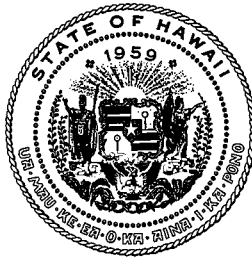


STATE OF HAWAI'I
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawai'i 96813-2917



LESLIE H. KONDO
State Auditor
(808) 587-0800
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DEPT. COMM. NO. 317

February 22, 2017

HAND DELIVER

The Honorable Ronald Kouchi
Senate President
415 S. Beretania Street
State Capitol, Room 409
Honolulu, Hawai'i 96813

Re: Audit of Hawai'i Housing Finance and Development Corporation

Dear President Kouchi:

The financial audit report of Hawai'i Housing Finance and Development Corporation for the fiscal year ending 2016, was issued on December 21, 2016. The Office of the Auditor retained Accuity LLP to perform the financial audit. For your information, we are enclosing copies of the two-page summary and the report. The report is also accessible through the Office of the Auditor's website at http://files.hawaii.gov/auditor/Reports/2016_Audit/HHFDC2016.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:ifs

Enclosures

Auditor's Summary

Financial Audit of the Hawai'i Housing Finance and Development Corporation

Financial Statements, Fiscal Year Ended June 30, 2016



PHOTO: HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

***THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Hawai'i Housing Finance and Development Corporation (HHFDC), as of and for the fiscal year ended June 30, 2016, and to comply with the requirements Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Accuity LLP.*

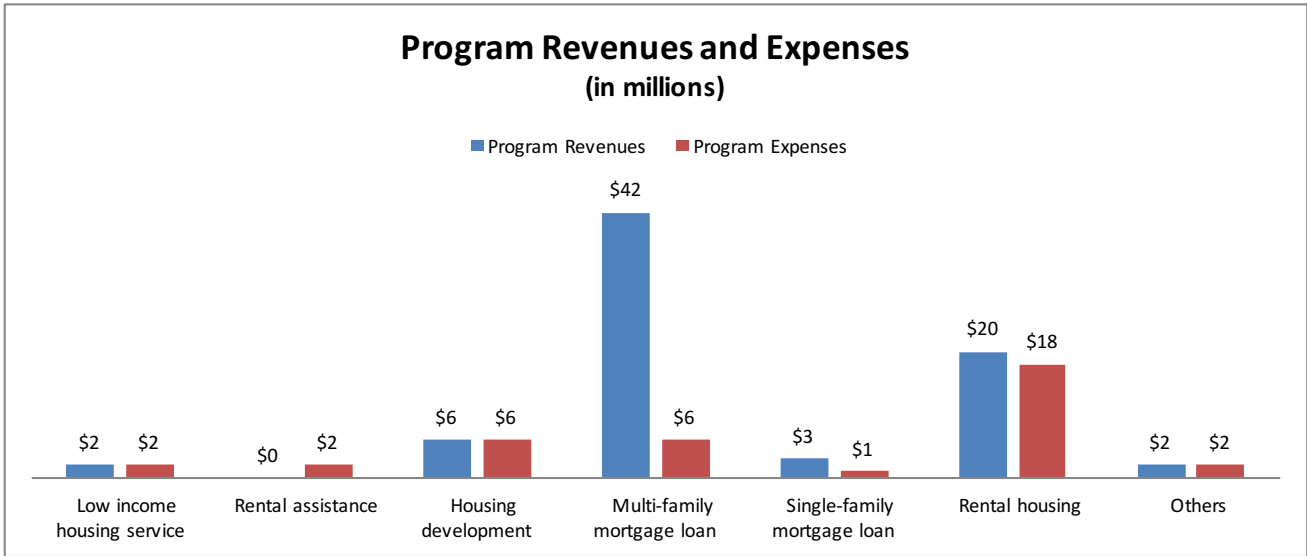
About the Corporation

HHFDC WAS CREATED to perform housing finance, housing development, and residential leasehold functions. HHFDC's mission is to increase the supply of workforce and affordable homes by providing tools and resources to facilitate housing development, such as housing tax credits, low-interest construction loans, equity gap loans, and developable land and expedited land use approvals. HHFDC is administratively attached to the Department of Business, Economic Development, and Tourism.

Financial Highlights

HHFDC HAS TWO TYPES OF FUNDS: governmental and proprietary. HHFDC's governmental funds are supported primarily by federal grants and proceeds of the State's general obligation bonds allotted to HHFDC. Governmental funds include the HOME Investment Partnership Program, the General Obligation Bond Fund, the Tax Credit Assistance Program Fund, the National Foreclosure Mitigation Counseling Program Fund, and the Emergency Homeowners' Loan Program Fund.

HHFDC's proprietary funds operate similar to business-type activities and are used to account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing services to customers. HHFDC's proprietary funds include the Rental Housing Revolving Fund, the Dwelling Unit Revolving Fund, three revenue bond funds, and three other funds.



For the fiscal year ended June 30, 2016, HHFDC reported total program revenues of \$75 million and total program expenses of \$37 million.

HHFDC reported total assets in excess of \$1.1 billion and total liabilities of \$380 million. Total assets included cash of \$317 million, investments of \$78 million, notes and loans receivable of \$546 million, capital assets of \$91 million, and other assets of \$68 million. Total liabilities included revenue bonds payable of \$300 million, unearned income of \$22 million, estimated future costs of development of \$35 million, and other liabilities of \$23 million.

Auditors' Opinions

HHFDC RECEIVED AN UNMODIFIED OPINION that the basic financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. HHFDC also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*.

Findings

THERE WERE NO REPORTED DEFICIENCIES in internal control over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2016_Audit/HHFDC2016.pdf

**State of Hawai'i
Hawaii Housing Finance and
Development Corporation**
Financial and Compliance Audit
June 30, 2016

Submitted by
The Auditor
State of Hawai'i

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
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June 30, 2016

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PART I
Financial Statements

Report of Independent Auditors

The Auditor
State of Hawai'i

The Board of Directors
State of Hawai'i, Hawaii Housing Finance and Development Corporation

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the "Corporation"), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the index.

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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 auditors' 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 auditors consider 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Corporation as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the HOME Investment Partnership Program for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the Corporation include only the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Corporation, and are not intended to present fairly the financial position of the State of Hawai'i as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 12 and page 20 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 ("GASB"), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The combining non-major fund financial statements and reconciliation of cash and short-term investments are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance, and is not a required part of the basic financial statements.

The combining non-major fund financial statements, reconciliation of cash and short-term investments, and schedule of expenditures of federal awards are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements, reconciliation of cash and short-term investments, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

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

Accuity LLP

Honolulu, Hawaii
December 21, 2016

State of Hawai'i

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis

June 30, 2016

The management of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the "Corporation") offers readers of the Corporation's financial statements this narrative overview and analysis of their financial activities for the fiscal year ended ("FYE") June 30, 2016. This document should be read in conjunction with the audited financial statements. All amounts presented in tables, unless otherwise indicated, are expressed in thousands of dollars.

Introduction

The Corporation was established by the State Legislature effective July 1, 2006 in accordance with Act 196, SLH 2005, as amended by Act 180, SLH 2006.

The Corporation's mission is to increase the supply of workforce and affordable homes by providing tools and resources to facilitate housing development. Tools and resources include housing tax credits, low interest construction loans, equity gap loans, developable land and expedited land use approvals.

The Corporation is administratively attached to the State Department of Business, Economic Development and Tourism. The Corporation's Board of Directors consists of nine members, six of whom are public members appointed by the Governor, and confirmed by the State Senate. Public members are appointed from each of the counties of Honolulu, Hawai'i, Maui and Kaua'i. At least four of the public members must have knowledge and expertise in public or private financing and development of affordable housing. At least one public member represents community advocates for low-income housing affiliated with private nonprofit organizations that serve the residents of low-income housing. The Director of Business, Economic Development and Tourism; the Director of Finance; and a representative of the Governor's Office are ex-officio voting members. All Corporation action is taken by the affirmative vote of at least five members.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements of the Corporation for the period ended June 30, 2016. The financial statements consist of Management's Discussion and Analysis, the basic financial statements, related notes to the financial statements and other required supplementary information. These components are described below:

Basic Financial Statements

The basic financial statements include two kinds of statements that present different views of the Corporation:

- The first two statements are Corporation-wide financial statements that provide information about the Corporation's overall financial position and results of operations. These statements are presented on an accrual basis of accounting and consist of the Statement of Net Position and the Statement of Activities.
- The remaining statements are the fund financial statements of the Corporation's governmental funds, for which activities are funded primarily from appropriations from the State, and the Corporation's major and non-major proprietary funds, which operate similarly to business-type activities. The governmental funds are presented on a modified accrual basis of accounting while the proprietary funds are presented on an accrual basis of accounting.
- The basic financial statements also present budgetary comparison statements, which are required.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Management’s Discussion and Analysis
June 30, 2016

- The basic financial statements also include a “Notes to Financial Statements” section that explains some of the information in the government-wide and fund financial statements and provides more detailed data.
- The “Notes to Financial Statements” are followed by a “Supplementary Information” section, which presents combining information on non-major funds, which is not required.

Government-wide Financial Statements

The government-wide statements report information about the Corporation as a whole using accounting methods similar to those used by private sector companies. The statement of net position provides both short-term and long-term information about the Corporation’s financial position, which assists in assessing the Corporation’s economic condition at the end of the fiscal year. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Most of the Corporation’s activities are business-type activities and are reported in its proprietary funds. The government-wide financial statements include two statements:

- The *statement of net position* presents all of the Corporation’s assets and deferred outflows of resources less liabilities, with the difference reported as “net position.” Over time, increases and decreases in the Corporation’s net position may serve as a useful indicator of the health of the financial position of the Corporation.
- The *statement of activities* presents information indicating how the Corporation’s net position changed during the most recent fiscal year.

The government-wide financial statements of the Corporation are divided into two categories:

- *Governmental activities* – The activities in this section are primarily supported by State or Federal appropriations or by Federal contributions.
- *Business-type activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users.

Fund Financial Statements

The fund financial statements provide more detailed information about the Corporation’s most significant funds and not the Corporation as a whole. The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as a major fund or a non-major fund. The Governmental Accounting Standards Board (“GASB”) issued Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining section of the financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Management’s Discussion and Analysis
June 30, 2016

The Corporation has two types of funds:

- *Governmental Funds*
 - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.
 - Governmental fund financial statements help determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation’s programs.
 - The focus of the governmental funds is narrower than that of the government-wide financial statements; therefore, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decision.
 - Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- *Proprietary Funds* – The Corporation’s only type of proprietary funds are its enterprise funds, which are used to account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing services to customers.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining financial statements of the non-major funds and reconciliation of cash and short term investments are presented as supplementary information.

Supplementary information also includes the Schedule of Expenditures of Federal Awards (“SEFA”). The SEFA reports federal awards to the Corporation on an accrual basis of accounting for the year ended June 30, 2016.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Management’s Discussion and Analysis
June 30, 2016

Government-wide Financial Analysis

As noted earlier, the *statement of net position* presents all of the Corporation’s assets and deferred inflows of resources less liabilities, with the difference reported as net position. Over time, changes in net position may serve as a useful indicator of the Corporation’s financial statements. As indicated below, as of June 30, 2016, the Corporation’s total net position was approximately \$719,967,000, an increase of \$90,774,000 (or 14.4%) from the previous year.

Government-Wide Condensed Statements of Net Position
June 30, 2016 and 2015
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2016	2015	2016	2015	2016	2015	
Current assets	\$ 46,109	\$ 15,291	\$ 307,234	\$ 249,724	\$ 353,343	\$ 265,015	33.3%
Restricted assets held by trustee	-	-	137,360	143,723	137,360	143,723	-4.4%
Capital assets	-	-	90,754	91,293	90,754	91,293	-0.6%
Other assets	9,862	9,861	505,900	504,127	515,762	513,988	0.3%
Total assets	55,971	25,152	1,041,248	988,867	1,097,219	1,014,019	8.2%
Deferred outflows of resources	-	-	1,391	1,296	1,391	1,296	7.3%
Total deferred outflows of resources	-	-	1,391	1,296	1,391	1,296	7.3%
Total assets and deferred outflows of resources	\$ 55,971	\$ 25,152	\$ 1,042,639	\$ 990,163	\$ 1,098,610	\$ 1,015,315	8.2%
Current liabilities	\$ 7	\$ 7	\$ 37,297	\$ 27,288	\$ 37,304	\$ 27,295	36.7%
Long-term liabilities	-	-	340,841	358,060	340,841	358,060	-4.8%
Total liabilities	7	7	378,138	385,348	378,145	385,355	-1.9%
Deferred inflows of resources	-	-	498	767	498	767	-35.1%
Total deferred inflows of resources	-	-	498	767	498	767	-35.1%
Net position							
Net investment in capital assets	-	-	45,269	34,622	45,269	34,622	30.8%
Restricted	40,682	18,145	103,302	113,125	143,984	131,270	9.7%
Unrestricted	15,282	7,000	515,432	456,301	530,714	463,301	14.6%
Total net position	55,964	25,145	664,003	604,048	719,967	629,193	14.4%
Total liabilities, deferred inflows of resources and net position	\$ 55,971	\$ 25,152	\$ 1,042,639	\$ 990,163	\$ 1,098,610	\$ 1,015,315	8.2%

Current assets increased by approximately \$88,328,000 (33.3%) during 2016 primarily related to increases in cash and cash equivalents and investments in the State Treasury of \$39,410,000, appropriations due from the State of \$30,819,000 and mortgage loan and other receivables of \$16,705,000.

Restricted assets held by trustee result from the trust indentures of the revenue bond funds requiring cash and investments to be held by a trustee. These assets decreased by approximately \$6,363,000 (4.4%) during 2016 due primarily to a net decrease in investments of approximately \$14,107,000 (16.4%) offset by an increase in cash and cash equivalents of approximately \$7,744,000 (13.5%). Fewer assets were required due to repayments of issued bonds.

Capital assets decreased by approximately \$539,000 (0.6%); and other assets increased by approximately \$1,774,000 (0.3%) during 2016 primarily due to a net increase of approximately \$10,236,000 in the long-term portion of mortgage and construction loans in the Rental Housing Revolving Fund, offset by a net decrease of approximately \$5,724,000 in the long-term portion of notes and loans in the Dwelling Unit Revolving Fund.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Management’s Discussion and Analysis
June 30, 2016

Current liabilities increased by approximately \$10,009,000 (36.7%) during 2016 primarily due to an increase in the current portion of revenue bonds payable of approximately \$9,322,000.

Long-term liabilities decreased by approximately \$17,219,000 (4.8%) primarily due to a decrease in the long term portion of revenue bonds of approximately \$9,625,000 and a decrease in the long-term portion of mortgages payable of \$5,243,000.

Net investment in capital assets consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restrictions on net position, which represent resources that are subject to external restrictions on how they may be used, primarily include the assets held by trustee and increased by approximately \$12,714,000 (9.7%) during 2016.

Unrestricted net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The statement of activities below presents information indicating how the Corporation’s net position changed during the most recent fiscal year:

Government-Wide Statements of Activities
Years Ended June 30, 2016 and 2015
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2016	2015	2016	2015	2016	2015	
Revenues							
Program revenues							
Charges for services	\$ -	\$ -	\$ 69,443	\$ 74,092	\$ 69,443	\$ 74,092	-6.3%
Operating grants and contributions	1,631	4,878	4,177	4,586	5,808	9,464	-38.6%
General revenues							
State allotted appropriations, net of lapses	49,819	7,832	-	-	49,819	7,832	536.1%
Gain on sale of capital assets	-	-	2,945	-	2,945	-	N/A
Total revenues	<u>51,450</u>	<u>12,710</u>	<u>76,565</u>	<u>78,678</u>	<u>128,015</u>	<u>91,388</u>	40.1%
Expenses							
Governmental activities							
Expenditures	1,631	4,877	-	-	1,631	4,877	-66.6%
Business-type activities							
Rental assistance program	-	-	1,887	1,998	1,887	1,998	-5.6%
Housing development program	-	-	5,938	8,829	5,938	8,829	-32.7%
Multi-family mortgage loan programs	-	-	6,129	6,207	6,129	6,207	-1.3%
Single-family mortgage loan program	-	-	1,122	2,033	1,122	2,033	-44.8%
Rental housing program	-	-	17,984	20,624	17,984	20,624	-12.8%
Others	-	-	2,394	2,013	2,394	2,013	18.9%
Total expenses	<u>1,631</u>	<u>4,877</u>	<u>35,454</u>	<u>41,704</u>	<u>37,085</u>	<u>46,581</u>	-20.4%
Net change before transfers	49,819	7,833	41,111	36,974	90,930	44,807	102.9%
Transfers	(19,000)	450	18,844	(419)	(156)	31	-603.2%
Change in net position	<u>30,819</u>	<u>8,283</u>	<u>59,955</u>	<u>36,555</u>	<u>90,774</u>	<u>44,838</u>	102.4%
Net position							
Beginning of year	25,145	16,862	604,048	573,989	629,193	590,851	6.5%
Prior period adjustment for change in accounting principle	-	-	-	(6,496)	-	(6,496)	-100.0%
Beginning of year, as restated	<u>25,145</u>	<u>16,862</u>	<u>604,048</u>	<u>567,493</u>	<u>629,193</u>	<u>584,355</u>	7.7%
End of year	<u>\$ 55,964</u>	<u>\$ 25,145</u>	<u>\$ 664,003</u>	<u>\$ 604,048</u>	<u>\$ 719,967</u>	<u>\$ 629,193</u>	14.4%

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Management’s Discussion and Analysis
June 30, 2016

Governmental Activities

For the fiscal year ended June 30, 2016, total net position of the governmental activities increased by approximately \$30,819,000 from \$25,145,000 in 2015 to \$55,964,000 in 2016. The increase is primarily due to State allotted appropriations net of lapses of \$49,819,000 offset by transfers of appropriations to other funds of \$19,000,000.

Business-type Activities

Revenues of the Corporation’s business-type activities were primarily from charges for services, program investment income and federal assistance program funds. Charges for services consist primarily of rental income and interest income of loans related to the Corporation’s lending programs. The majority of the program investment income is from income earned within the Corporation’s bond funds and is restricted to those funds.

For the fiscal year ending June 30, 2016, business-type activities increased the Corporation’s net position by approximately \$59,955,000 after transfers of \$18,844,000. Total revenues of \$76,565,000 exceeded total expenses by \$41,111,000. Revenues primarily consisted of \$69,443,000 in charges for services for 2016, while the \$35,454,000 in expenses primarily consisted of operating expenses for the Corporation’s various business-type functions.

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirement.

Governmental Funds

At June 30, 2016, the Corporation’s governmental funds reported total net position balances of \$55,964,000.

The governmental funds consist of two major funds and several non-major funds. The two major funds are the (1) HOME Investment Partnership Program, and (2) General Obligation Bond Fund.

- The *HOME Investment Partnership Program* was established for the purpose of enhancing the State and local government’s ability to provide affordable housing for low- and very low-income families through funding strategies designed to increase the supply of decent affordable housing by offering financial and technical assistance to participating jurisdictions. The fund had no ending fund balance at June 30, 2016 as all revenues recognized were expended.
- The *General Obligation Bond Fund* is used to transfer proceeds from the State’s issuance of general obligation bonds to the Corporation for subsequent use by the Corporation’s other funds. The Fund had a fund balance of approximately \$46,101,000 as of June 30, 2016.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Management’s Discussion and Analysis
June 30, 2016

Proprietary Funds

The proprietary funds consist of five major and several non-major funds. The five major funds are the: (1) Rental Housing Revolving Fund, (2) Dwelling Unit Revolving Fund, (3) Hawaii Rental Housing System Revenue Bond Fund, (4) Single Family Mortgage Purchase Revenue Bond Fund, and (5) Multifamily Housing Revenue Bond Fund.

- The *Rental Housing Revolving Fund* provides developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units. The fund recognized an increase in net position of approximately \$40,685,000 in 2016, compared to an increase of \$41,230,000 in 2015. The 2016 increase in net position consisted of conveyance tax collections of approximately \$33,057,000, loan interest income of \$2,199,000, investment interest income of \$612,000, and transfers of \$5,000,000 less operating expenses of approximately \$368,000.

Conveyance taxes decreased by approximately \$6,454,000 (16.3%) to \$33,057,000 in 2016 from \$39,511,000 in 2015, due to a decrease in real estate activity compared to last year. Interest on investments increased due to an increase in cash, cash equivalents and investments held in the State Treasury.

- The *Dwelling Unit Revolving Fund* accounts for State funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing interim financing, which generates rents, sales proceeds and interest earnings from the financing and investment of such funds. The fund had an increase in net position of \$16,096,000 in 2016, which was primarily due to net nonoperating revenues of \$3,664,000 and transfers of \$12,591,000, offset by an operating loss of approximately \$159,000.
- The *Hawaii Rental Housing System Revenue Bond Fund* accounts for special funds for housing projects or systems of housing projects financed from proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State. The fund had operating income of approximately \$1,829,000 in 2016, which was an increase of approximately \$2,157,000 from the operating loss of \$328,000 in 2015. The improvement is primarily due to lower operating expenses as well as higher rental income.
- The *Single Family Mortgage Purchase Revenue Bond Fund* accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest and earnings from such loans and investment of such funds. Net position in the fund increased by approximately \$1,649,000, as a result of net operating income of \$770,000 and net nonoperating revenues of \$879,000.
- The *Multifamily Housing Revenue Bond Fund* accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing at below market interest rates to facilitate the construction or rehabilitation of affordable housing projects. Net position in the fund increased by approximately \$91,000 primarily as a result of operating revenues which is comprised mostly of interest income on mortgage loans exceeding operating expenses, which is comprised mostly of interest expense.

**State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Management’s Discussion and Analysis
June 30, 2016**

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2016, the Corporation had invested approximately \$90,755,000 (net of accumulated depreciation of \$118,712,000) in a broad range of capital assets. This amount represents a decrease of approximately \$538,000 (0.6%) over the prior year, primarily due to depreciation expenses and the sale of Kekuilani Gardens buildings and equipment offset by the acquisition of land related to the Meheula Vista project.

**Corporation’s Capital Assets
June 30, 2016 and 2015
(in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2016	2015	2016	2015	2016	2015	
Land	\$ -	\$ -	\$ 49,955	\$ 43,228	\$ 49,955	\$ 43,228	15.6%
Buildings and improvements	-	-	156,754	162,072	156,754	162,072	-3.3%
Equipment	204	568	2,554	2,513	2,758	3,081	-10.5%
Total	204	568	209,263	207,813	209,467	208,381	0.5%
Accumulated depreciation	(204)	(568)	(118,508)	(116,520)	(118,712)	(117,088)	1.4%
Total capital assets, net	\$ -	\$ -	\$ 90,755	\$ 91,293	\$ 90,755	\$ 91,293	-0.6%

Debt Administration

Through June 30, 2016, approximately \$2.8 billion of revenue bonds have been issued. The revenue bonds are payable solely from the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the various bond indentures. Revenue bonds payable, net of premiums, decreased by approximately \$303,000 to approximately \$299,732,000 at June 30, 2016 from \$300,036,000 at June 30, 2015. During the year ended June 30, 2016, the Corporation drew \$14,256,000 from the drawdown bonds in the Multifamily Housing System. Bond redemptions were approximately \$10,709,000, \$2,900,000 and \$917,000 for the Single Family Mortgage Purchase, Hawaii Rental Housing System and Multifamily Housing Revenue Bond Funds, respectively.

As of June 30, 2016, Moody’s Investors Service upgraded the rating of the Corporation from A2 with a negative outlook to A1 with a stable outlook due to the Corporation’s very strong financial position. As of June 30, 2016, the Corporation’s bond ratings for the Single Family Mortgage Purchase Revenue Bond program were as follows:

- Standard & Poor’s Rating Services: AA+
- Moody’s Investors Service: Aaa
- Fitch Ratings: AAA

Currently Known Facts, Decisions or Conditions

- The Corporation is currently evaluating the possible restructuring of the ownership of its affordable rental housing projects through the conveyance of leasehold interests to experienced, private-sector operators. Such private-sector partnerships are intended to preserve the long-term affordability of the projects while relieving the Corporation of the burden of active management. The Corporation believes that the private sector can more efficiently operate the projects and undertake necessary capital-intensive improvements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Management’s Discussion and Analysis
June 30, 2016

Requests for Information

This report is designed to provide an overview of the Corporation’s finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chief Financial Officer, Hawaii Housing Finance and Development Corporation, 677 Queen Street, Suite 300, Honolulu, Hawaii 96813.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
Assets and Deferred Outflows of Resources			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 8,335	\$ 246,379,001	\$ 246,387,336
Cash in banks	64	3,481,675	3,481,739
Receivables			
Mortgage loans	-	24,109,156	24,109,156
Notes and loans	-	4,462,551	4,462,551
Accrued interest	-	24,286,564	24,286,564
Tenant receivables, less allowance for doubtful accounts of \$358,284	-	146,988	146,988
Other receivables, less allowance for doubtful accounts of \$135,591	-	2,349,742	2,349,742
Total receivables	-	55,355,001	55,355,001
Cash held by third parties	-	529,975	529,975
Due from State	46,101,206	-	46,101,206
Due from other governments	155	-	155
Internal balances	(614)	614	-
Due from other State departments, net	-	1,185,119	1,185,119
Prepaid expenses and other assets	-	192,981	192,981
Deposits held in trust	-	109,733	109,733
Total current assets	46,109,146	307,234,099	353,343,245
Restricted assets held by trustees under revenue bond programs			
Cash and cash equivalents	-	65,235,379	65,235,379
Investments	-	72,124,579	72,124,579
	-	137,359,958	137,359,958
Other receivables	-	29,870	29,870
Due from other State departments	-	6,400,000	6,400,000
Inventories – development in progress and dwelling units	-	10,486,170	10,486,170
Investments	-	5,802,504	5,802,504
Mortgage loans, net of allowance for loan losses of \$98,193	-	370,891,966	370,891,966
Notes and loans	9,861,610	112,289,254	122,150,864
Capital assets, net	-	90,754,105	90,754,105
Total assets	55,970,756	1,041,247,926	1,097,218,682
Deferred outflows of resources			
Deferred loss on refunding	-	425,837	425,837
Deferred outflows on net pension liability	-	965,638	965,638
Total deferred outflows of resources	-	1,391,475	1,391,475
Total assets and deferred outflows of resources	\$ 55,970,756	\$ 1,042,639,401	\$ 1,098,610,157

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Statement of Net Position
June 30, 2016

	Governmental Activities	Business-Type Activities	Total
Liabilities, Deferred Inflows of Resources and Net Position			
Current liabilities			
Accounts payable	\$ 7,039	\$ 1,009,870	\$ 1,016,909
Accrued expenses			
Interest	-	3,603,389	3,603,389
Other	-	966,187	966,187
Security deposits	-	2,670,770	2,670,770
Note payable	-	14,304	14,304
Unearned income	-	512,033	512,033
Revenue bonds payable, net	-	28,520,296	28,520,296
Total current liabilities	<u>7,039</u>	<u>37,296,849</u>	<u>37,303,888</u>
Noncurrent liabilities			
Note payable	-	139,845	139,845
Revenue bonds payable, net	-	271,212,038	271,212,038
Estimated future costs of development	-	35,039,987	35,039,987
Unearned income	-	21,334,199	21,334,199
Unrealized gain on sale of units and land	-	1,744,872	1,744,872
Postemployment liability	-	4,504,597	4,504,597
Net pension liability	-	6,865,816	6,865,816
Total liabilities	<u>7,039</u>	<u>378,138,203</u>	<u>378,145,242</u>
Deferred inflows of resources			
Deferred inflows on net pension liability	-	498,760	498,760
Total deferred inflows of resources	<u>-</u>	<u>498,760</u>	<u>498,760</u>
Commitments and contingencies			
Net position			
Net investment in capital assets	-	45,269,248	45,269,248
Restricted by legislation and contractual agreements	40,681,600	103,301,593	143,983,193
Unrestricted	15,282,117	515,431,597	530,713,714
Total net position	<u>55,963,717</u>	<u>664,002,438</u>	<u>719,966,155</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 55,970,756</u>	<u>\$ 1,042,639,401</u>	<u>\$ 1,098,610,157</u>

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Statement of Activities
Year Ended June 30, 2016

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities						
Low-income housing service and assistance program	\$ 1,630,630	\$ -	\$ 1,630,630	\$ -	\$ -	\$ -
Total governmental activities	<u>1,630,630</u>	<u>-</u>	<u>1,630,630</u>	<u>-</u>	<u>-</u>	<u>-</u>
Business-type activities						
Rental assistance program	1,886,805	68,681	184,540	-	(1,633,584)	(1,633,584)
Housing development program	5,938,043	3,194,356	3,303,091	-	559,404	559,404
Multifamily mortgage loan program	6,128,951	41,292,231	612,107	-	35,775,387	35,775,387
Single family mortgage loan program	1,122,330	2,771,742	-	-	1,649,412	1,649,412
Rental housing program	17,984,429	19,731,984	35,081	-	1,782,636	1,782,636
Others	2,393,863	2,383,580	42,165	-	31,882	31,882
Total business-type activities	<u>35,454,421</u>	<u>69,442,574</u>	<u>4,176,984</u>	<u>-</u>	<u>38,165,137</u>	<u>38,165,137</u>
Total	<u>\$ 37,085,051</u>	<u>\$ 69,442,574</u>	<u>\$ 5,807,614</u>	<u>-</u>	<u>38,165,137</u>	<u>38,165,137</u>
General revenues and transfers						
State allotted appropriations, net of lapses				49,819,089	-	49,819,089
Net transfers				(19,000,000)	18,843,929	(156,071)
Gain on sale of capital assets				-	2,945,364	2,945,364
Total general revenues and transfers				<u>30,819,089</u>	<u>21,789,293</u>	<u>52,608,382</u>
Change in net position				30,819,089	59,954,430	90,773,519
Net position						
Beginning of year				<u>25,144,628</u>	<u>604,048,008</u>	<u>629,192,636</u>
End of year				<u>\$ 55,963,717</u>	<u>\$ 664,002,438</u>	<u>\$ 719,966,155</u>

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Balance Sheet
June 30, 2016

	HOME Investment Partnership Program	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Assets				
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ -	\$ 8,335	\$ 8,335
Cash in banks	64	-	-	64
Notes and loans receivable	-	-	9,861,610	9,861,610
Due from State	-	46,101,206	-	46,101,206
Due from other governments	-	-	155	155
Total assets	<u>\$ 64</u>	<u>\$ 46,101,206</u>	<u>\$ 9,870,100</u>	<u>\$ 55,971,370</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 7,039	\$ 7,039
Due to other funds	64	-	550	614
Due to other governments	-	-	-	-
Total liabilities	<u>64</u>	<u>-</u>	<u>7,589</u>	<u>7,653</u>
Fund balances				
Restricted	-	30,819,089	9,862,511	40,681,600
Committed	-	15,282,117	-	15,282,117
Total fund balances	<u>-</u>	<u>46,101,206</u>	<u>9,862,511</u>	<u>55,963,717</u>
Total liabilities and fund balances	<u>\$ 64</u>	<u>\$ 46,101,206</u>	<u>\$ 9,870,100</u>	<u>\$ 55,971,370</u>

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2016

Total fund balances – governmental funds		\$ 55,963,717
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not current financial resources and therefore not reported in the funds.		
These assets consist of the following		
Equipment	\$ 203,960	
Accumulated depreciation	<u>(203,960)</u>	
Total capital assets		<u>-</u>
Net position of governmental activities		<u>\$ 55,963,717</u>

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Statement of Revenues, Expenditures and Change in Fund Balances
Year Ended June 30, 2016

	HOME Investment Partnership Program	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
State allotted appropriations, net of lapses	\$ -	\$ 49,819,089	\$ -	\$ 49,819,089
Intergovernmental revenue	1,628,302	-	2,328	1,630,630
Total revenue	<u>1,628,302</u>	<u>49,819,089</u>	<u>2,328</u>	<u>51,449,719</u>
Expenditures				
Programs	1,478,194	-	-	1,478,194
Personnel services	107,989	-	-	107,989
Administration	32,749	-	2,328	35,077
Professional services	9,370	-	-	9,370
Total expenditures	<u>1,628,302</u>	<u>-</u>	<u>2,328</u>	<u>1,630,630</u>
Other financing uses				
Transfers out	-	(19,000,000)	-	(19,000,000)
Change in fund balances	-	30,819,089	-	30,819,089
Fund balances				
Beginning of year	-	15,282,117	9,862,511	25,144,628
End of year	<u>\$ -</u>	<u>\$ 46,101,206</u>	<u>\$ 9,862,511</u>	<u>\$ 55,963,717</u>

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Change in Fund Balances to the Statement of Activities
Year Ended June 30, 2016

Net change in fund balances – total governmental funds \$ 30,819,089

Amounts reported for governmental activities in
the statement of activities are different because

Governmental funds report capital outlays as expenditures.

In the statement of activities, the cost of those assets is
allocated over their estimated useful lives and reported
as depreciation expense. This is the amount by which
depreciation expense exceeded capital outlays during the year.

Depreciation expense

\$ -

 -

Change in fund balances – governmental activities \$ 30,819,089

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Budgetary Comparison Statement – HOME Investment Partnership Program
Year Ended June 30, 2016

	Original and Final Budgets	Budgetary Actual
Revenues		
Intergovernmental revenue	\$ 1,628,302	\$ 1,628,302
Expenditures		
Programs	1,478,194	1,478,194
Personnel services	107,989	107,989
Administration	32,749	32,749
Professional services	9,370	9,370
Total expenditures	<u>1,628,302</u>	<u>1,628,302</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>-</u>
Fund balance		
Beginning of year		<u>-</u>
End of year		<u>\$ -</u>

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

**State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Net Position
June 30, 2016**

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Assets and Deferred Outflows of Resources							
Current assets							
Equity in cash and cash equivalents and investments in State Treasury	\$ 125,978,388	\$ 95,083,862	\$ -	\$ -	\$ -	\$ 25,316,751	\$ 246,379,001
Cash in banks	-	946,019	2,525,656	-	-	10,000	3,481,675
Receivables							
Mortgage loans	565,934	-	-	171,976	23,371,246	-	24,109,156
Notes and loans	-	4,462,551	-	-	-	-	4,462,551
Accrued interest	7,847,692	14,299,383	-	213,210	1,055,013	871,266	24,286,564
Tenant receivables, less allowance for doubtful accounts of \$358,284	-	146,988	-	-	-	-	146,988
Other receivables, less allowance for doubtful accounts of \$135,591	-	2,162,341	-	-	187,401	-	2,349,742
Total receivables	8,413,626	21,071,263	-	385,186	24,613,660	871,266	55,355,001
Cash held by third parties	-	-	529,975	-	-	-	529,975
Due from other funds	-	744,717	-	-	2,070,854	1,375,380	4,190,951
Due from other State departments	-	1,700,000	-	-	-	-	1,700,000
Prepaid expenses and other assets	-	-	48,878	2,685	-	141,418	192,981
Deposits held in trust	-	109,733	-	-	-	-	109,733
Total current assets	134,392,014	119,655,594	3,104,509	387,871	26,684,514	27,714,815	311,939,317
Restricted assets held by Trustees under revenue bond programs							
Cash and cash equivalents	-	-	34,058,365	20,347,774	10,829,240	-	65,235,379
Investments	-	-	-	72,061,918	62,661	-	72,124,579
	-	-	34,058,365	92,409,692	10,891,901	-	137,359,958
Other receivables	-	-	29,870	-	-	-	29,870
Due from other State departments	-	6,400,000	-	-	-	-	6,400,000
Inventories – development in progress and dwelling units	-	10,486,170	-	-	-	-	10,486,170
Investments	-	-	-	-	-	5,802,504	5,802,504
Mortgage loans, net of allowance for loan losses of \$107,153	231,422,921	375,563	-	322,197	131,145,596	7,625,689	370,891,966
Notes and loans	-	112,289,254	-	-	-	-	112,289,254
Capital assets, net	-	44,724,689	45,969,248	-	-	60,168	90,754,105
Total assets	365,814,935	293,931,270	83,161,992	93,119,760	168,722,011	41,203,176	1,045,953,144
Deferred outflows of resources							
Deferred loss on refunding	-	-	425,837	-	-	-	425,837
Deferred outflows on net pension liability	67,960	497,114	121,756	34,063	80,258	164,487	965,638
Total deferred outflows of resources	67,960	497,114	547,593	34,063	80,258	164,487	1,391,475
Total assets and deferred outflows of resources	\$ 365,882,895	\$ 294,428,384	\$ 83,709,585	\$ 93,153,823	\$ 168,802,269	\$ 41,367,663	\$ 1,047,344,619

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

**State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Net Position
June 30, 2016**

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Liabilities, Deferred Inflows of Resources and Net Position							
Current liabilities							
Accounts payable	\$ -	\$ 743,368	\$ 11,012	\$ 8,960	\$ 79,240	\$ 167,290	\$ 1,009,870
Accrued expenses							
Interest	-	-	1,908,244	593,243	1,101,902	-	3,603,389
Other	61,691	543,850	64,648	97,272	53,719	145,007	966,187
Due to other funds	-	129,740	610,622	190,680	-	3,259,295	4,190,337
Due to other State departments	-	484,601	-	-	-	30,280	514,881
Security deposits	-	158,702	1,312,425	-	-	1,199,643	2,670,770
Note payable	-	14,304	-	-	-	-	14,304
Unearned income	-	384,615	127,418	-	-	-	512,033
Revenue bonds payable	-	-	3,052,048	2,097,000	23,371,248	-	28,520,296
Total current liabilities	61,691	2,459,180	7,086,417	2,987,155	24,606,109	4,801,515	42,002,067
Noncurrent liabilities							
Note payable	-	139,845	-	-	-	-	139,845
Revenue bonds payable	-	-	76,762,862	52,525,911	141,923,265	-	271,212,038
Estimated future costs of development	-	35,039,987	-	-	-	-	35,039,987
Unearned income	-	21,334,199	-	-	-	-	21,334,199
Unrealized gain on sale of units and land	-	1,744,872	-	-	-	-	1,744,872
Postemployment liability	216,251	2,567,012	415,439	270,863	246,230	788,802	4,504,597
Net pension liability	331,825	3,909,770	636,016	406,876	377,572	1,203,757	6,865,816
Total liabilities	609,767	67,194,865	84,900,734	56,190,805	167,153,176	6,794,074	382,843,421
Deferred inflows of resources							
Deferred inflows on net pension liability	43,015	238,915	77,065	21,560	50,799	67,406	498,760
Total deferred inflows of resources	43,015	238,915	77,065	21,560	50,799	67,406	498,760
Commitments and contingencies							
Net position							
Net investment in capital assets	-	44,570,540	638,540	-	-	60,168	45,269,248
Restricted by legislation and contractual agreements	-	-	-	92,409,692	10,891,901	-	103,301,593
Unrestricted	365,230,113	182,424,064	(1,906,754)	(55,468,234)	(9,293,607)	34,446,015	515,431,597
Total net position	365,230,113	226,994,604	(1,268,214)	36,941,458	1,598,294	34,506,183	664,002,438
Total liabilities, deferred inflows of resources and net position	\$ 365,882,895	\$ 294,428,384	\$ 83,709,585	\$ 93,153,823	\$ 168,802,269	\$ 41,367,663	\$ 1,047,344,619

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2016

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating revenues							
Conveyance tax	\$ 33,056,877	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,056,877
Rental	-	1,859,688	18,809,248	-	-	28,014	20,696,950
Interest on mortgages, notes, loans and mortgage-backed securities	2,199,080	2,584,582	-	2,771,556	5,356,093	94,551	13,005,862
Gain on sale of land, net	-	430,904	-	-	-	-	430,904
Other	184,973	903,764	922,736	186	495,208	2,329,696	4,836,563
Total operating revenues	<u>35,440,930</u>	<u>5,778,938</u>	<u>19,731,984</u>	<u>2,771,742</u>	<u>5,851,301</u>	<u>2,452,261</u>	<u>72,027,156</u>
Operating expenses							
Interest expense	-	-	3,841,141	1,599,385	5,358,328	-	10,798,854
Programs	-	1,527,004	8,495,059	-	-	-	10,022,063
Personnel services	284,913	2,713,165	470,093	74,004	336,729	1,994,662	5,873,566
Depreciation	-	124,022	4,534,948	-	-	-	4,658,970
Administration	55,570	1,098,145	85,543	268,605	26,631	407,223	1,941,717
Housing assistance payments	-	-	-	-	-	1,745,403	1,745,403
Professional services	25,767	365,476	9,094	29,278	36,396	54,679	520,690
Capital expenses	2,078	104,165	185,279	8,018	2,539	7,964	310,043
Insurance	-	6,066	144,652	-	-	44,570	195,288
Provision for losses	-	-	48,535	-	-	14,560	63,095
Repairs and maintenance	-	-	13,385	-	-	1,759	15,144
Utilities	-	-	-	1,467	-	-	1,467
Other	-	-	74,930	20,615	-	9,215	104,760
Total operating expenses	<u>368,328</u>	<u>5,938,043</u>	<u>17,902,659</u>	<u>2,001,372</u>	<u>5,760,623</u>	<u>4,280,035</u>	<u>36,251,060</u>
Operating income (loss) carried forward	<u>35,072,602</u>	<u>(159,105)</u>	<u>1,829,325</u>	<u>770,370</u>	<u>90,678</u>	<u>(1,827,774)</u>	<u>35,776,096</u>

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2016

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating income (loss) brought forward	35,072,602	(159,105)	1,829,325	770,370	90,678	(1,827,774)	35,776,096
Nonoperating revenues (expenses)							
Interest income	612,107	718,509	35,081	-	-	563,905	1,929,602
Gain on sale of capital assets	-	2,945,364	-	-	-	-	2,945,364
Net increase in fair value of mortgage-backed securities	-	-	-	875,009	-	-	875,009
Arbitrage rebate	-	-	-	4,033	-	-	4,033
Net decrease in fair value of other investments	-	-	-	-	-	(337,200)	(337,200)
Amortization of deferred loss on refunding	-	-	(44,570)	-	-	-	(44,570)
Other expenses	-	-	(37,200)	-	-	(633)	(37,833)
Total nonoperating revenues (expenses)	612,107	3,663,873	(46,689)	879,042	-	226,072	5,334,405
Income (loss) before transfers	35,684,709	3,504,768	1,782,636	1,649,412	90,678	(1,601,702)	41,110,501
Transfers in	5,000,000	12,591,187	-	-	-	-	17,591,187
Transfers out	-	-	-	-	-	1,252,742	1,252,742
Change in net position	40,684,709	16,095,955	1,782,636	1,649,412	90,678	(348,960)	59,954,430
Net position							
Beginning of year	324,545,404	210,898,649	(3,050,850)	35,292,046	1,507,616	34,855,143	604,048,008
End of year	\$ 365,230,113	\$ 226,994,604	\$ (1,268,214)	\$ 36,941,458	\$ 1,598,294	\$ 34,506,183	\$ 664,002,438

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2016

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash flows from operating activities							
Cash received from tenants	\$ -	\$ 1,402,155	\$ 18,861,633	\$ -	\$ -	\$ 236,157	\$ 20,499,945
Cash received from borrowers							
Principal repayments	1,686,556	5,763,313	-	308,615	841,523	66,986	8,666,993
Interest income	822,293	3,514,345	-	2,806,832	5,314,500	182,597	12,640,567
Cash received from sale of units and land	-	436,811	-	-	-	-	436,811
Cash received from conveyance taxes	33,056,877	-	-	-	-	-	33,056,877
Cash received for payments on mortgage-backed securities, net	-	-	-	9,593,702	-	-	9,593,702
Cash payments for issuance of loans receivable	(12,180,666)	(2,703,951)	-	-	(14,256,290)	-	(29,140,907)
Interest payments	-	-	(3,900,021)	(1,703,378)	(5,318,492)	-	(10,921,891)
Payments to employees	(217,828)	(2,857,751)	(419,550)	(223,314)	(307,186)	(1,882,254)	(5,907,883)
Payments to suppliers	(83,415)	(6,569,371)	(9,344,665)	(379,254)	(74,070)	(2,065,947)	(18,516,722)
Cash receipts from (payments to) other funds	(7,178)	1,482,797	18,466	(2,256)	(153,278)	149,274	1,487,825
Other cash receipts	184,973	2,786,258	853,462	-	459,510	2,408,717	6,692,920
Net cash provided by (used in) operating activities	<u>23,261,612</u>	<u>3,254,606</u>	<u>6,069,325</u>	<u>10,400,947</u>	<u>(13,493,783)</u>	<u>(904,470)</u>	<u>28,588,237</u>
Cash flows from noncapital financing activities							
Principal paid on revenue bond maturities and redemptions	-	-	-	(10,709,151)	-	-	(10,709,151)
Arbitrage rebate paid	-	-	-	(167,562)	-	-	(167,562)
Transfers in	5,000,000	4,767,366	-	-	-	-	9,767,366
Net cash provided by (used in) noncapital financing activities	<u>5,000,000</u>	<u>4,767,366</u>	<u>-</u>	<u>(10,876,713)</u>	<u>-</u>	<u>-</u>	<u>(1,109,347)</u>
Subtotal carried forward	<u>28,261,612</u>	<u>8,021,972</u>	<u>6,069,325</u>	<u>(475,766)</u>	<u>(13,493,783)</u>	<u>(904,470)</u>	<u>27,478,890</u>

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

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2016**

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Subtotal brought forward	28,261,612	8,021,972	6,069,325	(475,766)	(13,493,783)	(904,470)	27,478,890
Cash flows from capital and related financing activities							
Principal paid on revenue bond maturities and redemptions	-	-	(2,900,000)	-	(917,280)	-	(3,817,280)
Proceeds from new bond issuance	-	-	-	-	14,256,290	-	14,256,290
Principal paid on mortgage loans and notes payable	-	(14,162)	-	-	-	-	(14,162)
Receipts of interest	-	-	1,855	-	-	-	1,855
Sales of capital assets	-	2,945,364	-	-	-	24,065	2,969,429
Net cash provided by (used in) capital and related financing activities	-	2,931,202	(2,898,145)	-	13,339,010	24,065	13,396,132
Cash flows from investing activities							
Proceeds from maturities of investments	-	-	-	5,308,160	79,750	-	5,387,910
Interest received	612,107	718,509	-	-	-	563,272	1,893,888
Net cash provided by (used in) investing activities	612,107	718,509	-	5,308,160	79,750	563,272	7,281,798
Net increase (decrease) in cash and cash equivalents	28,873,719	11,671,683	3,171,180	4,832,394	(75,023)	(317,133)	48,156,820
Cash and cash equivalents							
Beginning of year	97,104,669	84,467,931	33,412,841	15,515,380	10,904,263	25,643,884	267,048,968
End of year	\$ 125,978,388	\$ 96,139,614	\$ 36,584,021	\$ 20,347,774	\$ 10,829,240	\$ 25,326,751	\$ 315,205,788
Components of cash and cash equivalents							
Equity in cash and cash equivalents and investments in State Treasury	\$ 125,978,388	\$ 95,083,862	\$ -	\$ -	\$ -	\$ 25,316,751	\$ 246,379,001
Cash in banks	-	946,019	2,525,656	-	-	10,000	3,481,675
Restricted cash and cash equivalents held by trustee	-	-	34,058,365	20,347,774	10,829,240	-	65,235,379
Deposits held in trust	-	109,733	-	-	-	-	109,733
Cash and cash equivalents	\$ 125,978,388	\$ 96,139,614	\$ 36,584,021	\$ 20,347,774	\$ 10,829,240	\$ 25,326,751	\$ 315,205,788

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2016

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash flows from operating activities							
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities							
Operating income (loss)	\$ 35,072,602	\$ (159,105)	\$ 1,829,325	\$ 770,370	\$ 90,678	\$ (1,827,774)	\$ 35,776,096
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities							
Depreciation	-	124,022	4,534,948	-	-	-	4,658,970
Provision for losses	-	-	48,535	-	-	14,560	63,095
Gain on sale of assets	-	2,922	-	-	-	-	2,922
Other receipts	-	-	(37,200)	-	-	-	(37,200)
Net pension expense	18,099	(144,586)	5,174	(149,310)	29,543	112,408	(128,672)
Changes in assets and liabilities							
Mortgage loans receivable	(10,494,110)	43,101	-	308,615	(13,414,767)	66,986	(23,490,175)
Notes and loans receivable	-	6,068,496	-	-	-	-	6,068,496
Accrued interest receivable	(1,376,787)	(2,122,472)	-	35,276	(41,593)	88,046	(3,417,530)
Tenant receivables	-	(95,500)	(48,535)	-	-	-	(144,035)
Other receivables	-	(135,471)	(234)	-	(35,698)	27,704	(143,699)
Cash held by third parties	-	-	(299,153)	-	-	-	(299,153)
Due to (from) other funds	(7,178)	-	18,466	(2,256)	(153,278)	149,274	5,028
Due to (from) other State departments	-	1,482,797	-	-	-	20,280	1,503,077
Inventories – development in progress and dwelling units	-	(2,842)	-	-	-	-	(2,842)
Prepaid expenses and other assets	-	-	1,872	(4)	-	6,013	7,881
Investments	-	-	-	9,593,702	-	-	9,593,702
Deferred loss on refunding	-	-	-	32,130	-	-	32,130
Accounts payable	-	710,839	(71,282)	(2,540)	(67,995)	40,223	609,245
Accrued interest payable	-	-	(58,880)	(136,123)	39,836	-	(155,167)
Other accrued expenses	13,462	41,540	(3,241)	20,475	12,631	23,097	107,964
Postemployment liability	35,524	191,276	48,610	(69,388)	46,860	166,570	419,452
Security deposits	-	117,272	64,612	-	-	208,143	390,027
Unearned income	-	(378,626)	36,308	-	-	-	(342,318)
Unrealized gain on sale of units and land	-	(17,488)	-	-	-	-	(17,488)
Estimated future costs of development	-	(2,471,569)	-	-	-	-	(2,471,569)
Net cash provided by (used in) operating activities	\$ 23,261,612	\$ 3,254,606	\$ 6,069,325	\$ 10,400,947	\$ (13,493,783)	\$ (904,470)	\$ 28,588,237

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

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Notes to Financial Statements
June 30, 2016

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

Chapter 201E, Hawaii Revised Statutes and Act 337, Session Laws of Hawaii ("SLH") 1987, created the Housing Finance and Development Corporation ("HFDC"). The HFDC was created to perform housing finance, housing development and residential leasehold functions. The Hawaii Housing Authority, State of Hawai'i ("Authority") was organized pursuant to the provisions of Chapter 356, Hawaii Revised Statutes. The Authority was created to provide safe and sanitary dwelling accommodations for low and moderate-income residents of Hawai'i.

In accordance with Act 350, SLH 1997, effective July 1, 1998, the functions and employees of HFDC as well as those of the Authority and the Rental Housing Trust Fund Commission were transferred to the newly created Housing and Community Development Corporation of Hawaii ("HCDCH"). The purpose of Act 350, SLH 1997, was to consolidate all state housing functions previously administered by the Authority, HFDC and the Rental Housing Trust Fund Commission. HCDCH was a public body, both corporate and politic, and was for administrative purposes considered to be a part of the State Department of Business, Economic Development and Tourism. In accordance with Act 92, SLH 2003, effective July 1, 2003, the functions and employees of HCDCH were transferred to the State Department of Human Services for administrative purposes.

In accordance with Act 196, SLH 2005, as amended by Act 180, SLH 2006, HCDCH was split into two organizations to more effectively concentrate on the development of affordable housing. Effective July 1, 2006, HCDCH was bifurcated into (1) the Hawaii Public Housing Authority ("HPHA") and (2) the Hawaii Housing Finance and Development Corporation (the "Corporation").

For financial reporting purposes, the Corporation includes all funds that are controlled by or dependent on the Corporation's Board of Directors. Control by or dependence on the Corporation was determined on the basis of statutory authority and monies flowing through the Corporation to each fund.

The financial statements of the Corporation include only the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Corporation, and are not intended to present fairly the financial position of the State of Hawai'i (the "State") as of June 30, 2016, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation's financial activities.

Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net position and the statement of activities report information of the non-fiduciary activities of the Corporation. Governmental activities, which normally are supported by State allotments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital

State of Hawai'i
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Notes to Financial Statements
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requirements of a particular function. State allotments and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues. The Corporation employs an indirect cost allocation system. The Corporation provides certain administrative services to its various funds. The cost of these services is allocated to the funds based on estimates of benefits provided to the funds.

Net position is restricted when constraints placed on it are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restrictions of net position. When both restricted and unrestricted resources are available for use, generally it is the Corporation's policy to use restricted resources first, then unrestricted resources as they are needed.

The fund financial statements are provided for governmental and proprietary funds. Major individual governmental fund and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. In applying the susceptible to accrual concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when applicable requirements, including timing requirements, are met.

Principal revenue sources considered susceptible to accrual include federal grants and interest on investments. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles since they have been earned and are expected to be collected within 60 days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Corporation.

Expenditures generally are recorded when a liability is incurred. Modifications to the accrual basis of accounting include employees' vested vacation, which is recorded as an expenditure when utilized or paid. The amount of unmatured long-term indebtedness related to accumulated vacation at June 30, 2016 has been reported in the government-wide financial statements.

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June 30, 2016

Proprietary Funds

The financial statements of proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Corporation's enterprise funds are interest income, rental income, land sales and conveyance tax revenues. Interest income from investments is reported as nonoperating income.

Fund Accounting

The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Corporation uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

Governmental Funds

- **HOME Investment Partnership Program** – The HOME Investment Partnership Program is used to account for all financial activities that are funded by the related federal grants. Substantially all of the fund's activity relates to providing affordable housing to residents of the State of Hawai'i.
- **National Foreclosure Mitigation Counseling Program Fund** – The National Foreclosure Mitigation Counseling Program Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund's activity relates to providing foreclosure intervention counseling and legal assistance.
- **General Obligation Bond Fund** – The General Obligation Bond Fund is used to account for the transfers of the proceeds of the State's general obligation bonds allotted to the Corporation for subsequent use by the Corporation's other funds.
- **Tax Credit Assistance Program Fund** – The Tax Credit Assistance Program ("TCAP") Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund's activities relate to providing funds directly to designated state housing credit agencies for award to affordable rental housing developments that have been allocated low-income housing tax credits and are in need of additional gap equity funding.

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- **Emergency Homeowners' Loan Program** – The Emergency Homeowners' Loan Program (“EHLP”) Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund's activities relate to providing emergency loans to homeowners who have suffered a loss of income that places them in jeopardy of foreclosure of their homes.

Proprietary Funds

- **Enterprise Funds** – These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers, or where sound financial management dictates that periodic determinations of results of operations are appropriate. Enterprise funds include the Rental Housing Trust Fund, the Dwelling Unit Revolving Fund, revenue bond funds, and other funds.

Under the revenue bond funds, proceeds from bond issues are used to make below-market interest rate mortgage loans to persons and families of low to moderate income for the purchase of owner-occupied single-family and condominium dwellings; provide interim construction loans and permanent financing of affordable rental housing projects; and to finance multifamily housing projects. These funds include the Hawaii Rental Housing System Revenue Bond Fund, the Single Family Mortgage Purchase Revenue Bond Fund, the Multifamily Housing Revenue Bond Fund, and the University of Hawai'i Faculty Housing Program Revenue Bond Fund.

The other funds include the Fee Simple Residential Revolving Fund, Rental Assistance Revolving Fund, Housing Finance Revolving Fund, and Disbursing Fund.

The Corporation reports the following as major proprietary funds:

- Rental Housing Revolving Fund provides developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units.
- Dwelling Unit Revolving Fund accounts for state funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing mortgage and interim financing, rental income, sales proceeds and interest earnings from the financing and investment of such funds.
- Hawaii Rental Housing System Revenue Bond Fund accounts for special funds to account for housing projects or systems of housing projects financed from the proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State of Hawai'i.
- Single Family Mortgage Purchase Revenue Bond Fund accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest and earnings from such loans and investment of such funds.
- Multifamily Housing Revenue Bond Fund accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing to facilitate the construction or rehabilitation of affordable rental housing projects.

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Equity in Cash and Cash Equivalents and Investments in State Treasury

The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Corporation. However, as these funds are held in the State cash pool, the Corporation does not manage these investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the Corporation's level. The risk disclosures and fair value leveling table of the State's cash pool are included in the State's Comprehensive Annual Financial Report ("CAFR") which may be obtained from the Department of Accounting and General Services' ("DAGS") website: <http://hawaii.gov/dags/rpts>.

Cash and short-term investments held outside of the State Treasury are primarily held in a financial institution outside of the State of Hawai'i.

Cash and cash equivalents for the purpose of the statement of cash flows include all cash and investments with original purchased maturities of three months or less. Cash and cash equivalents also include the Corporation's equity in cash and cash equivalents and investments held in the State Treasury.

The State's investments are reported at fair value within the fair value hierarchy established by generally accepted accounting principles. Investments in mutual funds are reported at fair value based on quoted market prices. Investments in U.S. government obligations are reported at fair value based on quoted prices or other observable inputs, including pricing matrices. Investments in certificates of deposit and repurchase agreements are reported at fair value using cost-based measures due to the non-participating nature of these securities.

Investments

Investments in U.S. government securities and certificates of deposit with maturities of one year or less when purchased are stated at cost, which approximates fair market value. Non-participating investment contracts, generally repurchase agreements, are reported at cost, which approximates fair market value. All other investments are reported at fair market value as described below.

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Fair Value Measurements

The Corporation adopted GASB Statement No. 72, *Fair Value Measurement and Application*, in fiscal year 2016. For financial assets reported at fair value, the Corporation defines fair value as the price that would be received to sell an asset in the principal or most advantageous market in an orderly transaction between market participants. The Corporation measures fair value using assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. The hierarchy is broken down into levels based on the reliability of the inputs as follows:

- **Level 1** – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Inputs (other than quoted prices) included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** – Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

Inventories

Inventories consist of developments in progress and units available for sale. Developments in progress include construction in progress and land held for future development related to the remaining portions of two master planned community projects – Kapolei (Oahu) and La'i'opua (Hawai'i). Costs included in developments in progress relate to the infrastructure construction for these master planned communities. Units available for sale include constructed units, developed lots and repurchased units available for sale.

Inventories are stated at the lower of cost or estimated net realizable value. All estimated development, holding and disposition costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Estimated net realizable value represents management's estimates, based on management's plans and intentions, of sales price less development, holding and disposition costs, assuming that the development and disposition occurs in the normal course of business. Write-downs for estimated losses on inventories are recorded to the extent total estimated costs exceed total estimated revenues for a project.

The recognition of gain from the sale of units is dependent on a number of factors relating to the nature of the property sold, the terms of the sale and the future involvement of the Corporation in the property sold. If a real estate transaction does not meet established financial criteria, profit recognition is deferred and recognized under the installment or cost recovery method until such time as the criteria are met.

Receivables

Receivable balances are composed of mortgage loans receivable and tenant receivables from the various projects and funds within the Corporation. Mortgage loans receivable are primarily second mortgages from nonprofit organizations and for-profit developers for the development, pre-development, construction, acquisition, preservation and substantial rehabilitation of rental housing units. Receivable amounts from tenants are related to rental arrangements. Allowances on receivables are typically established for any accounts over 90 days outstanding. For the year ended June 30, 2016, there were allowances for mortgage loan receivables and total tenant receivables of \$107,000 and \$582,000, respectively.

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Interfund Receivables and Payables

During the course of operations, transactions occur between funds that may result in amounts owed between funds. Those related to transactions for goods and services are classified as “due to and from other funds.” Interfund receivables and payables between funds (noncurrent portion) are reported as “advances from and to other funds.” See Note 16 for details of interfund transactions, including receivables and payables at year end.

Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and proprietary funds financial statements. The capitalization thresholds are \$5,000 for equipment, and \$100,000 for land improvements, building and building improvements.

Purchased and constructed capital assets are valued at cost. Donated assets are recorded at their fair value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide and proprietary funds financial statements utilizing the straight-line method over the assets’ estimated useful lives. No depreciation is recorded for land and land improvements. Generally, the useful lives are as follows:

	Governmental Activities	Proprietary Funds and Business-Type Activities
Building and building improvements	25 years	10–40 years
Equipment	7 years	1–10 years

Unearned Revenues

Unearned revenues at the fund level and government-wide level arise when the Corporation receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Corporation has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and revenue is recognized.

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Accrued Vacation

Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the proprietary funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$210,000. Accrued vacation, which is included in other accrued expenses in the statement of net position, changed during 2016 as follows:

Balance July 1, 2015	\$ 555,189
Additions	340,349
Reductions	<u>(305,868)</u>
Balance at June 30, 2016	<u>\$ 589,670</u>

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees’ Retirement System of the State of Hawai‘i (“ERS”). Accumulated sick leave at June 30, 2016 amounted to approximately \$2,071,000.

Postemployment Health Care and Life Insurance Benefits

The Corporation accounts for its postemployment health care and life insurance benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards of accounting and financial reporting for other postemployment benefit (“OPEB”) expenses, liabilities or assets.

Pension Expense

During fiscal year 2015, the Corporation implemented GASB Statement Nos. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense as of and for the year ended June 30, 2016, information about the fiduciary net position of the Employees’ Retirement System of the State of Hawaii (“ERS”), and additions to/deductions from the ERS’s fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

The Corporation’s contributions to the ERS are based upon actuarial computations and include current service costs and amortization of prior service costs. The Corporation’s policy is to fund pension costs accrued.

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Risk Management

Liabilities related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters and injuries to employees) are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

Governmental Fund Balances

The Corporation accounts for governmental fund balances in accordance with GASB Statement No. 54 (“GASB 54”), *Fund Balance Reporting and Governmental Fund Type Definitions*.

The GASB 54 hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.
- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State legislature and the Corporation’s Board of Directors.
- **Assigned** – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- **Unassigned** – Residual balances that are not contained in the other classifications.

The fund balance of the TCAP fund was restricted for use in the construction of qualified low-income buildings for which a housing credit agency has made an allocation of low-income housing credits under Section 42 of the Internal Revenue Code.

The fund balance of the General Obligation Bond fund was committed to purchase land for or finance the development or rehabilitation of affordable housing.

Deficit Balances

The Hawaii Rental Housing System Revenue Bond Fund has a net deficit as of June 30, 2016. Planned rental increases at all properties within the Hawaii Rental Housing System are expected to aid the fund in eliminating the deficit.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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New Accounting Pronouncements

The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement establishes accounting and financial reporting requirements by employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement 68. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. Earlier adoption is encouraged. Management has not yet determined the effect this Statement will have on the Corporation's financial statements.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The Statement replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement will require governments to report a liability on the face of the financial statements for the other postemployment benefits that they provide. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management has not yet determined the effect this Statement will have on the Corporation's financial statements.

The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Statement reduces the generally accepted accounting principles ("GAAP") to two categories of authoritative GAAP. The first category of authoritative GAAP consists of GASB Statements of Governmental Accounting Standards. The second category includes GASB Implementation Guides, GASB Technical Bulletins, and guidance from the American Institute of Certified Public Accountants that is cleared by the GASB. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. Management adopted the new standard in fiscal year 2016.

The GASB issued Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, 68 and 73. Specifically, this statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. This statement is effective for reporting periods beginning after June 15, 2016, except for paragraph 7 when employers' pension liability is measured as of a date other than the employer's most recent fiscal year end, which is effective for measurement dates on or after June 15, 2017. Management has not yet determined the effect this Statement will have on OTS's financial statements.

Reclassifications

Certain balances in the 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications had no impact on the change in net position as previously reported.

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2. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the budgetary comparison statements are those estimates as compiled and reviewed by the State of Hawai‘i, Department of Budget and Finance.

Budgeted expenditures are derived primarily from the General Appropriations Act of 2005 (Act 178, Session Laws of Hawaii (“SLH”) 2005), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various SLH.

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2014 – 2015 biennial budget. The Neighborhood Stabilization Program Fund and HOME Investment Partnership Program have legally appropriated annual budgets.

The final legally adopted budget in the accompanying budgetary comparison statements represents the original appropriation, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Corporation. During the fiscal year ended June 30, 2016, there were no expenditures in excess of available appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse date and any other contingencies which may terminate the authorizations for other appropriations.

The Corporation’s annual budget is prepared on the budgetary basis of accounting with several differences from the preparation of the statement of revenues, expenditures and change in fund balances under generally accepted accounting principles (“GAAP”), principally related to (1) encumbrance of purchase orders and contract obligations, (2) accrued revenues and expenditures, and (3) unbudgeted programs (federal award programs). However, for the year ended June 30, 2016, there were no differences between the budgetary amounts and the amounts presented in accordance with GAAP.

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3. Deposits

At June 30, 2016, total cash and cash equivalents reported in the statement of net position consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Equity in cash and cash equivalents and investments in State Treasury	\$ 8,335	\$ 246,379,001	\$ 246,387,336
Cash in banks (book balance)	64	3,481,675	3,481,739
Deposits held in trust	-	109,733	109,733
Restricted cash and cash equivalents held by trustee	-	65,235,379	65,235,379
Total cash	<u>\$ 8,399</u>	<u>\$ 315,205,788</u>	<u>\$ 315,214,187</u>

The bank balance of cash in bank was approximately \$2,746,000, of which \$284,000 was covered by federal depositary insurance and \$2,462,000 was not covered. As of June 30, 2016, Level 1 inputs were used to determine the fair value of the money market funds that are part of cash and cash equivalents. The fair value of equity investments in State Treasury are described in Note 1.

4. Investments

Investments at June 30, 2016 are summarized by maturity (in years) as follows:

	Less than 1	Greater than 1 and up to 5	Greater than 5 and up to 10	Greater than 10 and up to 20	Greater than 20	Fair Value
Mortgage-backed securities	\$ 1,034	\$ 5,802,504	\$ 5,191,935	\$ 22,557,501	\$ 44,311,448	\$ 77,864,422
Municipal bonds	62,661	-	-	-	-	62,661
Total investments	<u>\$ 63,695</u>	<u>\$ 5,802,504</u>	<u>\$ 5,191,935</u>	<u>\$ 22,557,501</u>	<u>\$ 44,311,448</u>	<u>\$ 77,927,083</u>

Investments summarized in the table above are reflected in the statement of net position as follows:

Investments held by trustees under revenue bond programs	\$ 72,124,579
Investments – noncurrent	5,802,504
Total investments	<u>\$ 77,927,083</u>

As of June 30, 2016, Level 2 inputs were used to determine the fair value of mortgage-backed securities and municipal bonds.

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The risks related to the Corporation’s investments are as follows:

- **Interest Rate Risk** – The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.
- **Credit Risk** – The revenue bond funds’ trust indentures authorize the trustees to invest in certificates of deposit, money market funds, U.S. government or agency obligations, and repurchase agreements. The Corporation has no investment policy that would further limit its investment decisions. As of June 30, 2016, Federal National Mortgage Association (“FNMA”) mortgage-backed securities were rated Aaa, AAA, and AA+ by Moody’s, Fitch, and Standard & Poor’s, respectively. The Fund’s investments in repurchase agreements and money market funds are not rated. U.S. Treasury securities and securities of the Government National Mortgage Association are not considered to have credit risk exposure.
- **Concentration of Credit Risk** – The Corporation has no limit on the amount the Corporation may invest in any one issuer. As of June 30, 2016, the Corporation’s investments were primarily with the Federal National Mortgage Association. These investments are 96% of the Corporation’s total investments.
- **Custodial Risk** – For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation’s investments that are uninsured and unregistered are held by the Corporation’s trust agent in the Corporation’s name. The repurchase agreements are collateralized with securities held by the pledging financial institution’s collateral agent but not in the Corporation’s name. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater market value. The Corporation monitors the market value of these securities and obtains additional collateral when appropriate.

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5. Mortgage Loans and Notes and Loans Receivable

Mortgage loans and notes and loans receivable at June 30, 2016 comprised the following:

	Mortgage Loans	Notes and Loans
Mortgage loans bearing interest up to 11%, maturing at various dates through 2075	\$ 395,108,275	\$ -
Promissory notes bearing interest up to 4.72%, maturing in 2065	-	112,289,254
Promissory notes bearing interest up to 5%, maturing at various dates through 2016	-	4,462,551
Non-interest bearing promissory notes, maturing at various dates through 2056	-	9,861,610
Allowance for loan losses	<u>(107,153)</u>	<u>-</u>
	395,001,122	126,613,415
Less: Current portion	<u>(24,109,156)</u>	<u>(4,462,551)</u>
Noncurrent portion	<u>\$ 370,891,966</u>	<u>\$ 122,150,864</u>

Mortgage and development loans are collateralized by real property. The revenue bond funds' mortgage loans are also subject to primary mortgage and mortgage pool insurance coverage that, subject to aggregate loss limitations, reimburses the Corporation for all losses incurred, if any, from the disposition of real property acquired through foreclosure.

The promissory notes are collateralized by a second mortgage on the improvements of Kukui Gardens (see Note 13). The non-interest bearing notes are collateralized by real property.

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6. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows:

	Balance at July 1, 2015	Additions	Disposals	Balance at June 30, 2016
Governmental activities				
Depreciable assets				
Equipment	\$ 567,704	\$ -	\$ (363,744)	\$ 203,960
Accumulated depreciation				
Equipment	(567,704)	-	363,744	(203,960)
Governmental activities capital assets, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-type activities				
Depreciable assets				
Building and improvements	\$ 162,071,631	\$ -	\$ (5,317,905)	\$ 156,753,726
Equipment	2,512,562	146,223	(104,989)	2,553,796
	<u>164,584,193</u>	<u>146,223</u>	<u>(5,422,894)</u>	<u>159,307,522</u>
Accumulated depreciation				
Building and improvements	(114,449,514)	(4,572,243)	2,589,665	(116,432,092)
Equipment	(2,070,247)	(86,727)	80,924	(2,076,050)
	<u>(116,519,761)</u>	<u>(4,658,970)</u>	<u>2,670,589</u>	<u>(118,508,142)</u>
	48,064,432	(4,512,747)	(2,752,305)	40,799,380
Land	43,228,120	6,750,000	(23,395)	49,954,725
Business-type activities capital assets, net	<u>\$ 91,292,552</u>	<u>\$ 2,237,253</u>	<u>\$ (2,775,700)</u>	<u>\$ 90,754,105</u>

Depreciation expense for the year ended June 30, 2016 was charged to functions as follows:

Governmental activities		
Low-income housing service and assistance		<u>\$ -</u>
Business-type activities		
Housing development program		\$ 124,022
Rental housing program		4,534,948
Total depreciation expense – business-type activities		<u>\$ 4,658,970</u>

At June 30, 2016, capital assets for the proprietary funds consisted of the following:

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Total
Buildings and improvements	\$ 142,648,321	\$ 14,105,405	\$ -	\$ 156,753,726
Equipment	2,345,842	87,618	120,336	2,553,796
	144,994,163	14,193,023	120,336	159,307,522
Less: Accumulated depreciation	(115,211,765)	(3,236,209)	(60,168)	(118,508,142)
	29,782,398	10,956,814	60,168	40,799,380
Land	16,186,850	33,767,875	-	49,954,725
Net capital assets	<u>\$ 45,969,248</u>	<u>\$ 44,724,689</u>	<u>\$ 60,168</u>	<u>\$ 90,754,105</u>

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7. Revenue Bond Funds – Reserve Requirements

Under the trust indentures between the Corporation and the trustees for the Single Family Mortgage Purchase Revenue Bonds, investment assets and cash are required to be held by the trustees in various accounts and funds, including debt service reserve accounts, loan funds and mortgage loan reserve funds. The uses of these assets are restricted by the terms of the indentures.

At June 30, 2016, the following debt service reserves and mortgage loan reserves were required by the indentures under Revenue Bond Programs in the Single Family Mortgage Purchase Revenue Bond Fund.

Debt service reserve requirements	\$ 5,462,000
Mortgage loan reserve requirements	<u>872,000</u>
	<u>\$ 6,334,000</u>

At June 30, 2016, approximately \$5,949,000 and \$17,705,000 of investment securities were being held in the debt service reserve funds and mortgage loan reserve funds, respectively, and are included in assets held by trustees in the statement of net position.

Under the trust indenture agreement between the Corporation and the trustee for the Hawaii Rental Housing System Revenue Bond Fund, the Corporation is required to provide net revenues (as defined in the trust indenture agreement) together with lawfully available funds of at least 1.25 times the aggregate debt service on outstanding bonds during the bond year. Additionally, the Corporation is to provide net revenues (as defined in the trust indenture agreement) of at least 1.10 times the aggregate debt service on outstanding bonds during the bond year. At June 30, 2016, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 5.78 times the aggregate debt service on outstanding bonds during the year and net revenues (as defined in the trust indenture agreement) of 1.50 times the aggregate debt service on outstanding bonds during the year.

The trust indenture agreement also requires that the mortgage loan reserves for these Revenue Bond Funds be funded from other than bond proceeds and, accordingly, the reserves have been funded by commitment fees at June 30, 2016.

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8. Note Payable

DURF has a mortgage note payable to the USDA – RD. The note was originated in October 1994, and is payable in monthly installments of \$1,315, including annual interest at 1%, due in October 2026. The note is collateralized by property and rental receipts. At June 30, 2016, the balance outstanding on the mortgage note was \$154,149.

Note payable activity during the year was as follows:

	Balance at July 1, 2015	Addition	Reductions	Balance at June 30, 2016	Less Current Portion
Note payable	\$ 168,311	\$ -	\$ (14,162)	\$ 154,149	\$ 14,304

The approximate debt service requirement of the mortgage and note payable is as follows:

	Principal	Interest	Total
Year ending June 30,			
2017	\$ 14,000	\$ 1,000	\$ 15,000
2018	14,000	1,000	15,000
2019	15,000	1,000	16,000
2020	15,000	1,000	16,000
2021	15,000	1,000	16,000
2022 – 2026	77,000	2,000	79,000
2027 – 2031	4,000	-	4,000
	<u>\$ 154,000</u>	<u>\$ 7,000</u>	<u>\$ 161,000</u>

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9. Revenue Bonds Payable

Through June 30, 2016, approximately \$2.8 billion of revenue bonds have been issued. The revenue bonds are payable from and collateralized by the revenues and other monies and assets of the revenue bond funds and other assets of the Corporation pledged under the indentures.

Revenue bonds payable at June 30, 2016 consist of the following issuances:

Hawaii Rental Housing System revenue bonds

2004 Series A	
Term bonds maturing in 2017 through 2034 (4.25% to 4.75%)	\$ 61,870,000
2004 Series B	
Serial bonds maturing annually through 2030 (4.00% to 6.00%)	12,025,000
Term bonds maturing in 2031 through 2034 (6.50%)	<u>5,590,000</u>
	<u>17,615,000</u>
Total Hawaii Rental Housing System revenue bonds	<u>\$ 79,485,000</u>

Single Family Mortgage Purchase revenue bonds

2009 Series A-1	
Term bonds maturing in 2026 through 2042 (2.40%)	\$ 26,430,000
2011 Series A	
Serial bonds maturing in 2017 through 2019 (2.10% to 2.90%)	3,370,000
2011 Series B	
Serial bonds maturing in 2020 through 2023 (2.95% to 3.45%)	4,265,000
Term bonds maturing in 2023 through 2026 (3.875%)	4,090,000
Planned Amortization Class bonds maturing in 2016 through 2026 (4.50%)	<u>2,445,000</u>
	10,800,000
2013 Series A	
Term bonds maturing in 2017 through 2038 (2.60%)	<u>14,022,911</u>
Total Single Family Mortgage Purchase revenue bonds	<u>\$ 54,622,911</u>

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Multifamily Housing revenue bonds	
2002 Series (Hale Hoaloha Project)	
Mortgage installment bonds maturing annually through 2018 (3.125%)	\$ 1,134,694
2005 Series (Kauhale Olu Project)	
Mortgage installment bonds maturing annually through 2026 (6.375%)	4,790,219
2007 Series A (Kukui Gardens Project)	
Mortgage installment bonds maturing annually through 2042 (1.30%, 6.25%)	13,112,641
2008 Series (Kahului Town Terrace Project)	
Mortgage installment bonds maturing annually through 2026 (4.25%)	1,744,781
2008 Series (Lokahi Kau Project)	
Mortgage installment bonds maturing in 2042 (0.41%)	19,830,000
2011 Series A (Kuhio Park Terrace Project)	
Mortgage installment bonds maturing through 2023 (1.25% to 3.95%)	2,305,000
Term bonds maturing in 2023 through 2029 (4.75%, 4.95%)	29,170,000
2011 Series A (Ewa Villages Apartments)	
Term bonds maturing annually through 2029 (3.95%, 5.10%)	3,565,000
2012 Series A (Ko‘oloa‘ula Apartments)	
Serial bonds maturing annually through 2034 (3.125%, 4.00%)	5,880,000
2012 Series A (Wilikina Apartments)	
Serial bonds maturing annually through 2047 (4.25%, 5.00%, 6.75%)	9,025,000
2012 Series A (Iwilei Apartments)	
Serial bonds maturing in 2017 through 2022 (1.625% to 2.75%)	780,000
Term bonds maturing in 2023 through 2031 (3.30%, 3.75%)	10,720,000
2012 Series B (Iwilei Apartments)	
Serial bonds maturing in 2016 (4.36%)	9,230,888
2015 Series A (Kalani Gardens)	
Term bonds maturing in 2017 (0.70%)	10,750,000
2015 Series A (Ko‘oloa‘ula Apartments)	
Serial bonds maturing in 2018 through 2033 (4.00% to 2028, 6% 2028 to 2033)	9,700,000
2015 Series B (Ko‘oloa‘ula Apartments)	
Term bonds maturing in 2018 (4.00%)	19,300,000
2015 Series (Villages at Moa‘e Ku Phase III)	
Term bonds maturing in 2048 (2.71%)	2,811,956
2016 Series A (Kaneohe Elderly)	
Term bonds maturing in 2032 (3.625%)	7,100,000
2016 Series B (Kaneohe Elderly)	
Term bonds maturing in 2017 (3.625%)	2,350,000
2016 Series (Kunia Village)	
Term bonds maturing in 2020 (3.00%)	55,437
2016 Series (Kekuilani Gardens)	
Term bonds maturing in 2049 (3.85%)	1,938,897
Total Multifamily Housing revenue bonds	<u>\$ 165,294,513</u>

Interest on the fixed-rate Single Family Mortgage Purchase, Hawaii Rental Housing System, and Multifamily Housing revenue bonds is payable semi-annually.

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The Hawaii Rental Housing System revenue bonds with designated maturity dates and the Multifamily Housing revenue bonds may be redeemed at the option of the Corporation commencing in 2005 for the Hawaii Rental Housing System 2004 Series; 2021 for both the Multifamily Housing Ewa Villages Apartments and Kuhio Park Terrace Project 2011 Series A; 2013 for the Multifamily Housing Kuhio Park Terrace Project 2011 Series B; 2022 for the Multifamily Housing Koo‘loa‘ula Apartments Phase I 2012 Series A, Wiikina Apartments 2012 Series A, and Iwilei Apartments 2012 Series A; 2014 for the Multifamily Housing Halekauwila Place 2012 Series A; and 2016 for Multifamily Housing Kalani Gardens 2015 Series A. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from undisbursed bond proceeds, principal payments and prepayments of mortgages, excess amounts in the debt service reserve account or excess revenues (as defined in the bond indentures). During the year ended June 30, 2016, deferred loss on refunding approximated \$426,000 and was recognized as deferred outflows of resources in the statement of net position.

During the year ended June 30, 2016, early redemptions totaled \$6,040,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2015	Additions	Reductions	Balance at June 30, 2016
Single Family Mortgage Purchase	\$ 65,332,062	\$ -	\$ (10,709,151)	\$ 54,622,911
Hawaii Rental Housing System	82,385,000	-	(2,900,000)	79,485,000
Multifamily Housing	151,955,503	14,256,290	(917,280)	165,294,513
	<u>299,672,565</u>	<u>14,256,290</u>	<u>(14,526,431)</u>	<u>299,402,424</u>
Add: Unamortized premium	363,136	-	(33,226)	329,910
Total	<u>\$ 300,035,701</u>	<u>\$ 14,256,290</u>	<u>\$ (14,559,657)</u>	<u>299,732,334</u>
Less: Current portion				<u>(28,520,296)</u>
Total				<u>\$ 271,212,038</u>

The approximate annual debt service requirements through 2021 and in five-year increments thereafter to maturity for revenue bonds are as follows:

	Principal	Interest	Total
Year ending June 30,			
2017	\$ 28,488,000	\$ 10,946,000	\$ 39,434,000
2018	29,556,000	10,413,000	39,969,000
2019	6,913,000	9,366,000	16,279,000
2020	7,132,000	9,112,000	16,244,000
2021	7,489,000	8,840,000	16,329,000
2022 – 2026	46,583,000	39,170,000	85,753,000
2027 – 2031	84,706,000	25,996,000	110,702,000
2032 – 2036	46,217,000	7,836,000	54,053,000
2037 – 2041	13,809,000	3,142,000	16,951,000
2042 – 2046	27,875,000	914,000	28,789,000
2047 – 2047	634,000	32,000	666,000
	<u>\$ 299,402,000</u>	<u>\$ 125,767,000</u>	<u>\$ 425,169,000</u>

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In order to ensure the exclusion of interest on the Corporation’s Hawaii Rental Housing System revenue bonds and Single Family Mortgage Purchase 2009 Series A revenue bonds from gross income for federal income tax purposes, the Corporation calculates rebates due to the U.S. Treasury annually. The rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. At June 30, 2016, the Corporation determined that no rebate amounts were due to the U.S. Treasury.

Interest expense of approximately \$10,799,000 was included as direct function expenses in the government-wide statement of activities during the year ended June 30, 2016.

10. Conduit Debt Obligations

From time to time, the Corporation has issued revenue bonds to provide financial assistance to private sector entities for the acquisition and rehabilitation of multifamily rental housing developments. These bonds are special limited obligations of the Corporation, payable solely from and collateralized by a pledge of payments on the mortgage-backed securities. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. The bonds and related assets are reported in the accompanying financial statements.

As of June 30, 2016, there were fifteen series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$165,295,000 reported as Multifamily Housing Revenue bonds.

11. Leases

Lessee

The Corporation leases land, buildings and improvements under various noncancelable operating leases expiring at various dates through 2056. The leases have scheduled rent increases at various times throughout their terms.

The minimum rental commitments under operating leases are as follows:

Year ending June 30,	
2017	\$ 531,000
2018	547,000
2019	563,000
2020	580,000
2021	598,000
2022 – 2026	3,032,000
2027 – 2031	3,518,000
2032 – 2036	3,639,000
2037 – 2041	4,221,000
2042 – 2046	4,367,000
2047 – 2051	5,065,000
2052 – 2056	5,240,000
	<u>\$ 31,901,000</u>

Rent expense for the year ended June 30, 2016 totaled approximately \$541,000.

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Lessor

The Corporation leases land with a carrying value of approximately \$25,705,000 to various developers and home buyers. The leases expire at various dates through 2085. Lease rental income for the year ended June 30, 2016 was approximately \$938,000.

As discussed in Note 13, the Corporation’s lease related to Kukui Gardens was prepaid with a promissory note. The promissory note does not have fixed repayment terms. Accordingly, the minimum amounts to be received are excluded from the following table.

The future minimum lease rent from these operating leases at June 30, 2016 is as follows:

Year ending June 30,	
2017	\$ 576,000
2018	529,000
2019	531,000
2020	546,000
2021	545,000
2022 – 2026	2,495,000
2027 – 2031	2,226,000
2032 – 2036	324,000
2037 – 2041	127,000
2042 – 2046	72,000
2047 – 2051	115,000
	<u>\$ 8,086,000</u>

12. Commitments and Contingencies

Construction Contracts

At June 30, 2016, the Dwelling Unit Revolving Fund had outstanding commitments to expend approximately \$27,260,000 for land development and the construction and renovation of housing projects.

Loan Commitments

At June 30, 2016, the Rental Housing Revolving Fund had aggregate outstanding loan commitments of approximately \$7,200,000.

Development Costs

The Kapolei development project primarily consists of eight residential villages and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2016, all but remnant residential parcels and 35 acres of business mixed-use land have been developed and sold. The estimated future cost of development is recorded as a liability on the accompanying statement of net position and relates primarily to the completion of certain infrastructure improvements at this project. This liability represents estimated amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

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Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands. The Villages of Leialii is in West Maui and is located on public trust (ceded) land owned by the State of Hawai'i. During fiscal year 2014, management decided not to pursue the development of Leialii and wrote off approximately \$6,386,000 in construction costs and approximately \$5,500,000 of payments due to the Office of Hawaiian Affairs as the original obligation was deemed invalid. As of June 30, 2016, the Corporation still has development rights for most of the Leialii project and development costs related to Leialii were approximately \$8,366,000 at June 30, 2016.

Development of the Villages of La'i'opua master planned community in West Hawai'i was also delayed due to the ceded land lawsuits. The Corporation subsequently transferred to the Department of Hawaiian Home Lands, all of its master developer rights, title and interest in La'i'opua except for approximately 200 acres, of which approximately 57 acres of land is ceded. The Corporation has embarked on the development of another master planned community on non-ceded land in West Hawai'i, named the Kamakana Villages at Keahuolu.

Also, the Corporation has other development costs and dwelling units of approximately \$2,120,000 at June 30, 2016.

Torts and Litigation

The Corporation is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Corporation's financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State of Hawai'i's general fund.

Insurance

The State maintains certain insurance coverage to satisfy the bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2016, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Corporation's portion of the State's workers' compensation liability was not material at June 30, 2016.

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13. Kukui Gardens

On December 18, 2007, the Corporation purchased a portion of Kukui Gardens (the "Project"), an affordable housing project in Honolulu, Hawai'i, for approximately \$59,569,000. Concurrent with DURF's purchase of the Project, DURF sold the Project's improvements (including apartment units) and operating cash of approximately \$38,527,000 to Kukui EAH/DGI Associates, L.P. ("EAH"), an unrelated third party, for no gain or loss, and leased the underlying land of approximately \$21,042,000 to EAH pursuant to the terms of a 65-year land lease that expires on December 18, 2072.

To assist in financing the acquisition and redevelopment of the Project, the State contributed \$25,000,000 to DURF during December 2007. Additionally, the Multifamily Housing Revenue Bond Fund issued \$45,000,000 of revenue bonds to provide conduit financing to EAH for their acquisition of the Project's improvements and operating cash, as well as to provide capital for rental operations and the planned renovation of the apartment units. Upon completion of the renovations, \$34,605,000 of the bonds was scheduled to be redeemed leaving \$10,395,000 of permanent bonds outstanding to their stated maturity. In 2010, due to unfavorable global economic conditions, EAH requested and Citicorp Municipal Mortgage Inc., bondholder, agreed to increase the permanent bonds by \$3,270,000 to \$13,665,000, which decreased the redemption at conversion to \$31,335,000 from \$34,605,000. In May 2012, the Project was completed and a payment of \$31,335,000 was received. Accordingly, the Multifamily Housing Revenue Bond Fund has notes receivable of approximately \$13,085,000 and revenue bonds payable of approximately \$13,113,000 related to the Project on the accompanying statement of net position as of June 30, 2016. Currently, \$3,270,000 of the note bears interest at a fixed rate of 6.25% and matures through January 2042, while the remaining \$10,072,000 bears interest at a rate of 0.97% and matures annually through January 2042. The note includes monthly payments of principal and interest with principal payments that range from approximately \$2,000 to \$41,000. Any unpaid principal and accrued interest, together with any other expenses are due upon maturity.

Additionally, EAH executed three promissory notes to DURF in an aggregate amount of \$29,055,000, including approximately \$4,055,000 related to cash advanced from DURF to EAH and \$25,000,000 related to the terms of the land lease. Additionally, DURF recorded \$25,000,000 of unearned income on the accompanying statement of net position related to this transaction. The unearned income will be amortized to rental income on a straight-line basis and the notes receivable will be reduced as cash is collected. Unearned income at June 30, 2016 related to the Project was approximately \$21,712,000. The notes bear interest at 4.72% and are for a term of 58 years, with a final maturity date of December 17, 2065. Repayment of the notes is distributed into three periods as follows: (1) December 18, 2007 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

EAH also executed a promissory note to DURF for \$26,000,000 in September 2009 to assist EAH in rehabilitating the property. The note bears no interest and is for a term of 56 years, with a final maturity date of December 17, 2065. Repayment of the note is distributed into three periods as follows: (1) September 1, 2009 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to

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December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

During the year ended June 30, 2016, DURF recognized approximately \$1,900,000 of interest income related to the outstanding promissory notes. As of June 30, 2016, DURF has recorded approximately \$13,500,000 of interest income receivable related to the outstanding promissory notes.

14. Benefit Plans

Substantially all employees of the Corporation participate in the State's various employee benefit plans, including the Employees' Retirement System ("ERS") of the State of Hawai'i, postemployment healthcare and life insurance plan and a deferred compensation plan. For more information on the State's benefit plans, refer to the State of Hawai'i and ERS CAFRs. The State's CAFR can be found at the DAGS website. The ERS CAFR can be found at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

General Information on the Pension Plan

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement 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 credit service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members 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 members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

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The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

- Retirement Benefits – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten 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.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. 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 the 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 and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

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 five years of credited service are eligible to retire at age 55.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten 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.

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- *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 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 one 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 ten 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 ten years of credited service are eligible to retire at age 60.

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

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60.

- *Disability and Death Benefits* – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of services for police officers and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

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

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Hybrid Class for Employees Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five 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 designated 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 until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving 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 five 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 ten years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Employees Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten 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 emergency medical technicians 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 ten 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 time of death but was credited with at least ten 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.

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Contributions

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2016 were 25.00% for police officers and firefighters and 17.00% for all other employees. Contributions to the pension plan from the Corporation were \$557,067 for the fiscal year ended June 30, 2016.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary and police officers and firefighters are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012, including judges and elected officials are required to contribute 9.8% of their salary and police officers and firefighters are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 14.2% of their salary. Hybrid members hired prior to 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 of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Corporation reported a liability of \$6,865,816 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Corporation's proportion of the net pension liability was based on a projection of the Corporation's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2015, the Corporation's proportion was 0.13% which was a decrease of 0.01% from its proportion measured as of June 30, 2014.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date other than the investment return assumption. Fiscal year 2016 was the first year of the three-year phase-in of the investment return assumption. The investment return rate decreased beginning in fiscal year 2016 to 7.65% and will continue to decrease to 7.55% in fiscal year 2017 and to 7.50% in fiscal year 2018, and will remain at 7.50% thereafter. There were no changes between the measurement date, June 30, 2015, and the reporting date, June 30, 2016, that are expected to have a significant effect on the proportionate share of the net pension liability.

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For the year ended June 30, 2016, the Corporation recognized pension expense of \$530,571. At June 30, 2016, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 68,531	\$ (181,371)
Changes of assumptions	153,770	-
Changes in proportion	9,579	(40,327)
Net difference between projected and actual earnings on pension plan investments	-	(277,062)
Corporation contributions subsequent to the measurement date	<u>733,758</u>	<u>-</u>
Total	<u>\$ 965,638</u>	<u>\$ (498,760)</u>

The \$733,758 reported as deferred outflows of resources related to pensions resulting from Corporation contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ (95,913)
2018	(95,913)
2019	95,913
2020	76,128
2021	7,246
	<u>\$ (12,539)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth rate	3.5%
Investment rate of return	7.65% per year, compounded annual including inflation

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

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

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The actuarial assumptions used in the June 30, 2015 valuation were based on the most recent experience study dated December 20, 2010. Between experience studies, the Board of Trustees of the Employees’ Retirement System of the State of Hawaii elected to lower the investment return assumption effective with the June 30, 2015 valuation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30.0%	8.50%
International equity	26.0%	9.30%
Total fixed-income	20.0%	3.10%
Real estate	7.0% *	9.20%
Private equity	7.0% *	11.90%
Real return	5.0% *	6.70%
Covered calls	<u>5.0%</u>	7.70%
Total investments	<u>100.0%</u>	

* The real estate, private equity and real return targets will be the percentage actually invested up to 7.0%, 7.0% and 5.0%, respectively, of the total fund. Changes in the real estate, private equity and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

Discount Rate

The discount rate used to measure the net pension liability was 7.65%, a decrease from the 7.75% rate used at the prior measurement date. 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 the State 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.

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Sensitivity of the Corporation’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Corporation’s proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the Corporation’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.65%) or one percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
Corporation’s proportionate share of the net pension liability	<u>\$ 4,812,262</u>	<u>\$ 6,865,816</u>	<u>\$ 8,183,988</u>

Pension Plan Fiduciary Net Position

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

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

Payables to the Pension Plan

At June 30, 2016, the amount payable to the ERS was \$27,633.

Allocated Net Pension Liability

The following table shows the components of the net pension liability that has been allocated to the Corporation for the year ended June 30, 2016:

Balance at July 1, 2014 (restated)	\$ 7,207,390
Additions	656,061
Reductions	<u>(1,309,386)</u>
Balance at June 30, 2015	6,554,065
Additions	974,232
Reductions	<u>(662,481)</u>
Balance at June 30, 2016	<u>\$ 6,865,816</u>

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June 30, 2016

Post-retirement Health Care and Life Insurance Benefits

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (“EUTF”), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire. Act 88 established the EUTF during the 2001 legislative session and is codified in Chapter 87A, HRS.

The Corporation contributed approximately \$384,000, \$324,000 and \$328,000, respectively, for fiscal years 2016, 2015 and 2014.

Required Supplementary Information and Disclosures

The State’s CAFR includes the required disclosures and supplementary information on the State’s other postemployment benefit plan.

State Policy

The actuarial valuation of the EUTF does not provide other postemployment benefits (“OPEB”) information by department or agency. Accordingly, the State’s policy on the accounting and reporting for OPEB is to allocate a portion of the State’s Annual Required Contribution (“ARC”), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State’s CAFR. Prior to fiscal year 2014, the State allocated annual OPEB cost to component units and proprietary funds based on their proportionate percentage of the State’s total covered payroll expense. Starting in fiscal year 2014, the State changed its allocation methodology to allocate annual OPEB cost to component units and proprietary funds based on their proportionate percentage of the State’s total covered employee headcount. There was no retroactive adjustment to allocated OPEB liabilities as a result of this allocation methodology change.

Allocated OPEB Cost

The following table shows the components of the annual OPEB cost that has been allocated to the Corporation for the years ended June 30, 2016 and 2015:

Balance at July 1, 2015	\$ 4,085,153
Additions	803,050
Reductions	<u>(383,607)</u>
Balance at June 30, 2016	<u>\$ 4,504,596</u>

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Notes to Financial Statements
June 30, 2016

15. Related Party Transactions

Amounts due from the Department of Hawaiian Home Lands (“DHHL”) related to a previous agreement to transfer certain land development rights to DHHL include approximately \$9,098,000. Pursuant to this agreement, DHHL was required to commence 15 annual \$1,700,000 payments to the Corporation in December 2004. Effective at that time, the Corporation recorded the sale of the land and development rights at the net present value of the estimated future cash flow from DHHL using an imputed interest rate of approximately 2.6%. In September 2013, the agreement was amended to extend the term by three years and reduce annual payments from \$2,200,000 to \$1,700,000. As of June 30, 2016, amounts due from DHHL include approximately \$7,615,000 of principal, net of approximately \$485,000 of imputed interest, and approximately \$109,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately \$217,000 during the year ended June 30, 2016.

The Rental Assistance Revolving Fund provides rent subsidies to certain lessees of the Corporation’s various projects. Total rent subsidies provided to lessees of the Corporation’s various projects approximated \$1,344,000 during the year ended June 30, 2016. These amounts have been recorded by the Corporation as rental income in the Hawaii Rental Housing System Revenue Bond Fund. In addition, the Corporation relocated its offices to the Pohulani building in September 1992. During the year ended June 30, 2016, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately \$1,276,000, which was allocated as office rental expense to various funds of the Corporation. In addition, DAGS incurred approximately \$1,098,000 in rent to the Hawaii Rental Housing System Revenue Bond Fund for leased space in the Pohulani building. The lease term with DAGS expires in August 2022. Minimum annual rent is renegotiated every five years, with the rent for the first year of each five-year period being no less than 97% and no more than 103% of the preceding year’s minimum rent. Minimum rent for the subsequent four years of each five-year period increases by 3% annually.

16. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
Multifamily Housing Revenue Bond Fund	Other Non-major Enterprise Funds	\$ 2,070,854
Dwelling Unit Revolving Fund	Other Non-major Enterprise Funds	744,717
Other Non-major Enterprise Funds	Other Non-major Enterprise Funds	571,338
Other Non-major Enterprise Funds	Hawaii Rental Housing System Revenue Bond Fund	613,362
Other Non-major Enterprise Funds	Single Family Mortgage Purchase Revenue Bond Fund	190,680
	Total Proprietary interfund balances	<u>\$ 4,190,951</u>
Other Non-major Enterprise Funds	Other Non-major Governmental Funds	\$ 614
	Total Governmental interfund balances	<u>\$ 614</u>

These balances are due to interfund goods or services provided or reimbursable expenditures and payments between funds.

Supplementary Information

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2016

	Tax Credit Assistance Program Fund	National Foreclosure Mitigation Counseling Program Fund	Emergency Homeowners' Loan Program Fund	Total Non-major Governmental Funds
Assets				
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ 8,335	\$ -	\$ 8,335
Notes and loans receivable	9,861,610	-	-	9,861,610
Due from other governments	-	155	-	155
Total assets	<u>\$ 9,861,610</u>	<u>\$ 8,490</u>	<u>\$ -</u>	<u>\$ 9,870,100</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 7,039	-	\$ 7,039
Due to other funds	-	550	-	550
Total liabilities	-	7,589	-	7,589
Fund balances – restricted	<u>9,861,610</u>	<u>901</u>	<u>-</u>	<u>9,862,511</u>
Total liabilities and fund balances	<u>\$ 9,861,610</u>	<u>\$ 8,490</u>	<u>\$ -</u>	<u>\$ 9,870,100</u>

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Change in Fund Balances
Year Ended June 30, 2016

	Tax Credit Assistance Program Fund	National Foreclosure Mitigation Counseling Program Fund	Emergency Homeowners' Loan Program Fund	Total Non-major Governmental Funds
Revenues				
Intergovernmental	\$ -	\$ 1,730	\$ 598	\$ 2,328
Expenditures				
Administration	-	1,730	598	2,328
Change in fund balances	-	-	-	-
Fund balances				
Beginning of year	<u>9,861,610</u>	<u>901</u>	<u>-</u>	<u>9,862,511</u>
End of year	<u>\$ 9,861,610</u>	<u>\$ 901</u>	<u>\$ -</u>	<u>\$ 9,862,511</u>

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Net Position
June 30, 2016

	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Disbursing Fund	Total
Assets and Deferred Outflows of Resources				
Current assets				
Equity in cash and cash equivalents and investments in State Treasury	\$ 18,131,611	\$ 6,228,069	\$ 957,071	\$ 25,316,751
Cash in banks	-	-	10,000	10,000
Receivables				
Accrued interest	858,563	12,703	-	871,266
	<u>858,563</u>	<u>12,703</u>	<u>-</u>	<u>871,266</u>
Due from other funds	-	1,375,380	-	1,375,380
Prepaid expenses and other assets	141,418	-	-	141,418
Total current assets	<u>19,131,592</u>	<u>7,616,152</u>	<u>967,071</u>	<u>27,714,815</u>
Investments	5,802,504	-	-	5,802,504
Mortgage loans, net of allowance for loan losses of \$19,672	2,249,985	5,375,704	-	7,625,689
Capital assets, net	-	-	60,168	60,168
Total assets	<u>27,184,081</u>	<u>12,991,856</u>	<u>1,027,239</u>	<u>41,203,176</u>
Deferred outflows of resources				
Deferred outflows on net pension liability	22,043	142,444	-	164,487
Total deferred outflows of resources	<u>22,043</u>	<u>142,444</u>	<u>-</u>	<u>164,487</u>
Total assets and deferred outflows of resources	<u>\$ 27,206,124</u>	<u>\$ 13,134,300</u>	<u>\$ 1,027,239</u>	<u>\$ 41,367,663</u>
Liabilities, Deferred Inflows of Resources and Net Position				
Current liabilities				
Accounts payable	\$ -	\$ 51	\$ 167,239	\$ 167,290
Other accrued expenses	19,826	125,181	-	145,007
Due to other funds, net	-	2,409,295	850,000	3,259,295
Due to other State departments	-	20,280	10,000	30,280
Security deposits	-	1,199,643	-	1,199,643
Total current liabilities	<u>19,826</u>	<u>3,754,450</u>	<u>1,027,239</u>	<u>4,801,515</u>
Postemployment liability	80,292	708,510	-	788,802
Net pension liability	122,694	1,081,063	-	1,203,757
Total liabilities	<u>222,812</u>	<u>5,544,023</u>	<u>1,027,239</u>	<u>6,794,074</u>
Deferred inflows of resources				
Deferred inflows on net pension liability	13,952	53,454	-	67,406
Total deferred inflows of resources	<u>13,952</u>	<u>53,454</u>	<u>-</u>	<u>67,406</u>
Commitments and contingencies				
Net position				
Net investment in capital assets	-	-	60,168	60,168
Unrestricted	26,969,360	7,536,823	(60,168)	34,446,015
Total net position	<u>26,969,360</u>	<u>7,536,823</u>	<u>-</u>	<u>34,506,183</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 27,206,124</u>	<u>\$ 13,134,300</u>	<u>\$ 1,027,239</u>	<u>\$ 41,367,663</u>

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2016

	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Disbursing Fund	Total
Operating revenues				
Rental	\$ -	\$ 28,014	\$ -	\$ 28,014
Interest on mortgages, notes, loans and mortgage-backed securities	68,625	25,926	-	94,551
Other	56	2,329,640	-	2,329,696
Total operating revenues	<u>68,681</u>	<u>2,383,580</u>	<u>-</u>	<u>2,452,261</u>
Operating expenses				
Personnel services	84,409	1,910,253	-	1,994,662
Housing assistance payments	1,745,403	-	-	1,745,403
Administration	53,506	353,717	-	407,223
Professional services	2,505	52,174	-	54,679
Insurance	-	44,570	-	44,570
Provision for losses	-	14,560	-	14,560
Capital expenses	882	7,082	-	7,964
Repairs and maintenance	100	1,659	-	1,759
Other	-	9,215	-	9,215
Total operating expenses	<u>1,886,805</u>	<u>2,393,230</u>	<u>-</u>	<u>4,280,035</u>
Operating loss	<u>(1,818,124)</u>	<u>(9,650)</u>	<u>-</u>	<u>(1,827,774)</u>
Nonoperating revenues				
Interest income	521,740	42,165	-	563,905
Net decrease in fair value of other investments	(337,200)	-	-	(337,200)
Other expense	-	(633)	-	(633)
Total nonoperating revenues	<u>184,540</u>	<u>41,532</u>	<u>-</u>	<u>226,072</u>
Change in net position	<u>(1,633,584)</u>	<u>31,882</u>	<u>-</u>	<u>(1,601,702)</u>
Net position				
Beginning of year	<u>28,602,944</u>	<u>7,504,941</u>	<u>-</u>	<u>36,107,885</u>
End of year	<u>\$ 26,969,360</u>	<u>\$ 7,536,823</u>	<u>\$ -</u>	<u>\$ 34,506,183</u>

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Cash Flows
Year Ended June 30, 2016

	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Disbursing Fund	Total
Cash flows from operating activities				
Cash received from tenants	\$ -	\$ 236,157	\$ -	\$ 236,157
Cash received from borrowers				
Principal repayments	-	66,986	-	66,986
Interest income	166,294	16,303	-	182,597
Payments to employees	(88,410)	(1,793,844)	-	(1,882,254)
Payments to suppliers	(1,788,891)	(277,056)	-	(2,065,947)
Cash receipts from other funds	(24)	141,624	7,674	149,274
Other cash receipts	56	2,368,407	40,254	2,408,717
Net cash provided by (used in) operating activities	<u>(1,710,975)</u>	<u>758,577</u>	<u>47,928</u>	<u>(904,470)</u>
Cash flows from capital and related financing activities				
Sale of capital assets	-	-	24,065	24,065
Net cash provided by capital and related financing activities	<u>-</u>	<u>-</u>	<u>24,065</u>	<u>24,065</u>
Cash flows from investing activities				
Interest received	521,740	41,532	-	563,272
Net cash provided by investing activities	<u>521,740</u>	<u>41,532</u>	<u>-</u>	<u>563,272</u>
Net increase (decrease) in cash and cash equivalents	(1,189,235)	800,109	71,993	(317,133)
Cash and cash equivalents				
Beginning of year	19,320,846	5,427,960	895,078	25,643,884
End of year	<u>\$ 18,131,611</u>	<u>\$ 6,228,069</u>	<u>\$ 967,071</u>	<u>\$ 25,326,751</u>

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Cash Flows
Year Ended June 30, 2016

	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Disbursing Fund	Total
Components of cash and cash equivalents				
Equity in cash and cash equivalents and investments in State Treasury	\$ 18,131,611	\$ 6,228,069	\$ 957,071	\$ 25,316,751
Cash in banks	-	-	10,000	10,000
Cash and cash equivalents	<u>\$ 18,131,611</u>	<u>\$ 6,228,069</u>	<u>\$ 967,071</u>	<u>\$ 25,326,751</u>
Cash flows from operating activities				
Reconciliation of operating loss to net cash provided by (used in) operating activities				
Operating loss	\$ (1,818,124)	\$ (9,650)	\$ -	\$ (1,827,774)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities				
Provision for recovery of losses	-	14,560	-	14,560
Net pension expense (benefit)	(4,001)	116,409	-	112,408
Changes in assets and liabilities				
Mortgage loans receivable	-	66,986	-	66,986
Accrued interest receivable	97,669	(9,623)	-	88,046
Other receivables	-	27,702	2	27,704
Due from other funds	-	23,240	7,674	30,914
Prepaid expenses and other assets	6,013	-	-	6,013
Accounts payable	-	(29)	40,252	40,223
Other accrued expenses	1,426	21,671	-	23,097
Postemployment liability	6,066	160,504	-	166,570
Due to other funds	(24)	118,384	-	118,360
Due to State of Hawaii	-	20,280	-	20,280
Security deposits	-	208,143	-	208,143
Net cash provided by (used in) operating activities	<u>\$ (1,710,975)</u>	<u>\$ 758,577</u>	<u>\$ 47,928</u>	<u>\$ (904,470)</u>

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Reconciliation of Cash and Short-Term Investments
June 30, 2016

The Corporation’s cash and short-term investments consist of the following as of June 30, 2016:

Equity in State Treasury investment pool – Government-wide	\$ 246,387,336
Cash in banks	3,481,739
Restricted cash and cash equivalents held by trustees	65,235,379
Deposits held in trust	109,733
	<u>\$ 315,214,187</u>

Total cash and short-term investments are in agreement with the State Comptroller’s central accounting records as of June 30, 2016, as reconciled below:

	Appropriation Symbol	Balance at June 30, 2016
Cash in State Treasury		
Special Funds	S-14-213-B	\$ 5,582
	S-14-503-B	2,261
	S-11-375-B	55,756
	S-12-375-B	16,410
	S-13-375-B	57,416
	S-14-375-B	278,109
	S-15-375-B	834,174
	S-16-375-B	93,927,225
	S-13-376-B	11,001
	S-15-376-B	23,000
	S-16-376-B	6,174,908
	S-16-378-B	18,131,858
	S-16-314-B	500,000
	S-16-380-B	125,492,118
Trust Funds	T-16-906-B	<u>1,095</u>
Total cash held in State Treasury, as reported by State Comptroller’s accounting records		<u>\$ 245,510,913</u>

See accompanying independent auditors’ report.

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Reconciliation of Cash and Short-Term Investments
June 30, 2016

	Balance at June 30, 2016
Reconciling items	
Journal vouchers not recorded by DAGS	\$ 371,843
Other	<u>504,580</u>
	<u>876,423</u>
Cash and short-term investments held outside State Treasury	
Cash in bank	3,481,739
Restricted cash held by trustees	65,235,379
Deposits held in trust	<u>109,733</u>
	<u>68,826,851</u>
Cash and short-term investments on Statement of Net Assets	<u>\$ 315,214,187</u>

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development			
HOME Investment Partnership Program	14.239	\$ 1,628,302	\$ 1,478,194
Emergency Homeowners' Loan Program	14.323	598	-
U.S. Department of Treasury			
Passed through The Neighborhood Reinvestment Corporation – National Foreclosure Mitigation Counseling	21.000	<u>1,729</u>	<u>-</u>
Total federal expenditures		<u>\$ 1,630,629</u>	<u>\$ 1,478,194</u>

See accompanying independent auditors' report and notes to the schedule of expenditures of federal awards.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule of expenditures of federal awards, the Corporation provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development		
HOME Investment Partnership Program	14.239	\$ 1,478,194
Total federal expenditures		<u>\$ 1,478,194</u>

3. Loans Outstanding

The Corporation had \$9,861,610 of loan balances outstanding and advances awarded as of and for the year ended June 30, 2016.

4. Indirect Costs

The Corporation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

See accompanying independent auditors' report.

PART II
Compliance and Internal Control

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

The Auditor
State of Hawai'i

The Board of Directors
Hawaii Housing Finance and Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the "Corporation") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated December 21, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

The image shows the handwritten signature of Accuity LLP in black ink. The word "Accuity" is written in a cursive style, and "LLP" is written in a simpler, blocky font to the right.

Honolulu, Hawaii
December 21, 2016

**Report of Independent Auditors on Compliance for Each Major Program
and on Internal Control Over Compliance Required by the Uniform Guidance**

The Auditor
State of Hawai'i

The Board of Directors
Hawaii Housing Finance and Development Corporation

Report on Compliance for Each Major Federal Program

We have audited the State of Hawai'i, Hawaii Housing Finance and Development Corporation's (the "Corporation") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2016. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Uniform Guidance. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawaii
December 21, 2016

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued	Unmodified	
Internal control over financial reporting		
• Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
• Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Noncompliance material to financial statements noted?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Federal Awards

Internal control over major programs		
• Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
• Significant deficiency(ies) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None reported
Type of auditors’ report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Identification of major programs		

CFDA

Number	Name of Federal Program
14.239	HUD – Home Investment Partnership Program

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000	
Auditee qualified as low-risk auditee?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2016**

Section II – Financial Statement Findings

No current year financial statement findings.

Section III – Federal Award Findings and Questioned Costs

No current year federal award findings and questioned costs.