$ --
Series 2019A		
Advances	$ 209,950,000	$ 209,950,000
Bond reserves deposited with the City	(15,919,000)	(15,919,000)
	194,031,000	194,031,000
Issuance premium, net of amortization	28,672,388	33,731,504
Balance at June 30	$ 222,703,388	$ 227,762,504
Series 2019E		
Advances	$ 175,545,000	$ 175,545,000
Bond reserves deposited with the City	(17,281,125)	(17,281,125)
	158,263,875	158,263,875
Issuance premium, net of amortization	18,018,542	21,692,769
Balance at June 30	$ 176,282,417	$ 179,956,644
Series 2020B		
Advances	$ 273,460,000	$ 273,460,000
Bond reserves deposited with the City	(23,630,250)	(23,630,250)
	249,829,750	249,829,750
Issuance premium, net of amortization	64,689,452	74,341,344
Balance at June 30	$ 314,519,202	$ 324,171,094
Excess bond reserves held by the City	$ (6,057,250)	$ (6,057,250)
Balance at June 30 (non current portion)	$ 982,447,757	$ 725,832,992

NOTE L - ADVANCE FROM CITY (Continued)

Annual interest expense and principal repayments of the advance from the City to maturity for Series 2019A general obligation bonds are as follows:

Year Ending	Series 2019A		
June 30:	Principal	Interest	Total
2022	$ --	$ 10,497,500	$ 10,497,500
2023	--	10,497,500	10,497,500
2024	21,885,000	9,585,625	31,470,625
2025	23,010,000	8,444,500	31,454,500
2026	24,185,000	7,245,042	31,430,042
2027 - 2031	124,951,000	15,964,667	140,915,667
Total	$ 194,031,000	$ 62,234,834	$ 256,265,834

Annual interest expense and principal repayments of the advance from the City to maturity for Series 2019E general obligation bonds are as follows:

Year Ending	Series 2019E		
June 30:	Principal	Interest	Total
2022	$ --	$ 8,777,250	$ 8,777,250
2023	--	8,777,250	8,777,250
2024	21,945,000	15,634,313	37,579,313
2025	21,945,000	6,217,000	28,162,000
2026	21,945,000	5,119,750	27,064,750
2027-2031	92,428,875	9,598,938	102,027,813
Total	$ 158,263,875	$ 54,124,501	$ 212,388,376

NOTE L - ADVANCE FROM CITY (Continued)

Annual interest expense and principal repayments of the advance from the City to maturity for Series 2020B general obligation bonds are as follows:

Year Ending June 30:	Series 2020B Principal	Interest	Total
2022	$ --	$ 13,673,000	$ 13,673,000
2023	--	13,673,000	13,673,000
2024	--	13,673,000	13,673,000
2025	33,585,000	13,113,250	46,698,250
2026	35,265,000	11,406,000	46,671,000
2027 - 2031	180,979,750	28,278,583	209,258,333
Total	$ 249,829,750	$ 93,816,833	$ 343,646,583

Subsequent to year end, the City successfully sold additional G.O. bonds and advanced a sum of $425.0 million to HART, including a bond premium of $96.0 million for G.O. bonds Series 2021E. The $275.0 million outstanding TECP advances were repaid from the bonds proceeds. The bonds carry a fixed interest rate of 5% and requires interest payments beginning March 2022. The bond principal matures in annual increments from March 2026 through March 2031.

NOTE M - RECOVERY PLAN

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 $744.0 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.

NOTE M - RECOVERY PLAN (Continued)

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 $806.0 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 amounts reported in the financial statements.

NOTE N - COVID-19

In March 2020, the World Health Organization declared the outbreak of novel coronavirus disease (COVID-19) as a pandemic, which led to an economic downturn on a global scale that created significant uncertainty, volatility, and disruption across economies and financial markets. Effects of the pandemic continued, at varying degrees, through the remainder of fiscal year 2020 and throughout fiscal year 2021. While the disruption caused by COVID-19 continues to be considered temporary, there is ongoing uncertainty around the duration and severity of this pandemic. During the fiscal year ended June 30, 2020, HART adjusted its future forecast of GET and TAT funding based on growth rates projected by the State of Hawaii advisors, the Council on Revenues. Throughout the remainder of fiscal year 2020 and all of fiscal year 2021, the actual collections of GET and TAT exceeded the adjusted forecasts. The future forecast was revised upward during fiscal year 2021, based on an updated forecast from the Council on Revenues.

REQUIRED SUPPLEMENTARY INFORMATION

Honolulu Authority for Rapid Transportation
City and County of Honolulu
SCHEDULE OF PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
Last Ten Fiscal Years*

Measurement Period Ended June 30,	Proportion of Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability
2020	0.1726%	$ 26,419,426	$ 8,501,087	310.78%	53.18%
2019	0.1824%	$ 25,843,729	$ 8,733,383	295.92%	54.87%
2018	0.1865%	$ 24,839,179	$ 9,251,932	268.48%	55.48%
2017	0.1987%	$ 25,730,313	$ 8,683,211	296.32%	54.80%
2016	0.1732%	$ 23,160,417	$ 8,773,860	263.97%	51.28%
2015	0.1786%	$ 15,593,651	$ 7,933,409	196.56%	62.42%
2014	0.1797%	$ 14,405,949	$ 7,752,863	185.81%	63.92%
2013	0.1644%	$ 14,683,919	$ 7,301,318	201.11%	57.96%

* This schedule is intended to present information for ten years, as of the measurement date of the collective net position liability for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information.

Honolulu Authority for Rapid Transportation
City and County of Honolulu
SCHEDULE OF CONTRIBUTIONS (PENSION)
Last Ten Fiscal Years*

Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution (Excess) Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	$ 2,178,000	$ 2,178,000	$ --	$ 7,551,612	28.84%
2020	$ 2,039,297	$ 2,039,297	$ --	$ 8,501,087	23.99%
2019	$ 1,659,350	$ 1,683,741	$ (24,391)	$ 8,733,383	19.28%
2018	$ 1,562,109	$ 1,652,341	$ (90,232)	$ 9,251,932	17.86%
2017	$ 1,562,978	$ 1,495,480	$ 67,498	$ 8,683,211	17.22%
2016	$ 1,491,556	$ 1,384,778	$ 106,778	$ 8,773,860	15.78%
2015	$ 1,348,680	$ 1,305,429	$ 43,251	$ 7,933,409	16.45%
2014	$ 1,279,222	$ 1,235,699	$ 43,523	$ 7,752,863	15.94%
2013	$ 1,168,211	$ 1,049,223	$ 118,988	$ 7,301,318	14.37%

* This schedule is intended to present information for ten years. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information.

NOTE A - CHANGES IN ASSUMPTIONS

There were no changes of assumptions or other inputs that significantly affected the measurement of the total pension liability since the measurement period ended June 30, 2016.

Amounts reported in the schedule of the proportionate share of the net pension liability as of the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017) were significantly impacted by the following changes of actuarial assumptions:

- The investment return assumption decreased from 7.65% to 7.00%.
- Mortality assumptions were modified to assume longer life expectancies as well as to reflect continuous mortality improvement.

Prior to the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017), there were no other factors, including the use of different assumptions that significantly affect trends reported in these schedules.

Honolulu Authority for Rapid Transportation
City and County of Honolulu
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
Last Ten Fiscal Years*

	2021	2020	2019	2018
Total OPEB liability				
Service cost	$ 358,765	$ 420,428	$ 399,066	$ 446,200
Interest on the total OPEB liability	634,898	514,228	448,205	391,235
Benefit payments	(96,116)	(81,322)	--	--
Difference between expected and actual experience	(841,412)	972,973	113,658	--
Changes of assumptions	(25,596)	(64,222)	12,225	--
Net change in total OPEB liability	30,539	1,762,085	973,154	837,435
Total OPEB liability - July 1	8,938,641	7,176,556	6,203,402	5,365,967
Total OPEB liability - June 30	$ 8,969,180	$ 8,938,641	$ 7,176,556	$ 6,203,402
Plan fiduciary net position				
Employer contributions	$ 790,000	$ 810,000	$ 386,000	$ 283,359
Net investment income	38,758	74,382	51,041	34,795
Benefit payments	(96,116)	(81,322)	--	--
OPEB plan administrative expense	(326)	(430)	(160)	(89)
Other	18,023	110,480	--	2,641
Net change in plan fiduciary net position	750,339	913,110	436,881	320,706
Plan fiduciary net position - July 1	1,991,063	1,077,953	641,072	320,366
Plan fiduciary net position - June 30	2,741,402	1,991,063	1,077,953	641,072
Net OPEB liability - June 30	$ 6,227,778	$ 6,947,578	$ 6,098,603	$ 5,562,330
Plan fiduciary net position as a percentage of the total OPEB liability	30.56%	22.27%	15.02%	10.33%
Covered-employee payroll	$ 8,501,087	$ 8,733,383	$ 9,251,932	$ 8,773,860
Net OPEB liability as a percentage of covered-employee payroll	73.26%	79.55%	65.92%	63.40%

* This schedule is intended to present information for ten years for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information.

Honolulu Authority for Rapid Transportation
City and County of Honolulu
SCHEDULE OF CONTRIBUTIONS (OPEB)
Last Ten Fiscal Years*

Fiscal Year Ended June 30,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency	Covered-Employee Payroll	Actual Contribution as a % of Payroll
2021	$ 818,000	$ 818,000	$ --	$ 7,551,612	10.83%
2020	$ 790,000	$ 790,000	$ --	$ 8,501,087	9.29%
2019	$ 810,000	$ 810,000	$ --	$ 8,733,383	9.27%
2018	$ 594,000	$ 386,000	$ 208,000	$ 9,251,932	4.17%

* This schedule is intended to present information for ten years for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information.

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

The actuarially determined annual required contributions ("ARC") for the fiscal year ending June 30, 2021 was developed in the July 1, 2018 valuation.

Assumptions and Methods:

Actuarial valuation date	July 1, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	24.5 as of June 30, 2021
Asset valuation method	Smoothed
Inflation rate	2.50%
Investment rate of return	7.00%
Payroll growth	3.50%
Salary increases	3.50% to 7.00% including inflation
Demographic assumptions	Based on the experience study covering the five year period ending June 30, 2015 as conducted for the Hawaii Employees' Retirement System (ERS)
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the base monthly contribution, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO	Initial rate of 10%, declining to a rate of 4.86% after 13 years
HMO	Initial rate of 10%, declining to a rate of 4.86% after 13 years
Part B	Initial rates of 4% and 5%; declining to a rate of 4.7% after 12 years
Dental	5% for the first 3 years; then 4% for all future years
Vision	0% for the first 3 years; then 2.5% for all future years
Life Insurance	0%

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS (Continued)

The actuarially determined ARC for the fiscal year ending June 30, 2020 was developed in the July 1, 2018 valuation.

Assumptions and Methods:

Actuarial valuation date	July 1, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	17.9 as of June 30, 2020
Asset valuation method	Smooth
Inflation rate	2.50%
Investment rate of return	7.00%
Payroll growth	3.50%
Salary increases	3.50% to 7.00% including inflation
Demographic assumptions	Based on the experience study covering the five year period ending June 30, 2015 as conducted for the Hawaii Employees' Retirement System (ERS) Mortality System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the base monthly contribution, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO	Initial rate of 10%, declining to a rate of 4.86% after 13 years
HMO	Initial rate of 10%, declining to a rate of 4.86% after 13 years
Part B	Initial rate of 4% and 5%; declining to a rate of 4.7% after 12 years
Dental	5% for the first 3 years; then 4% for all future years
Vision	0% for the first 3 years; then 2.5% for all future years
Life Insurance	0%

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS (Continued)

There were no other factors that significantly affected trends in the amounts reported in the schedule of changes in the net OPEB liability and related ratios or the schedule of contributions (OPEB).