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
lao.auditors@hawaii.gov

DEPT. COMM. NO. 339

March 17, 2017

HAND DELIVER

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

Re: Audit of the Hawai'i Community Development Authority

Dear President Kouchi:

The financial audit report of the Hawai'i Community Development Authority for the fiscal year ending 2016 was issued on December 20, 2016. The Office of the Auditor retained CW Associates to perform the financial audit. For your information, we are enclosing a copy of the two-page Auditor's Summary and the report.

The Auditor's Summary and report may be viewed electronically on our website at http://files.hawaii.gov/auditor/Reports/2016_Audit/HCDA_Summary_2016.pdf and http://files.hawaii.gov/auditor/Reports/2016_Audit/HCDA2016.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:lfs

Enclosures

ORIGINAL

DEPT. COMM. NO. 339

Auditor's Summary

Financial Audit of the Hawai'i Community Development Authority

Financial Statements, Fiscal Year Ended June 30, 2016

PHOTO: OFFICE OF THE AUDITOR

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 Community Development Authority (HCDA), as of and for the fiscal year ended June 30, 2016. The audit was conducted by CW Associates, A Hawai'i CPA Corporation.*

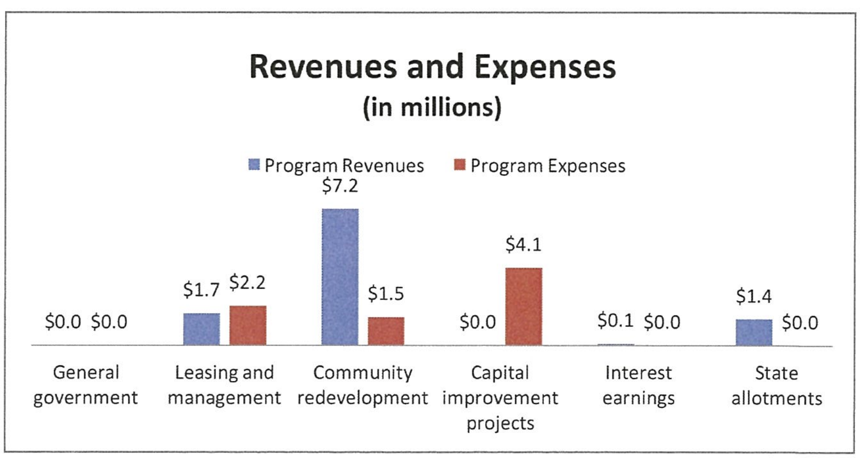
About the Authority

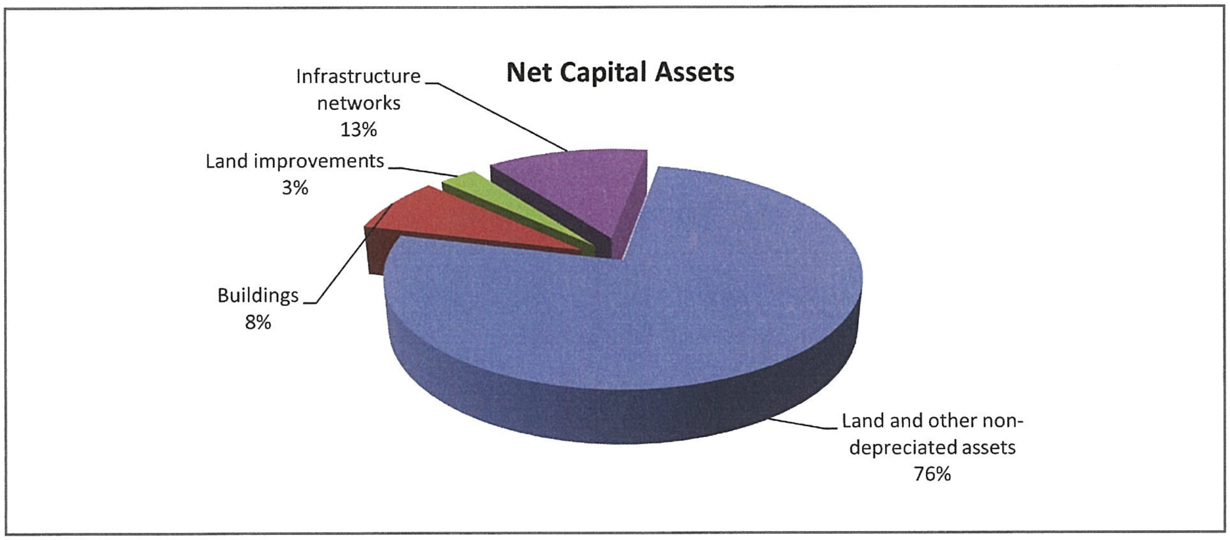
HCDA WAS ESTABLISHED to supplement traditional community renewal methods by promoting and coordinating public and private sector community developments. HCDA is tasked with planning for and revitalizing urban areas designated "community development districts," which are determined to be underused or deteriorating but with potential, once redeveloped, to address the needs of Hawai'i's people and to provide economic opportunities for the State. HCDA is administratively attached to the Department of Business, Economic Development, and Tourism.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2016, HCDA reported total revenues of $10.4 million and total expenses of $7.8 million resulting in a change in net position of $2.6 million. Revenues consisted of leasing and management of $1.7 million, community redevelopment of $7.2 million, investment earnings of $100,000, and State appropriations, net of lapses, of $1.4 million.

The following graph illustrates a comparative breakdown of the HCDA's revenues and expenses.





As of June 30, 2016, total assets and deferred outflows of resources of $205.7 million exceeded total liabilities and deferred inflows of resources of $18.1 million by $187.6 million. Of this amount, $27.1 million is unrestricted and may be used to meet ongoing expenses. Total assets and deferred outflows of resources were comprised mainly of net capital assets of $147.9 million, cash of $26.4 million, and receivables and other assets of $31.4 million.

Auditors' Opinion

HCDA RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

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.*

For the complete report, visit our website at:
http://files/hawaii.gov/auditor/Reports/2016_Audit/HCDA2016.pdf

ORIGINAL

DEPT. COMM. NO. 339

STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

FINANCIAL AND COMPLIANCE AUDIT

For the Year Ended June 30, 2016

Submitted By
The Auditor
State of Hawaii

STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

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For the Year Ended June 30, 2016

PART I

TRANSMITTAL

CW Associates
A Hawaii Certified Public Accounting Corporation

December 20, 2016

Mr. Les Kondo
Office of the Auditor
State of Hawaii

The Board of Directors
Hawaii Community Development Authority
State of Hawaii

We have completed our financial and compliance audit of the State of Hawaii, Hawaii Community Development Authority (HCDA) as of and for the fiscal year ended June 30, 2016. The audit was performed in accordance with our agreement, dated April 13, 2016, with the Auditor, State of Hawaii, and with the requirements of 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 of America.

OBJECTIVES

The primary purpose of our audit was to form an opinion on the fair presentation of the HCDA's financial statements as of and for the fiscal year ended June 30, 2016. The objectives of our audit were as follows:

- To provide a basis for an opinion on the fair presentation of the financial statements of the HCDA.
- To determine whether expenditures have been made, and all revenues and other receipts to which the HCDA is entitled have been collected and accounted for, in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii (State) and, if applicable, the federal government.
- To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the State and the HCDA the proper financial information to plan, evaluate, control, and correct program activities.
- To evaluate the adequacy, effectiveness, and efficiency of the systems and procedures for financial accounting, reporting, and internal controls, and to recommend improvements to such systems and procedures.
- To determine whether the HCDA has complied with laws, regulations, contracts, and grants that may have a material effect on the financial statements.

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SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants and the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The scope of our audit included an examination of the transactions and accounting records of the HCDA as of and for the fiscal year ended June 30, 2016.

ORGANIZATION OF THE REPORT

This report is organized into four parts:

PART I – Presents the transmittal letter.

PART II – Presents management's discussion and analysis.

PART III – Presents the financial section which includes the HCDA's financial statements and the auditor's report on such statements.

PART IV – Contains the report on internal control over financial reporting and on compliance.

We want to thank the personnel of the HCDA for their cooperation and the assistance extended to us. We will be happy to respond to any questions that you may have on this report.

Very truly yours,

Terri Fujii

Terri Fujii
Audit Partner

PART II

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATE OF HAWAII, HAWAII COMMUNITY DEVELOPMENT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2016

This section of the annual financial report presents management's discussion and analysis of the HCDA's financial performance during the fiscal year ended June 30, 2016. It should be read in conjunction with the HCDA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the HCDA exceeded its liabilities at June 30, 2016 by approximately $187.7 million (net position).
- The HCDA's total net assets increased by approximately $2.6 million, or 1.4% from June 30, 2015 to June 30, 2016.
- The HCDA's long-term liabilities increased by approximately $1.9 million, or 13.6% from June 30, 2015 to June 30, 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the HCDA's basic financial statements. The HCDA's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements report information about the HCDA 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 HCDA's financial position, which reflects the HCDA's financial condition at the end of the fiscal year.

The *Statement of Net Position* presents the HCDA's assets and liabilities with the difference between the two reported as "net position". Increases or decreases in net position are one indicator of whether the financial position of the HCDA is improving or deteriorating, respectively.

The *Statement of Activities* reflects the operations of the HCDA during the fiscal year and the resultant change in the net position. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. unused vacation leave).

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Governmental Funds Financial Statements

The governmental funds financial statements provide detailed information about the HCDA's significant funds. 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 HCDA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the HCDA are categorized as Governmental Funds.

Governmental Funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, Governmental Funds focus on short-term inflows and outflows of spendable resources, as well as on the balance of spendable resources available at the end of the fiscal year. Such information is useful in evaluating the HCDA's near-term financing requirements.

Because the focus of the Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the government-wide financial statements. Both the Governmental Funds balance sheet and the Governmental Funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between Governmental Funds and governmental activities in the government-wide financial statements.

Information is presented separately in the Governmental Funds balance sheet and in the Governmental Funds statement of revenues, expenditures, and changes in fund balances for the general fund, leasing and management special revenue fund, community redevelopment special revenue fund, and capital projects fund.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional disclosures for the information reflected in the financial statements essential to understanding the financial data provided in the government-wide financial statements.

Other Reports

Following the Notes to the Financial Statements is a Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-Wide Financial Analysis

The following presents a summarized comparison of net position and changes in net position for the fiscal years ended June 30, 2016 and 2015.

	2016	2015
ASSETS		
Current assets	$ 39,895,000	$ 34,123,000
Capital assets, net of depreciation	147,892,000	149,973,000
Other assets	17,362,000	17,369,000
Deferred outflows of resources	597,000	303,000
Total assets and deferred outflows of resources	$205,746,000	$201,768,000
LIABILITIES		
Current liabilities	$ 2,369,000	$ 2,665,000
Long-term liabilities	15,685,000	13,811,000
Deferred inflows of resources	21,000	219,000
Total liabilities	18,075,000	16,695,000
NET POSITION		
Invested in capital assets	147,892,000	149,973,000
Restricted	12,703,000	14,115,000
Unrestricted	27,076,000	20,985,000
Total net position	187,671,000	185,073,000
Total liabilities, deferred inflows of resources and net position	$205,746,000	$201,768,000

Analysis of Net Position

The assets of the HCDA exceeded its liabilities at June 30, 2016 by approximately $187,671,000 (net position). Investments in capital assets (e.g. land, buildings, infrastructure networks, construction in progress, improvements, and equipment, furniture and fixtures), represent a large portion of the HCDA's net assets. The HCDA uses these capital assets for the benefit of and use by government agencies and the public; consequently, these assets are not available for future spending and cannot be used to settle any liabilities. The remaining restricted assets of approximately $12,703,000 at June 30, 2016, represent resources that are subject to external restrictions or enabling legislation on how they may be used. The remaining unrestricted assets may be used to finance day-to-day operations without any constraints established by debt, or other legal requirements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Changes in Net Position

The following financial information was derived from the government-wide statement of activities and reflects how the HCDA's net position changed during the fiscal year.

	2016	2015
Revenues		
Program Revenues:		
Leasing and management	$ 1,650,000	$ 2,395,000
Community redevelopment	7,151,000	7,534,000
General Revenues:		
Investment earnings	125,000	74,000
State allotted appropriations, net of lapsed appropriations	1,442,000	9,555,000
Total	10,368,000	19,558,000
Expenses		
General government	7,000	427,000
Leasing and management	2,150,000	2,274,000
Community redevelopment	1,493,000	2,549,000
Capital projects	4,120,000	4,360,000
Total	7,770,000	9,610,000
Change in net position	2,598,000	9,948,000
Net position at July 1	185,073,000	177,525,000
Adjustment related to net pension liability	-	(2,400,000)
Net position – beginning of year	185,073,000	175,125,000
Net position – end of year	$187,671,000	$185,073,000

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Analysis of Changes in Net Position

The HCDA's net position increased by $2.6 million or 1.4% during the fiscal year ended June 30, 2016. Approximately $1.4 million in the fiscal year ended June 30, 2016 and $9.6 million in the fiscal year ended June 30, 2015, of the HCDA's revenues came from State allotted appropriations for capital improvement projects. In addition, previously granted public facilities dedication credits valued at approximately $4.3 million were returned and $2.7 million were used and reported as community redevelopment program revenue in the current fiscal year.

FINANCIAL ANALYSIS OF THE HCDA'S INDIVIDUAL FUNDS

As noted earlier, the HCDA uses fund accounting to ensure and demonstrate compliance with finance and legislative-related legal requirements.

The focus of the HCDA's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the HCDA's financing requirements. In particular, the unreserved fund balance may serve as a useful measure of the net resources available for spending at the end of the fiscal year.

At June 30, 2016, the HCDA's governmental funds reported combined ending fund balances of approximately $54.9 million, an increase of approximately $6.2 million or 12.7% from the previous fiscal year.

Leasing and Management

The HCDA leases and manages various properties located in its community development districts. The land being managed and leased by the HCDA includes yard, warehouse, parking, agricultural, cultural, and storage acreage. The HCDA manages over 44 acres of park lands and open spaces.

Revenues from leasing and management decreased by approximately $745,000, or 31.1%, in fiscal year ended June 30, 2016 mainly because of a decrease in lease rents. Effective September 2014, the HCDA leases the Kewalo Basin Harbor in a public private partnership which is expected to yield approximately $20 million in capital improvements while realizing a decrease in lease rents for the term of the lease.

At the end of the fiscal year ended June 30, 2016, the fund balance of the leasing and management special revenue fund was approximately $9 million, of which substantially all was committed.

FINANCIAL ANALYSIS OF THE HCDA'S INDIVIDUAL FUNDS (Continued)

Community Redevelopment

The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community developments. The 1976 State Legislature created the HCDA to plan for and to revitalize urban areas designated "Community Development Districts", which were determined to be underused or deteriorating but with potential, once redeveloped, to address the needs of Hawaii's people and to provide economic opportunities for the State. The redevelopment would offer opportunities to address the need for more housing, parks and open areas, as well as new commercial and industrial space. Kaka'ako was the first designated Community Development District, and the HCDA subsequently assumed the role of redeveloping authority for the Kalaeloa Community Development District (Kalaeloa) during the fiscal year ended June 30, 2003. He'eia was the third designated Community Development District established by Act 210, Session Laws Hawaii 2011.

Under the HCDA's Improvement District program, the total cost of infrastructure improvements is shared by the State government/HCDA, Kaka'ako property owners and the public utility companies. The HCDA pays for the greater share of the cost because the general public derives benefits from the improvements.

Kaka'ako landowners are assessed only for improvements that specifically benefit them. To assist landowners in paying assessments, the HCDA may arrange for the sale of assessment area bonds to provide financing for property owners who are unable to make a lump sum payment. Through this arrangement, landowners have the option of paying their assessments, including interest, in installments over a period of up to 20 years.

The public utility companies pay their share of infrastructure costs attributable to underground electrical structures, telephone, cable television systems, duct lines, drainage, and related incidental construction work through utility agreements. In the fiscal year ended June 30, 2016, the HCDA did not receive any funds relating to utility agreements.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources for acquisition or construction of major capital improvements. For the current fiscal year, the fund balance of the capital projects fund decreased by approximately $1.4 million, or 10%, mainly due to appropriations allotted during the year. State allotted appropriations in the current fiscal year decreased by approximately $8.4 million over the prior fiscal year. The decrease is primarily attributable to one large project, electrical improvements along Enterprise Avenue, in Kalaeloa, which was appropriated in the prior fiscal year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The HCDA's investment in capital assets as of June 30, 2016 and 2015, amounted as follows:

	2016	2015
Capital assets not being depreciated:		
Land	$ 95,137,000	$ 95,137,000
Land improvements	13,969,000	13,969,000
Construction in progress	3,509,000	2,921,000
Total capital assets not being depreciated	112,615,000	112,027,000
Capital assets being depreciated:		
Buildings	20,399,000	20,547,000
Wharves	4,268,000	4,268,000
Land improvements	26,151,000	26,151,000
Infrastructure networks	44,314,000	44,314,000
Furniture and equipment	428,000	348,000
Total capital assets being depreciated	95,560,000	95,628,000
Less accumulated depreciation	60,283,000	57,682,000
Capital assets, net of depreciation	$147,892,000	$149,973,000

The HCDA's investments in capital assets as of June 30, 2016, amounted to approximately $147.9 million (net of accumulated depreciation). These investments in capital assets include land, land improvements, construction in progress, buildings, wharves, infrastructure networks, and furniture and equipment. Major capital improvements project expenditures for the current fiscal year included the renovation of the American Brewery Building.

Real property acquired for redevelopment projects and construction cost of projects are administered by the HCDA until the projects' completion, at which point it is transferred to the respective City and County or State government agency for maintenance.

Debt Administration

The HCDA is authorized to issue Improvement District Bonds to finance redevelopment in the Kaka'ako District. The bonds are a limited obligation of the HCDA, payable solely from monies derived from installment payments received from the affected property owners and monies held in reserve in the Special Revenue Funds as required by the bond resolution. At the end of the current fiscal year, the HCDA did not have any outstanding Improvement District Bonds.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Current and Future Development

In January 2015, the HCDA approved a development permit for an affordable housing rental project named, Ola Ka ʻIlima Artspace Lofts, located on HCDA property at 1025 Waimanu Street in Kakaʻako. The lease was previously approved for the project in November 2014. Based on the development proposal, the development could include as many as 84 rental units with commercial space at the ground floor.

In June 2015, the HCDA approved the negotiation of a Development Agreement for an affordable micro-unit rental project on HCDA-owned land at 630 Cooke Street. Based on the proposal, the development could include as many as 104 small studio units, each with its own bathroom and kitchenette.

In July 2015, the HCDA voted to approve a lease to Pacific Gateway Center, a nonprofit organization, to move forward with plans to renovate the historic Kakaʻako Pumping Station on Ala Moana Boulevard into a community resource center. The Legislature appropriated $1 million in capital improvement grant funds for the refurbishment project. The 114-year old building will be renamed the "Na Kupuna Makamae Center", or "The Beloved Kupuna Center", and reopened in 2016.

In September 2015, the HCDA approved a lease to a non-profit, Kalaeloa Heritage and Legacy Foundation, a nonprofit organization, for 77 acres of vacant land located off of Coral Sea Road in Kalaeloa, currently named Kalaeloa Heritage Park. The nonprofit would steward and make improvements to the site, preserving and restoring the wealth of cultural and historical features currently located on-site.

In December 2015, the HCDA approved the negotiation of Development Agreements for two development lots on lands surrounding the Kewalo Basin Harbor. More specifically these sites include the former Charter Boat Building located along Ala Moana Boulevard and the former National Oceanic Atmospheric Administration (NOAA) site located at the end of the peninsula. Planned improvements for the site include additional parking and amenities for the adjacent harbor and park.

The HCDA otherwise has other planning activities underway in the Kakaʻako Community Development District, including the Transit-Oriented Development Master Plan and the Parks Master Plan. Both planning documents are expected to be finalized and approved in 2017. Upon approval, the HCDA anticipates activity related to rule and plan amendments.

REQUEST FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Hawaii Community Development Authority, 547 Queen Street, Honolulu, Hawaii 96813. General information about the HCDA can be found at the HCDA's website http://www.hcdaweb.org.

PART III

FINANCIAL SECTION

CW Associates
A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S REPORT

Office of the Auditor
State of Hawaii

The Board of Directors
Hawaii Community Development Authority
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Hawaii Community Development Authority (HCDA) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the HCDA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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Opinions on the Financial Statements

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the HCDA as of June 30, 2016, and the respective changes in financial position 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 A, the financial statements of the HCDA include only the governmental activities, each major fund, and the aggregate remaining fund information of the HCDA, and are not intended to present fairly the financial position of the State of Hawaii as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 13 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 which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated December 20, 2016, on our consideration of the HCDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 HCDA's internal control over financial reporting and compliance.

CW Associates, CPAs

Honolulu, Hawaii
December 20, 2016

STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES

As of June 30, 2016

Current Assets	
Cash in State Treasury and petty cash	$ 26,420,089
Due from State	13,028,878
Accounts receivable – net	444,295
Prepaid expenses	1,391
Total current assets	39,894,653
Noncurrent Assets	
Loan receivable – Halekauwila Partners, LLC	17,000,000
Investment in limited partnership	112,069
Water source allocation credits	249,642
Land, improvements, infrastructure networks, and construction in progress	112,614,886
Other capital assets, net of depreciation	35,277,023
Total noncurrent assets	165,253,620
Total assets	205,148,273
Deferred outflows of resources	596,788
Total assets and deferred outflows of resources	$ 205,745,061

(Continued)

STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES
(Continued)

As of June 30, 2016

Current Liabilities	
Accounts payable	$ 589,217
Unearned revenue	167,099
Accrued payroll	156,891
Rental security deposits	104,344
Current portion of long-term obligations	82,928
Due to State Treasury	1,268,923
Total current liabilities	2,369,402
Long-term Liabilities	
Noncurrent portion of long-term obligations	15,684,933
Total long-term liabilities	15,684,933
Total liabilities	18,054,335
Deferred inflows of resources	20,587
Net Position	
Invested in capital assets	147,891,909
Restricted for capital projects	12,702,702
Unrestricted	27,075,528
Total net position	187,670,139
Total liabilities, deferred inflows of resources and net position	$ 205,745,061

See accompanying notes to the financial statements.

STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES

For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues	Net (Expenses) Revenues and Changes in Net Position
Governmental Activities			
General government	$ 6,717	$ -	$ (6,717)
Leasing and management	2,149,714	1,649,889	(499,825)
Community redevelopment	1,493,147	7,150,229	5,657,082
Capital projects	4,120,311	-	(4,120,311)
Total governmental activities	$ 7,769,889	$ 8,800,118	1,030,229
General Revenues			
State allotments, net of lapsed appropriations			1,442,299
Investment earnings			124,718
Total general revenues			1,567,017
Change in net position			2,597,246
Net position – beginning of year			185,072,893
Net position – end of year			$ 187,670,139

See accompanying notes to the financial statements.

STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

BALANCE SHEET – GOVERNMENTAL FUNDS

As of June 30, 2016

	General Fund	Leasing and Management	Community Redevelopment	Capital Projects	Total Governmental Funds
ASSETS					
Cash in State Treasury and petty cash	$92,327	$10,016,366	$16,311,397	$ -	$26,420,090
Due from State	-	-	-	13,028,878	13,028,878
Accounts receivable – net	-	424,708	19,586	-	444,294
Prepaid expenses	-	1,391	249,642	-	251,033
Loan receivable – Halekauwila Partners, LLC	-	-	17,000,000	-	17,000,000
TOTAL ASSETS	$92,327	$10,442,465	$33,580,625	$13,028,878	$57,144,295
LIABILITIES					
Accounts payable	$14,058	$ 276,649	$ 104,429	$ 194,081	$ 589,217
Accrued payroll	-	24,796	-	132,095	156,891
Unearned revenues	-	167,099	-	-	167,099
Rental security deposits	-	104,344	-	-	104,344
Due to State Treasury	3,500	1,268,923	-	-	1,272,423
Total liabilities	17,558	1,841,811	104,429	326,176	2,289,974
FUND BALANCES					
Nonspendable:					
Prepaid expenses	-	1,391	249,642	-	251,033
Loan receivable	-	-	17,000,000	-	17,000,000
Total nonspendable fund balances	-	1,391	17,249,642	-	17,251,033
Restricted	-	-	-	12,702,702	12,702,702
Committed	74,769	8,599,263	16,226,554	-	24,900,586
Total fund balances	74,769	8,600,654	33,476,196	12,702,702	54,854,321
TOTAL LIABILITIES AND FUND BALANCES	$92,327	$10,442,465	$33,580,625	$13,028,878	$57,144,295

See accompanying notes to the financial statements.

STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

As of June 30, 2016

Total fund balances – governmental funds	$ 54,854,321
Amounts reported for governmental activities that are different in the Statement of Net Position due to:	
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds	147,891,909
Investments in limited partnerships are not financial resources and therefore are not reported in the governmental funds	112,069
Accrued employee benefits payable not reported in the governmental funds	(249,220)
Accrued other post-employment benefits payable are not reported in the governmental funds	(1,841,024)
Unearned reserved housing and public facility credits are not reported in the governmental funds	(10,935,255)
Deferred outflows of resources represent a consumption of fund equity that will be reported as an outflow of resources in a future period and therefore are not reported in the governmental funds	596,788
Deferred inflows of resources represent an acquisition of fund equity that will be recognized as an inflow of resources in a future period and therefore are not reported in the governmental funds	(20,587)
Net pension liability is not reported in the governmental funds	(2,738,862)
Total net position – governmental activities	$187,670,139

See accompanying notes to the financial statements.

STATE OF HAWAII, HAWAII COMMUNITY DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	General Fund	Leasing and Management	Community Redevelopment	Capital Projects	Total Governmental Funds
REVENUES					
State allotted appropriations	$286,999	$ -	$ -	$ 1,155,300	$ 1,442,299
Contributions from property owners	-	-	464,612	-	464,612
Dedication and reserve housing fees	-	-	8,362,446	-	8,362,446
Investment earnings	-	52,048	72,669	-	124,717
Leasing and management	-	1,611,513	-	-	1,611,513
Other	-	38,375	109	-	38,484
Total	286,999	1,701,936	8,899,836	1,155,300	12,044,071
EXPENDITURES					
General government	-	480,739	-	2,006,511	2,487,250
Capital outlays	212,230	1,817,600	815,712	561,346	3,406,888
Total	212,230	2,298,339	815,712	2,567,857	5,894,138
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	74,769	(596,403)	8,084,124	(1,412,557)	6,149,933
OTHER FINANCING SOURCES (USES)					
Transfers in	-	16,840,941	191,377	-	17,032,318
Transfers out	-	(16,678,109)	(354,209)	-	(17,032,318)
Total	-	162,832	(162,832)	-	-
NET CHANGE IN FUND BALANCES	74,769	(433,571)	7,921,292	(1,412,557)	6,149,933
FUND BALANCES, BEGINNING OF YEAR	-	9,034,225	25,554,904	14,115,259	48,704,388
FUND BALANCES, END OF YEAR	$ 74,769	$ 8,600,654	$33,476,196	$12,702,702	$54,854,321

See accompanying notes to the financial statements.

STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2016

Total net change in fund balances – governmental funds		$ 6,149,933
Amounts reported for governmental activities that are different in the Statement of Activities due to:		
Governmental funds report capital asset outlays as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital asset outlays net of reimbursements in the current period.		
Depreciation expense	$2,729,800	
Capital asset outlays	744,675	
Excess of depreciation expense over capital asset outlays		(1,985,125)
The net limited partnership losses and distributions are reported in the Statement of Activities, but are not reported in the governmental funds as they do not provide current financial resources.		
Na Lei Hulu Kupuna Limited Partnership	$ (1,091)	
Honuakaha Limited Partnership	(6,389)	
		(7,480)
The net change in obligations for accrued vested vacation benefits is reported in the Statement of Activities, but is not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.		134,074

(Continued)

STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued)

For the Year Ended June 30, 2016

The net change in obligations for accrued other post-employment benefits is reported in the Statement of Activities, but is not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.	$ (89,483)
The net change in obligations for unearned public facility dedication credits is reported in the Statement of Activities, but is not reported as revenue in the governmental funds as it does not provide current financial resources.	(1,676,940)
The net change in deferred outflows and inflows of resources is reported in the Statement of Activities, but it not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.	396,214
The net change in obligations for net pension liability is reported in the Statement of Activities, but is not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.	(323,947)
Change in net position of governmental activities	$ 2,597,246

See accompanying notes to the financial statements.

NOTE A – FINANCIAL REPORTING ENTITY

The State of Hawaii, Hawaii Community Development Authority (HCDA) was established in 1976 by Hawaii Revised Statutes (HRS) Chapter 206E, to join the strengths of private enterprise, public development and regulation into a form capable of long-term planning and implementation of improved community development in urban areas in the State of Hawaii (State).

The HCDA has three Community Development Districts; Kaka'ako, Kalaeloa and He'eia. Each district has its own board with nine voting members who only vote on issues in their respective district. The three boards together as a body (the Authority) oversee the HCDA's operations and establish policies to implement its legislative objectives.

The HCDA is established as a body corporate and public instrumentality of the State which is attached to the Department of Business, Economic Development and Tourism for administrative purposes.

The HCDA's financial statements reflect only that portion of the governmental activities and major fund information of the State that are attributable to the transactions of the HCDA. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which includes the HCDA's financial activities.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the HCDA are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies used by the HCDA.

<u>Government-Wide and Fund Financial Statements</u> – The government-wide financial statements (the statement of net position and the statement of activities) report information for all of the nonfiduciary activities of the HCDA. The effect of interfund activity has been removed from these government-wide financial statements.

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. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net position is reported as restricted when constraints placed on use are either imposed by legally enforceable enabling legislation or are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the HCDA's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (continued) – The financial statements of the HCDA are recorded in individual funds, each of which is deemed to be a separate accounting entity. The HCDA uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate 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.

The financial activities of the HCDA that are reported in the accompanying fund financial statements have been classified into the following major governmental funds:

The General Fund is the HCDA's general operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The State Legislature authorizes the annual operating budget which provides the basic framework within which resources and obligations are accounted for.

The Special Revenue Funds consist of the Hawaii Community Development Revolving Fund created by HRS 206E-16 and Kalaeloa development revolving fund created by HRS 206E-195. Except as to administrative expenditures, and except as otherwise provided by law, expenditures from the revolving funds may be made by the Authority without appropriation by the legislature. These funds are used to account for proceeds and expenditures that are legally restricted for specified purposes. They also reflect the transfer and reserve of funds for future debt service related to Improvement District Bonds. The HCDA's major Special Revenue Funds are as follows:

> *Leasing and Management* – The HCDA leases and manages various properties located in its community development districts to government agencies, nonprofit organizations and private businesses.
>
> *Community Redevelopment* – The State Legislature created the HCDA in 1976 to revitalize urban areas in the State which lawmakers found to be in need of timely redevelopment and designated the Kaka'ako area as the HCDA's first "Community Development District". In 1982, the HCDA adopted the Kaka'ako Community Development District Plan which serves as the basis for providing both public and private development activities in the Kaka'ako District.

The Capital Projects Fund is used to account for financial resources to be used for the construction or acquisition of major capital improvements in the HCDA's redevelopment districts.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – 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 related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued) – Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when 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 of the current period. For this purpose, the HCDA considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Use of Estimates – The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Appropriations – An authorization granted by the State Legislature permitting a state agency, within established fiscal and budgetary controls, to incur an obligation and to make expenditures is an appropriation. Appropriations are allotted quarterly for General Fund appropriations and upon request for Capital Projects Fund appropriations. The allotted appropriations lapse if not expended or encumbered at the end of the fiscal year, except for allotted appropriations related to capital improvement projects, which lapse three years after the first year of the biennium appropriation, unless extended.

Unearned Revenues – The HCDA reports unearned revenues on its statement of net position and balance sheet – governmental funds, as a liability, when a potential revenue item does not meet both the measurable and available criteria for recognition in the current period. In subsequent periods when both revenue recognition criteria are met or when the HCDA has a legal claim to the resources, the liability is removed from the statement of net position and balance sheet – governmental funds and revenue is recognized.

Encumbrances – Encumbrances are recorded obligations in the form of purchase orders or contracts. The HCDA records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end represent commitments related to unperformed contracts for goods or services and are included in restricted or committed fund balances.

Interfund and Intrafund Transfers – Significant transfers of financial resources between activities within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive such funds, to funds authorized to expend such funds are recorded as operating transfers in the basic financial statements.

Prepaid Expenses – Prepaid expenses are payments to vendors for services or goods that will benefit periods beyond June 30, 2016.

Capital Assets – Capital assets are expenditures in the funds used to acquire or construct them. Such capital acquisitions and construction are reflected as expenditures in governmental funds, and the related assets are reported in the statement of net position. Capital assets are defined by the HCDA as land, land improvements, buildings, wharves, infrastructure networks, construction in progress, furniture and equipment, and those assets with estimated useful lives greater than one year and acquisition costs greater than $100,000 for land, land improvements, infrastructure networks, buildings and wharves; and $5,000 for furniture and equipment.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (continued) – Purchased and constructed assets are recorded at cost. Donated assets are recorded at their estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities, or extend useful lives are capitalized. When capital assets are disposed, the cost and related accumulated depreciation are removed from the respective accounts with a resulting gain or loss reflected in operations.

Major outlays for capital assets and improvements for improvement district (ID) projects are capitalized to the extent capitalization thresholds are met. Improvements to roadways and utility systems involve lands that are owned or acquired by the HCDA and lands owned by other governmental jurisdictions; primarily the City and County of Honolulu and the State of Hawaii, Highway Division of the Department of Transportation.

Accumulated project expenditures are removed from the respective accounts after all construction phases have been completed and final inspections concluded. The improvements constructed on lands owned by other jurisdictions are transferred to those jurisdictions and recognized in the government-wide financial statements. Improvements made to lands owned by the HCDA are capitalized as land improvements and infrastructure networks until the land parcels have been dedicated to the respective jurisdictions.

Depreciation expense is recorded on capital assets in the government-wide statement of activities. The HCDA utilizes the straight-line method over the assets' estimated useful lives. No depreciation is recorded for land and construction in progress. The estimated useful lives for depreciable assets are 30 years for land improvements, infrastructure networks, buildings, and wharves, and seven years for furniture and equipment.

Compensated Absences – Eligible employees are credited with vacation at the 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. Such accumulated vacation has been accrued and reflected in the statement of net position.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of fund equity that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of fund equity that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources reported by the HCDA relate to its proportionate share of the State's net pension liability.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System of the State of Hawaii (ERS) and additions to/deductions from 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.

Governmental Fund Balances – In accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the HCDA classifies fund balances based primarily on the extent to which it is bound to follow constraints on how resources can be spent. Classifications used by the HCDA are:

Nonspendable – Represents resources that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted – Represents resources that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

Committed – Represents resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the State Legislature.

Assigned – Represents resources that are constrained by management to be used for specific purposes, but are neither restricted nor committed.

Unassigned – Represents residual balances that are neither nonspendable, restricted, committed or assigned.

Risk Management – The HCDA is exposed to various risks for losses related to torts; theft of, damages to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.

Newly Issued Accounting Pronouncements

GASB Statement No. 72 – During fiscal year 2016, HCDA implemented GASB Statement No. 72, *Fair Value Measurement and Application*. The statement requires governments to measure certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The statement also enhances fair value application guidance and disclosure. This statement did not have a material effect on the HCDA's financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Issued Accounting Pronouncements (continued)

GASB Statement No. 73 – 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 nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, and for the assets accumulated for purposes of providing those pensions. The requirements of this statement that address accounting and reporting by employers and government nonemployer contributing entities for pensions are effective for reporting periods beginning after June 15, 2016. The requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for reporting periods beginning after June 15, 2015. This statement did not have a material effect on the HCDA's financial statements.

GASB Statement No. 74 – The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The statement replaces GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended. The statement addresses the financial reports of post-employment benefit plans that are administered through trusts that meet specified criteria. The requirements of this statement are effect for reporting periods beginning after June 15, 2016. The HCDA has not yet determined the effect this statement will have on its financial statements.

GASB Statement No. 75 – 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*, as amended. The statement will require governments to report a liability on the face of the financial statements for the other post-employment benefits that they provide. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The HCDA has not yet determined the effect this statement will have on its financial statements.

GASB Statement No. 76 – During fiscal year 2016, the HCDA implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The statement reduces GAAP to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The statement did not have a material effect on the HCDA's financial statements.

GASB Statement No. 77 – The GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement requires governments that enter into tax abatement agreements to disclose information about the nature and magnitude of the tax abatements. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The HCDA is currently evaluating the impact that Statement No. 77 will have on its financial statements.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Newly Issued Accounting Pronouncements (continued)

GASB Statement No. 78 – The GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The statement amends the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, to exclude certain pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension. The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The HCDA is currently evaluating the impact that Statement No. 78 will have on its financial statements.

GASB Statement No. 79 – During fiscal year 2016, the HCDA implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The statement addresses how certain state and local government external investment pools – and participants in those pools – may measure and report their investments. This statement did not have a material effect on the HCDA's financial statements.

GASB Statement No. 80 – The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units-An Amendment of GASB Statement No. 14*. This statement amends the blending requirements in GASB Statement No. 14. The statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The HCDA has not yet determined the effect this statement will have on its financial statements.

GASB Statement No. 81 – The GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for reporting periods beginning after December 15, 2016. The HCDA has not yet determined the effect this statement will have on its financial statements.

GASB Statement No. 82 – 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, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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 requirements of this statement are effective for reporting periods beginning after June 15, 2016. The HCDA has not yet determined the effect this statement will have on its financial statements.

NOTE C – 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. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawaii.

To the extent not expended or encumbered, the General Fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse dates and any other contingencies which may terminate the authorizations for other appropriations.

For the fiscal year ended June 30, 2016, the adoption of an annual budget for the Special Revenue Funds was not required.

NOTE D – CASH AND CASH EQUIVALENTS

The Director of Finance is responsible for the safekeeping of all monies deposited into the State Treasury. The HRS authorize the Director of Finance to invest in obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

The Director of Finance pools and invests any monies of the HCDA, which in the Director's judgment, are in excess of the amount necessary for meeting the specific requirements of the HCDA. Investment earnings are allocated to the HCDA based on its equity interest in the pooled monies.

For purposes of the financial statements, the HCDA considers all cash held in the State Treasury and investments with maturity of three months or less when purchased to be cash equivalents.

The State holds investments both for its own benefit and as an agent for other parties.

Further, the State pools all excess funds into an investment pool that is administered by the State Department of Budget and Finance (Budget and Finance). The pool's investment options are limited to investments listed in the HRS. As of June 30, 2016, the State had material investments in repurchase agreements. According to Budget and Finance, the repurchase agreement investment contracts are reported at fair value.

NOTE D – CASH AND CASH EQUIVALENTS (Continued)

At the end of each year, Budget and Finance allocates the investment pool amount to each of the participants including those participants who are part of the Proprietary Funds and Fiduciary Funds. The allocation is based on the average monthly investment balance of each participant in the investment pool.

The State invests in various investment securities. In general, investment securities are exposed to various risks such as interest rate risk, credit risk, custodial risk, concentration of credit risk, and overall market volatility.

NOTE E – CEDED LAND REVENUE

In 1898, the Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States conveyed title to those lands (collectively, the ceded lands) back to the State to be held as public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and homeownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the ceded lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs (OHA) to administer and manage the proceeds and income derived from a pro-rata portion of the ceded lands for native Hawaiians.

The HCDA pays to OHA its share of revenue received from properties that are considered ceded lands. Under Act 15, Session Laws of Hawaii 2012, as part of the State of Hawaii's settlement with OHA to settle past ceded land claims, effective July 1, 2012, most of the ceded lands controlled by the State through HCDA were conveyed to OHA.

During the fiscal year ended June 30, 2013, HCDA discovered that certain properties located at Kewalo Basin Harbor (KBH) were deemed ceded lands. Upon discovery, HCDA calculated amounts owed to OHA from March 1, 2009 when HCDA took over management of KBH. As of June 30, 2016, the balance owed to OHA on the KBH ceded lands amounts to $1,268,923.

NOTE F – INVESTMENT IN LIMITED PARTNERSHIPS

The HCDA is a general partner in two separate limited partnerships as follows:

Na Lei Hulu Kupuna Limited Partnership – The HCDA entered into this partnership in November 1991 for the purpose of constructing, maintaining and operating an elderly, low-income housing project called Na Lei Hulu Kupuna. The partnership will continue until December 2030. The HCDA provided a capital contribution of $72,000 which represented a 1% interest in the partnership. Any net income or loss generated from the project is allocated and distributed to the partners based on their capital contribution at the end of each calendar year.

Honuakaha Limited Partnership – The HCDA entered into this partnership in December 1993 to construct, maintain and operate 150 studios designated as elderly, low-income rental units in the multi-complex project known as Honuakaha. The agreement will continue until December 2030. The HCDA made a capital contribution of $169,000 and has a 1% interest in the partnership. Any net income or loss generated form the project is allocated to the partners based on their interest in the partnership.

As of June 30, 2016, the HCDA's investment, net of distributions and allocated income and losses, in the limited partnerships is as follows:

Na Lei Hulu Kupuna Limited Partnership	$ 34,982
Honuakaha Limited Partnership	77,087
Total	$112,069

The properties are managed by contracted property managers. The HCDA receives management fees of 5% of rental income collected. The following are management fees included in leasing and management revenue:

Na Lei Hulu Kupuna Limited Partnership	$ 32,766
Honuakaha Limited Partnership	54,835
Total	$ 87,601

The partnership tax returns and financial statements for both limited partnerships are maintained by and are available at the HCDA.

NOTE G – CAPITAL ASSETS

For the year ended June 30, 2016, capital asset activity was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 95,136,918	$ -	$ -	$ 95,136,918
Land improvements	13,968,842	-	-	13,968,842
Construction in progress	2,921,255	587,871	-	3,509,126
Total capital assets not being depreciated	112,027,015	587,871	-	112,614,886
Capital assets being depreciated:				
Buildings	20,546,660	38,687	186,068	20,399,279
Wharves	4,267,956	-	-	4,267,956
Land improvements	26,150,784	-	-	26,150,784
Infrastructure networks	44,314,272	-	-	44,314,272
Furniture and equipment	348,099	118,117	38,572	427,644
Total capital assets being depreciated	95,627,771	156,804	224,640	95,559,935
Less accumulated depreciation for:				
Buildings	8,624,321	683,392	89,933	9,217,780
Wharves	4,047,674	30,395	-	4,078,069
Land improvements	21,851,249	531,440	-	22,382,689
Infrastructure networks	22,896,922	1,461,350	-	24,358,272
Furniture and equipment	261,451	23,223	38,572	246,102
Total accumulated depreciation	57,681,617	2,729,800	128,505	60,282,912
Capital assets, net of depreciation	$149,973,169	$(1,985,125)	$ 96,135	$147,891,909

Real property acquired for future development projects are administered by the HCDA until the projects' completion.

Depreciation expense was charged to functions of the HCDA as follows:

Governmental activities:	
Leasing and management	$ 499,914
Community redevelopment	677,435
Capital improvement projects	1,552,451
Total depreciation expense	$2,729,800

NOTE H – CHANGES IN LONG-TERM LIABILITIES

Changes in the long-term liabilities of the HCDA were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Unearned reserved housing credit	$ 311,400	$ -	$ -	$ 311,400	$ -
Unearned public facility credits	8,946,917	4,346,938	2,670,000	10,623,855	-
Due to State Treasury	3,500	-	-	3,500	-
Accrued vacation leave	383,294	130,689	264,763	249,220	82,928
Accrued other post-employment benefits	1,751,542	200,763	111,280	1,841,025	-
Accrued net pension liability	2,414,914	323,947	-	2,738,861	-
Total long-term liabilities	$13,811,567	$5,002,337	$3,046,043	$15,767,861	$ 82,928

NOTE I – RETIREMENT BENEFITS

General Information on the Pension Plan

Plan Description – All eligible employees of the State and counties are required by HRS Chapter 88 to become members of the ERS, a cost-sharing, multiple-employer, defined benefit public employee retirement plan. The ERS provides retirement benefits, as well as death and disability benefits, and is governed by a Board of Trustees. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action. The ERS issues a comprehensive annual financial report that is available to the public. The report may be obtained at ERS's website: http://ers.ehawaii.gov or by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Benefits Provided – The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement membership classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier multiplied by the average final compensation multiplied by years of credited service. Average final compensation is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for employees hired on January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

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

NOTE I – RETIREMENT BENEFITS (Continued)

Noncontributory Class

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

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

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

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/re-entry 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.

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. Employees with five 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 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

NOTE I – RETIREMENT BENEFITS (Continued)

Contributory Class for Employees Hired Prior to July 1, 2012 (Continued)

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 death benefit is payable to the designated beneficiary.

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

Contributory Class for Employees Hired After June 30, 2012

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

Disability and Death Benefits – 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 service for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation. Death benefits for contributory plan members hired after June 30, 2012 are generally the same as those for contributory plan members hired prior to June 30, 2012 and prior.

NOTE I – RETIREMENT BENEFITS (Continued)

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 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 death benefit is payable to the designated beneficiary.

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

Hybrid Class for Employees Hired After June 30, 2012

Retirement Benefits – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

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

NOTE I – RETIREMENT BENEFITS (Continued)

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2016 were 17.0% for employees other than police and firefighters. Contributions to the pension plan from the State were $373,881,000 for the fiscal year ended June 30, 2016.

The employer is required to make all contributions for noncontributory members. For contributory class employees hired prior to July 1, 2012, employees other than police, firefighters, judges and elected officials, are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% 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 State reported a liability of approximately $4.3 billion 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 State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2015, the State's proportion was 57.2%, which was an increase of 1.2% 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. 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.

NOTE I – RETIREMENT BENEFITS (Continued)

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

For the year ended June 30, 2016, the State recognized pension expense of $354,299,000. At June 30, 2016, the State 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	$ 41,650,000	$(121,021,000)
Changes of assumptions	102,682,000	-
Net difference between projected and actual earnings on pension plan investments	-	(146,941,000)
Changes in proportion and differences between State contributions and proportionate share of contributions	5,804,000	(26,929,000)
State contributions subsequent to the measurement date	476,076,000	-
Total	$ 626,212,000	$(294,891,000)

The $476,076,000 reported as deferred outflows of resources related to pensions resulting from State 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:

Years ending June 30th	
2017	$ (64,048,000)
2018	$ (64,048,000)
2019	$ (64,048,000)
2020	$ 52,228,000
2021	$ (4,839,000)
Thereafter	$ -

NOTE I – RETIREMENT BENEFITS (Continued)

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	3.50%
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 cost of living adjustments (COLA). Post-retirement mortality rates are based on Client Specific Tables and the 1994 US Group Annuity Mortality Static Tables. Pre-retirement mortality rates are based on custom tables with RP-2000 rates.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. ERS updates their experience studies every five years.

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

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%	8.5%
International equity	26.0%	9.3%
Total fixed-income	20.0%	3.1%
Real estate	7.0% *	9.2%
Private equity	7.0% *	11.9%
Real return	5.0% *	6.7%
Covered calls	5.0%	7.7%
Total Investments	100.0%	

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

NOTE I – RETIREMENT BENEFITS (Continued)

Actuarial Assumptions (continued)

Discount Rate

The discount rate used to measure the net pension liability was 7.65%. 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. There has been no change in the discount rate since the prior measurement date.

Sensitivity of the State's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 7.65%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.65%) or 1-percentage point higher (8.65%) than the current rate:

	1% Decrease (6.65%)	Discount Rate (7.65%)	1% Increase (8.65%)
State's proportionate share of the net pension liability	$ 5,465,015,650	$ 4,314,246,275	$ 3,213,480,636

Pension Plan Fiduciary Net Position

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

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

NOTE I – RETIREMENT BENEFITS (Continued)

Payables to the Pension Plan

At June 30, 2016, the amount payable to the ERS from the State was $21,256,000.

Post-Employment Health Care and Life Insurance Benefits

Plan Description – The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the Hawaii Employer – Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996, but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Funding Policy and Annual OPEB Cost – On July 1, 2006, the EUTF implemented GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* (GASB 43). GASB 43 establishes accounting and financial reporting standards for plans that provide other postemployment benefits (OPEB) other than pensions. GASB 43 requires defined benefit OPEB plans that are administered as trusts or equivalent arrangements to prepare a statement of plan assets and a statement of changes in plan assets.

The reporting of active and retiree (including their respective beneficiaries) healthcare benefits provided through the same plan should separate those benefits for accounting purposes between active and retiree healthcare benefits. Accordingly, the EUTF reports the retiree healthcare benefits as OPEB in conformity with GASB 43 and the active employee healthcare benefits as risk financing in conformity with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB 10), as amended.

NOTE I – RETIREMENT BENEFITS (Continued)

Funding Policy and Annual OPEB Cost (Continued) – The State is required by GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to obtain an actuarial valuation every other year. Accordingly, an actuarial valuation was performed for July 1, 2015. The State's base contribution levels to EUTF are established by statutes. The retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The HCDA is required to contribute the annual required contribution of the employer (ARC), which is an amount actuarially determined in accordance with the parameters of GASB 45. Measurement of the actuarial valuation and the annual required contribution are made for the State as a whole and the State allocates the ARC to the various departments and agencies based upon a systematic methodology. The HCDA's contribution for the year ended June 30, 2016 was $111,279, which represented 55.4%of the HCDA's share of the ARC for post-retirement healthcare and life insurance benefits of $200,762.

The following is a summary of changes in post-retirement liability during the fiscal year ended June 30, 2016:

Balance at June 30, 2015	$ 1,751,542
Additions	200,763
Deletions	111,280
Balance at June 30, 2016	$ 1,841,025

NOTE J – COMMITMENTS AND CONTINGENCIES

Leases

The HCDA leases a parking garage situated at 860 Halekauwila Street, Honolulu, Hawaii, from the Hawaii Housing-Finance and Development Corporation, State of Hawaii, under a 99-year operating lease expiring on November 30, 2092. During the current lease term, which ends November 2028, the monthly rent is $10,197. For the remainder of the lease term the rent will be a $1 per year. Total rent expense related to this lease amounted to $122,364 for the fiscal year ended June 30, 2016.

At June 30, 2016, future minimum lease rent payments approximate the following:

Years ending June 30th	
2017	$ 131,700
2018	122,400
2019	122,400
2020	122,400
2021	122,400
Thereafter	906,700
Total	$ 1,528,000

NOTE J – COMMITMENTS AND CONTINGENCIES (continued)

Accumulated Sick Leave Pay – Sick leave for employees accumulates at the rate of one and three-quarter working days for each month of service without limit, but 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 ERS. At June 30, 2016, accumulated sick leave was approximately $913,087.

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 compensation 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. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

Issuance of Revenue Bonds

The State Legislature has authorized the issuance of revenue bonds for the Kaka'ako Community Development District Project. As of June 30, 2016, the following amounts were authorized and unissued:

Purpose	Authorized	Unissued
Improvement project	$60,000,000	$47,245,000

Encumbrances

Commitments for HCDA include encumbrances outstanding as of June 30, 2016 for its major governmental funds. Encumbrances are included in each fund's respective fund balance as follows:

General Fund	$ 88,827
Leasing and Management Fund	1,699,782
Community Redevelopment Fund	549,610
Capital Projects Fund	10,524,558
Total	$12,862,777

NOTE J – COMMITMENTS AND CONTINGENCIES (Continued)

General Contingencies

The HCDA operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of the HCDA, from such changes in economic conditions, if any, are not presently determinable.

NOTE K – LEASES

The HCDA leases properties located in the Kaka'ako District to various government agencies, non-profit organizations and private businesses under various month-to-month and/or percentage rent leasing arrangements.

At June 30, 2016, future minimum lease rentals approximate the following:

Years ending June 30th	
2017	$ 883,700
2018	857,300
2019	879,900
2020	642,800
2021	621,100
Thereafter	16,156,800
Total	$20,041,600

NOTE L – DEVELOPMENT CREDITS

In previous years, the HCDA entered into various transactions with the Trustees of the Estate of Bernice Pauahi Bishop (Bishop Estate) and with Victoria Ward, Limited (VWL) in which the HCDA received land parcels in the Kaka'ako development district and, in exchange, granted public facilities dedication credits (Dedication Credit). The credits, net of usage, totaled $8,946,917 as of the beginning of the year of which Bishop Estate and VWL returned and used dedication credits valued at $4,346,938 and $2,670,000, respectively, leaving a balance of $10,623,855 as of June 30, 2016. The dedication credits used is reported as Program Revenue in the Statement of Activities.

The HCDA also previously received in-lieu fees in the amount of $311,400 and granted reserved housing credits to a landowner for its future planned development project(s).

NOTE M – RISK MANAGEMENT

The State records a liability for risk financing and insurance related losses 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. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance – The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a $1,000,000 per occurrence minimum. This policy includes windstorm, earthquake, flood damage, tsunami, and volcanic action coverage. The limit of loss per occurrence is $100,000,000, except for flood and earthquake which individually is a $40,000,000 aggregate loss, terrorism which is $50,000,000 per occurrence, and boiler and machinery which is $40,000,000 per occurrence.

The State also has a crime insurance policy for various types of coverages with a limit of loss of $10,000,000 per occurrence with a $500,000 deductible per occurrence, except for claims expense coverage which has a $100,000 limit per occurrence and a $1,000 deductible. Losses not-covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts) – Claims under $10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions insurance policy in force with a $3,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $10,000,000.

Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Self-Insured Risks – The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses.

NOTE N – CONSTRUCTION LOAN TO HALEKAUWILA PLACE, AN AFFORDABLE RENTAL HOUSING PROJECT

In April 2009, the HCDA entered into an agreement with Halekauwila Partners, LLC (HP) to lend up to $15,000,000 to finance development of Halekauwila Place, an affordable rental housing project.

In November 2009, the Authority authorized an expenditure of $2,000,000 for HP to build an additional floor of parking at the Halekauwila Place project in the interest of providing additional public parking within the district.

NOTE N – CONSTRUCTION LOAN TO HALEKAUWILA PLACE, AN AFFORDABLE RENTAL HOUSING PROJECT (continued)

In October 2012, the Authority provided authorization to execute the Loan Agreement and appurtenant subordinate loan documents for the Halekauwila Place project, and in December 2012, HP closed on the \$17,000,000 loan. The HCDA has disbursed \$17,000,000 pursuant to the loan agreement.

The loan follows terms similar to Hawaii Housing Finance Development Corporation's "Rental Housing Trust Fund" interim construction loan program. Loan interest will be paid in the amount of 1.0% per year after completion of construction. The repayment period is over 50 years beginning upon issuance of certificate of occupancy of the last residential unit.

NOTE O – BRAC LAND PARCELS CONVEYANCE

In 1993, the U.S. Congress approved the closure of the Barbers Point Naval Air Station (BPNAS), as part of the Base Closure and Realignment (BRAC) process. Land parcels of former BPNAS identified as BRAC parcels were conveyed to various state and city agencies. By October 2011, the HCDA, as the designated Local Redevelopment Authority, had received six BRAC land parcels totaling approximately 157.198 acres. HCDA's capital assets reflects the land acquisitions at an estimated value of \$1,711,886.

PART IV

INTERNAL CONTROL AND COMPLIANCE SECTION

CW Associates
A Hawaii Certified Public Accounting Corporation

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

Office of the Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Hawaii Community Development Authority (HCDA) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the HCDA's basic financial statements, and have issued our report thereon dated December 20, 2016.

<u>Internal Control over Financial Reporting</u>

The management of the HCDA is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit of the financial statements, we considered the HCDA's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HCDA's internal control. Accordingly, we do not express an opinion on the effectiveness of the HCDA'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or 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 significant deficiencies or material weaknesses. 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HCDA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, 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.

This report is intended solely for the information and use of the HCDA's management, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

CW Associates, CPAs

Honolulu, Hawaii
December 20, 2016