

STATE OF HAWAII
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
FINANCIAL AUDIT
JUNE 30, 2014

Submitted By
The Auditor
State of Hawaii

PART I
INTRODUCTORY SECTION

October 14, 2014

Ms. Jan Yamane
Office of the Auditor
State of Hawaii

The Board of Directors
Hawaii Community Development Authority
State of Hawaii

This is our report on the financial audit of the Hawaii Community Development Authority, State of Hawaii (HCDA) for the year ended June 30, 2014. Our audit was performed in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii.

OBJECTIVE OF THE AUDIT

The objectives of our audit were as follows:

1. To provide a basis for an opinion on the fairness of the financial statements of the HCDA.
2. To determine whether expenditures and other disbursements 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 and, if applicable, the federal government.
3. To ascertain the adequacy of the financial and other management information reports in providing officials at the different levels of the HCDA with the proper information to plan, evaluate, control and correct program activities.
4. To determine whether the HCDA's internal controls are adequate in assuring that there is effective control over and proper accounting of revenues, expenditures, assets, and liabilities.
5. To determine whether the HCDA has complied with the laws, regulations, contracts, and grants that may have a material effect on the financial statements and, if applicable, on each major federal financial assistance program.

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the HCDA for the year ended June 30, 2014.

ORGANIZATION OF THE REPORT

This report is presented in three parts as follows:

- PART I - presents the introduction.
- PART II - presents the financial statements and the auditors' report on such statements.
- PART III - contains the report on compliance and on internal control over financial reporting.

* * * * *

At this time, we wish to express our sincere appreciation for the excellent cooperation and assistance extended to us by the personnel of the HCDA. We shall be pleased to respond to any questions that you may have on this report.

Very truly yours,



HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
June 30, 2014

Table of Contents

	<u>Page</u>
 PART I - INTRODUCTORY SECTION	
Letter of Transmittal.....	1
Table of Contents	3
 PART II - FINANCIAL SECTION	
Report of Independent Accountants.....	4
Management's Discussion and Analysis.....	6
Basic Financial Statements:	
Government - Wide Financial Statements:	
Statement of Net Position.....	16
Statement of Activities.....	18
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	19
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position.....	20
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	21
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	22
Notes to the Financial Statements.....	24
 PART III - COMPLIANCE AND INTERNAL CONTROL SECTION	
Independent Auditors' 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.....	48

PART II
FINANCIAL SECTION

INDEPENDENT AUDITORS' 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 Hawaii Community Development Authority, State of Hawaii (HCDA), as of and for the year ended June 30, 2014, 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.

Auditors' Responsibility

Our responsibility is to express an 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 opinion.

Opinion

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, 2014, 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 1, 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, 2014, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2014, 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HCDA's internal control over financial reporting and compliance.



Honolulu, Hawaii
October 14, 2014

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

The following provides an overview of the Hawaii Community Development Authority, State of Hawaii (HCDA)'s financial activities for the fiscal year ended June 30, 2014. It should be read in conjunction with the audited financial statements which follow this section.

Financial Highlights

- The assets of the HCDA exceeded its liabilities at June 30, 2014 by \$177.5 million (net position).
- The HCDA's total net assets increased by approximately \$9.4 million, or 5.59%, as of June 30, 2014.
- The HCDA's long-term liabilities decreased during the current fiscal year to approximately \$15.7 million from \$27.6 million, a decrease of approximately \$11.9 million or 43.12%.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

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

Government-wide financial statements provide readers with a broad overview of the HCDA's finances, in a manner similar to a private sector business.

The statement of net position presents information on all of 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 presents changes to HCDA's net position during the most recent fiscal year. 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 only result in cash flows in future fiscal periods (e.g. unused vacation leave).

The government-wide financial statements can be found on pages 16-18 of this report.

Fund Financial Statements

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 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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

Overview of the Financial Statements (continued)

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 statements 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.

The Governmental Funds financial statements can be found on pages 19-23 of this report.

Notes to the Financial Statements

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The *Notes to the Financial Statements* can be found on pages 24-47 of this report.

Government-Wide Financial Analysis

The following is a financial analysis on the governmental activities of the HCDA. Net position is an indicator of a government agency's financial position. For the HCDA, total assets exceeded liabilities by approximately \$178 million, and increased by approximately \$9.4 million or 5.59% over the course of this fiscal year's operations.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

Government-Wide Financial Analysis (continued)

The following table was derived from the government-wide statement of net position.

Summary Schedule of Net Position
June 30, 2014 and 2013

	<u>6/30/2014</u>	<u>6/30/2013</u>
Assets:		
Current assets	27,719,626	31,053,191
Capital assets	150,334,131	150,357,782
Other assets	<u>17,375,466</u>	<u>17,381,943</u>
Total Assets	<u>195,429,223</u>	<u>198,792,915</u>
Liabilities:		
Current liabilities	2,162,935	3,021,986
Long-term liabilities	<u>15,741,295</u>	<u>27,621,252</u>
Total Liabilities	<u>17,904,230</u>	<u>30,643,238</u>
Net Position:		
Invested in capital assets	150,334,131	150,357,782
Restricted	7,455,279	7,614,347
Unrestricted (deficit)	<u>19,735,583</u>	<u>10,177,547</u>
Total Net Position	<u>177,524,993</u>	<u>168,149,677</u>
Total Liabilities and Net Position	<u>195,429,223</u>	<u>198,792,914</u>

Analysis of Net Position

The assets of the HCDA exceeded its liabilities at June 30, 2014 by \$177.5 million (net position). Investment in capital assets (e.g. land, buildings, infrastructure, construction in progress, improvements, and equipment, furniture and fixtures), represents a large portion of the HCDA's net assets. The HCDA uses these capital assets for the benefit and use by government agencies and the public, consequently, these assets are not available for future spending and cannot be used to liquidate any liabilities. The remaining restricted assets of approximately \$7.4 million as of June 30, 2014 and \$7.6 million as of June 30, 2013 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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

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.

Analysis of Changes in Net Position

Changes in Net Position
For the Years ended June 30, 2014 and 2013

	2014	2013
Revenues:		
Program revenues:		
Leasing and management	2,821,819	2,935,070
Community redevelopment	13,087,627	433,789
General revenues:		
Investment earnings and others	(248,287)	676,203
State allotted appropriations	2,125,735	8,854,176
Lapsed appropriations related to prior years	-	-
Total Revenues	17,786,894	12,899,238
Expenses:		
General government	453,624	431,762
Leasing and management	2,525,858	2,703,444
Community redevelopment	1,383,986	8,329,025
Capital improvement projects	5,048,109	20,098,561
Total Expenses	9,411,577	31,562,792
Changes in net position before transfers	8,375,317	(18,663,554)
Transfers	1,000,000	-
Change in net position	9,375,317	(18,663,554)
Net Position at July 1	168,149,676	187,522,090
Adjustment relating to additional liability of ceded land payment		(708,860)
Net Position, beginning of year	168,149,676	186,813,230
Net Position, end of year	177,524,993	168,149,676

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

Analysis of Changes in Net Position (continued)

The HCDA's net position increased by approximately \$9.4 million or 5.59% during the fiscal year ended June 30, 2014. Approximately \$3.1 million in the fiscal year ended June 30, 2014 and \$8.9 million in the fiscal year ended June 30, 2013, 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 \$12.1 million were used and reported as community development program revenue in the current fiscal year.

The expenditures for the HCDA were approximately \$9.4 million for the fiscal year ended June 30, 2014. The decrease of approximately \$22.2 million or 70.3% from the prior year results primarily from the transfer of approximately \$21.5 million of fixed assets to the Office of Hawaiian Affairs during fiscal year 2013.

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, 2014, the HCDA's governmental funds reported combined ending fund balances of approximately \$43 million, a decrease of approximately \$2.5 million or 5.5% from the previous fiscal year.

Leasing and Management

The HCDA leases and manages various properties located in the Kaka'ako District. The land being managed and leased by the HCDA includes yard, warehouse, parking, and storage acreage. The HCDA manages over 19 acres of park lands and open spaces.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

Financial Analysis of the HCDA's Individual Funds (continued)

Revenues from leasing and management decreased by approximately \$0.5 million, or 15.6% in fiscal year ended June 30, 2014 mainly because of a decrease in investment income from the State Treasury Investment Pool. The State liquidated its holdings in auction rate securities in the prior fiscal year. At the end of the current fiscal year, the fund balance of the leasing and management special revenue fund was approximately \$10.8 million, of which substantially all was committed and not available for the HCDA's expenditure.

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 of Hawaii. 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.

Overall redevelopment costs for ongoing construction and property management expenditures in the current fiscal year decreased by approximately \$0.5 million, or 35.71% over the previous fiscal year.

Under the HCDA's Improvement District program, the total cost of infrastructure improvements is shared by 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.

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, 2014, the HCDA did not receive any funds relating to utility agreements.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

Financial Analysis of the HCDA's Individual Funds (continued)

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.

At the end of the current fiscal year, the fund balance of the community redevelopment special revenue fund was approximately \$24.6 million.

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 \$0.1 million, or 1.32% mainly due to a decrease in allotted appropriations. State allotted appropriations in the current fiscal year decreased by approximately \$5.8 million over the prior fiscal year.

Construction costs increased by approximately \$0.6 million in fiscal year ended June 30, 2014. By the close of fiscal year ended June 30, 2014, the HCDA had completed eleven Improvement District projects.

Capital Assets and Debt Administration

Capital Assets

The HCDA's investment in capital assets as of June 30, 2014, amounted to approximately \$150.3 million (net of accumulated depreciation). These investments in capital assets include land, land improvements, construction in progress, buildings, infrastructure networks, and furniture and fixtures. 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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

Capital Assets and Debt Administration (continued)

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

The UH Cancer Research Center of Hawaii, was constructed adjacent to the John A Burns School of Medicine, and completed in 2014. The Cancer Research Center of Hawaii will give Hawaii residents convenient and greater access to innovative new drugs and devices.

In June 2014, the HCDA Authority voted to approve the preparation of an environmental assessment (EA) and special management area permit for non-profit Pacific Gateway Center to move forward with plans to renovate the historic Kakaako 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. Construction will begin once the EA is complete, which is scheduled for May 2015. The 114-year old building will be renamed the "Na Kupuna Makamae Center," or "The Beloved Kupuna Center" and could reopen by fall 2015.

At a decision-making public hearing on September 9, 2014, the HCDA voted unanimously to approve the renovation of Building 77 in the former Navy Bachelor Officer Quarters in Kalaeloa. Hunt Development Group will convert the existing three-story building on Franklin D. Roosevelt Avenue into 100 one-bedroom rental units for qualified income households. Public testimony was overwhelmingly positive for this project, as it would finally restore use of Building 77, which is currently seen as an eyesore in the community.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2014

Currently Known Facts, Decisions or Conditions (continued)

The HCDA will soon be seeking proposals for the development of a low to moderate income housing project on HCDA-owned land at 630 Cooke Street. The HCDA envisions the development as a pilot project that would demonstrate a new housing model, such as micro units.

Based on the size of the parcel, the development could include as many as 70 small studio rental units, each with its own bathroom and kitchenette.

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, 461 Cooke Street, Honolulu, Hawaii 96813. General information about the HCDA can be found at the HCDA's website <http://www.hcdaweb.org>.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Statement Of Net Position
June 30, 2014

ASSETS

Current Assets	
Cash in State Treasury and petty cash	\$ 16,330,488
Due from State	7,604,069
Due from Agent - Almar Management, Inc.	3,333,676
Accounts receivable	431,430
Prepaid expenses	<u>19,963</u>
Total current assets	<u>27,719,626</u>
Long-Term Assets	
Loan receivable - Halekauwila Partners, LLC	17,000,000
Investment in limited partnership	125,824
Water source allocation credits	<u>249,642</u>
Total long-term assets	<u>17,375,466</u>
Capital Assets	
Land, improvements, infrastructure networks, and construction in progress	115,454,855
Other capital assets, net of depreciation	<u>34,879,276</u>
Total capital assets	<u>150,334,131</u>
Total assets	<u>\$195,429,223</u>

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Statement Of Net Position
June 30, 2014

LIABILITIES

Current Liabilities	
Accounts payable	\$ 423,545
Accrued payroll	149,325
Unearned revenue	31,377
Rental security deposits	323,114
Due to State Treasury	<u>1,235,574</u>
Total current liabilities	<u>2,162,935</u>
Long-Term Liabilities	
Due within one year	135,116
Due in more than one year	<u>15,606,179</u>
Total long-term liabilities	<u>15,741,295</u>
Total liabilities	<u>17,904,230</u>

NET POSITION

Invested In Capital Assets	150,334,131
Restricted For Capital Projects	7,455,279
Unrestricted	<u>19,735,583</u>
Total net position	<u>177,524,993</u>
Total liabilities and net position	<u>\$195,429,223</u>

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Statement Of Activities
For The Year Ended June 30, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	<u>Net (Expense) Revenues and Changes in Net Assets</u>
Governmental Activities:			
General government	\$ 453,624	\$ -	\$ (453,624)
Leasing and management	2,525,858	2,821,819	295,961
Community redevelopment	1,383,986	13,087,627	11,703,641
Capital improvement projects	<u>5,048,109</u>	<u>-</u>	<u>(5,048,109)</u>
Total governmental activities	<u>\$ 9,411,577</u>	<u>\$15,909,446</u>	6,497,869
General Revenues:			
State allotments, net of lapsed appropriations			2,125,735
Investment loss			<u>(248,287)</u>
Total general revenues before transfers			1,877,448
Transfers, net			<u>1,000,000</u>
Total general revenues and transfers			<u>2,877,448</u>
Change in net position			<u>9,375,317</u>
Net position at July 1, 2013			<u>168,149,676</u>
Net position at June 30, 2014			<u>\$177,524,993</u>

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Balance Sheet - Governmental Funds
June 30, 2014

	<u>General Fund</u>	<u>Leasing and Management</u>	<u>Community Redevelopment</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Assets					
Cash in State Treasury and petty cash	\$3,500	\$ 9,031,353	\$ 7,295,635	\$ -	\$16,330,488
Due from State	-	-	-	7,604,069	7,604,069
Due from Agent - Almar Management, Inc.	-	3,333,676	-	-	3,333,676
Accounts receivable	-	402,338	29,092	-	431,430
Prepaid expenses	-	19,963	249,642	-	269,605
Loan receivable - Halekauwila Partners, LLC	-	-	17,000,000	-	17,000,000
Total assets	<u>\$3,500</u>	<u>\$12,787,330</u>	<u>\$24,574,369</u>	<u>\$7,604,069</u>	<u>\$44,969,268</u>
Liabilities And Fund Balances					
Accounts payable	\$ -	\$ 361,361	\$ 12,206	\$ 49,978	\$ 423,545
Accrued payroll	-	50,513	-	98,812	149,325
Accrued rent	-	3,792	-	-	3,792
Unearned revenues	-	31,377	-	-	31,377
Rental security deposits	-	323,114	-	-	323,114
Due to State Treasury	<u>3,500</u>	<u>1,235,574</u>	<u>-</u>	<u>-</u>	<u>1,239,074</u>
Total liabilities	<u>3,500</u>	<u>2,005,731</u>	<u>12,206</u>	<u>148,790</u>	<u>2,170,227</u>
Fund Balances					
Nonspendable:					
Prepaid expenses	-	19,963	249,642	-	269,605
Loan receivable	<u>-</u>	<u>-</u>	<u>17,000,000</u>	<u>-</u>	<u>17,000,000</u>
Total nonspendable fund balances	-	19,963	17,249,642	-	17,269,605
Restricted	-	-	-	7,455,279	7,455,279
Committed	<u>-</u>	<u>10,761,636</u>	<u>7,312,521</u>	<u>-</u>	<u>18,074,157</u>
Total fund balances	<u>-</u>	<u>10,781,599</u>	<u>24,562,163</u>	<u>7,455,279</u>	<u>42,799,041</u>
Total liabilities and fund balances	<u>\$3,500</u>	<u>\$12,787,330</u>	<u>\$24,574,369</u>	<u>\$7,604,069</u>	<u>\$44,969,268</u>

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Reconciliation Of The Governmental Funds
Balance Sheet To The Statement Of Net Position
June 30, 2014

Total fund balances - governmental funds	\$ 42,799,041
Amounts reported for governmental activities are different in the statement of net position because:	
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	150,334,131
(2) Investments in limited partnerships are not financial resources and therefore are not reported in the governmental funds	125,824
(3) Accrued employee benefits are not reported in the governmental funds	(429,806)
(4) Accrued other post-employment benefits payable are not reported in the governmental funds	(1,653,908)
(5) Unearned reserved housing and public facility credits are not reported in the governmental funds	<u>(13,650,289)</u>
Total net position	<u>\$177,524,993</u>

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Statement Of Revenues, Expenditures,
And Changes In Fund Balances - Governmental Funds
June 30, 2014

	<u>General Fund</u>	<u>Leasing and Management</u>	<u>Community Redevelopment</u>	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
Revenues					
State allotted appropriations	\$ -	\$ -	\$ -	\$2,155,000	\$ 2,155,000
Contributions from property owners	-	-	433,529	-	433,529
Dedication and reserve housing fees	-	-	571,896	-	571,896
Investment loss	-	(138,561)	(109,726)	-	(248,287)
Leasing and management	-	2,795,729	-	-	2,795,729
Other	-	<u>26,090</u>	<u>8,280</u>	-	<u>34,370</u>
Total revenues	<u>-</u>	<u>2,683,258</u>	<u>903,979</u>	<u>2,155,000</u>	<u>5,742,237</u>
Expenditures					
General government	-	445,372	-	-	445,372
Capital outlays	-	<u>4,517,604</u>	<u>934,229</u>	<u>3,284,803</u>	<u>8,736,636</u>
Total expenditures	<u>-</u>	<u>4,962,976</u>	<u>934,229</u>	<u>3,284,803</u>	<u>9,182,008</u>
Excess of expenditures over revenues	-	(2,279,718)	(30,250)	(1,129,803)	(3,439,771)
Other financing sources (uses)					
Transfers in (out)	-	(30,000)	30,000	1,000,000	1,000,000
Lapsed appropriations	-	-	-	(29,265)	(29,265)
Total other financing sources (uses)	<u>-</u>	<u>(30,000)</u>	<u>30,000</u>	<u>970,735</u>	<u>970,735</u>
Net change in fund balances	<u>-</u>	<u>(2,309,718)</u>	<u>(250)</u>	<u>(159,068)</u>	<u>(2,469,036)</u>
Fund balances, July 1, 2013	<u>-</u>	<u>13,091,317</u>	<u>24,562,413</u>	<u>7,614,347</u>	<u>45,268,077</u>
Fund balances, June 30, 2014	<u>\$ -</u>	<u>\$10,781,599</u>	<u>\$24,562,163</u>	<u>\$7,455,279</u>	<u>\$42,799,041</u>

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Reconciliation Of Governmental Funds Statement Of Revenues, Expenditures, And Changes
In Fund Balances To The Statement Of Activities
June 30, 2014

Change in fund balances - governmental funds \$ (2,469,036)

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

- (1) 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	\$ 2,741,143
Capital asset outlays	<u>2,717,492</u>

Excess of depreciation expense over capital asset outlays	(23,651)
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- (2) 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	\$(2,304)
Honuakaha Limited Partnership	<u>(4,172)</u>

Net change in limited partnerships	(6,476)
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- (3) 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.

61,660

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Reconciliation Of Governmental Funds Statement Of Revenues, Expenditures, And Changes
In Fund Balances To The Statement Of Activities
June 30, 2014

(4) 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.	\$ (261,102)
(5) 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.	<u>12,073,922</u>
Change in net position	<u>\$ 9,375,317</u>

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

1. FINANCIAL REPORTING ENTITY

The Hawaii Community Development Authority, State of Hawaii (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 Authority 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 a 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the HCDA have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies followed by the HCDA.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

Government-Wide and Fund Financial Statements

Effective July 1, 2012, the HCDA implemented GASB Statement No. 63 (GASB 63), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASB 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. Amounts required to be reported as deferred outflows of resources should be reported in a statement of financial position in a separate section following assets. Similarly, amounts required to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of net position should report the residual amount as net position, rather than net assets. The provisions of GASB 63 required these changes and replaces the statement of net assets with the statement of net position for accrual basis financial statements. This Statement did not have a material effect on HCDA's financial statements.

Effective July 1, 2012, the HCDA also implemented GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement did not have a material effect on HCDA's financial statements.

The government-wide financial statements (the statement of net position and the statement of activities) report information of 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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

Net position is reported as restricted when legally enforceable enabling legislation places restrictions or are externally imposed. 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.

The financial activities 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 the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

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

Governmental Fund Types - The HCDA reports 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. There were no General Fund appropriations for HCDA for the fiscal year ended June 30, 2014.

The Special Revenue Funds consist of 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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

Special Revenue 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 the Kaka'ako District to government agencies, non-profit organizations and private businesses.

Community Redevelopment - The State Legislature created the HCDA in 1976 to plan and 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 and Basis of Accounting

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.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities 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 current year. Expenditures are recorded when the related fund liability is incurred.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

Use of Estimates

The preparation of basic financial statements in conformity with GAAP 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 obligations and to make expenditures. 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/or executed. Encumbrances outstanding at year-end represent commitments related to unperformed contracts for goods or services and are included in restricted or committed fund balance.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

Interfund and Intrafund Transfers

Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them 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, 2014.

Capital Assets

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition 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, infrastructure networks, construction in progress, and those assets with estimated useful lives greater than one year and acquisition costs greater than:

Land, land improvements, infrastructure networks, and buildings	\$100,000
Furniture and equipment	5,000

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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

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 Highway Division of the Department of Transportation, State of Hawaii.

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 as follows:

Land improvements, infrastructure networks, and buildings	30 years
Furniture and equipment	7 years

Accumulated Vacation

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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

Governmental Fund Balances

Effective July 1, 2010, the HCDA implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

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

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

Committed – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature.

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

Unassigned – Residual balances that are not contained in the other classifications.

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.

3. BUDGETING AND BUDGETING 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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

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, 2014, the adoption of an annual budget for the Special Revenue Funds was not required.

4. CASH

Cash in State Treasury

The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury (cash pool). 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 a maturity of three months or less when purchased to be cash equivalents.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

5. 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 reconveyed 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 015, 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 from March 1, 2009 when HCDA took over management of KBH. As of June 30, 2014, the balance owed to OHA on the KBH ceded lands amounts to \$1,235,574.

6. 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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

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 from the project will be allocated to the partners based on their interest in the partnership.

As of June 30, 2014, the HCDA's investment, net of distributions, in the limited partnerships is as follows:

Na Lei Hulu Kupuna Limited Partnership	\$ 37,739
Honuakaha Limited Partnership	<u>88,085</u>
	<u>\$125,824</u>

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

Na Lei Hulu Kupuna Limited Partnership	\$25,910
Honuakaha Limited Partnership	<u>52,943</u>
	<u>\$78,853</u>

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2014 was as follows:

	Beginning Balance <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	Balance <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 95,136,918	\$ -	\$ -	\$ 95,136,918
Land improvements	13,968,842	-	-	13,968,842
Construction in progress	<u>3,648,865</u>	<u>2,700,230</u>	<u>-</u>	<u>6,349,095</u>
 Total capital assets not being depreciated	 <u>112,754,625</u>	 <u>2,700,230</u>	 <u>-</u>	 <u>115,454,855</u>
Capital assets being depreciated:				
Buildings	14,858,937	-	-	14,858,937
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	<u>629,575</u>	<u>17,262</u>	<u>-</u>	<u>646,837</u>
 Total capital assets being depreciated	 <u>90,221,524</u>	 <u>17,262</u>	 <u>-</u>	 <u>90,238,786</u>
Less accumulated depreciation for:				
Buildings	7,534,625	497,450	-	8,032,075
Wharves	3,866,151	155,018	-	4,021,169
Land improvements	20,743,634	555,742	-	21,299,376
Infrastructure networks	19,974,218	1,461,352	-	21,435,570
Furniture and equipment	<u>499,739</u>	<u>71,581</u>	<u>-</u>	<u>571,320</u>
 Total accumulated depreciation	 <u>52,618,367</u>	 <u>2,741,143</u>	 <u>-</u>	 <u>55,359,510</u>
 Total capital assets, net	 <u>\$150,357,782</u>	 <u>\$ (23,651)</u>	 <u>\$ -</u>	 <u>\$150,334,131</u>

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

As of June 30, 2014, the following capitalized assets are in the process of being dedicated and/or transferred to other governmental jurisdictions:

Land improvements, nondepreciable	\$ 3,777,901
Infrastructure networks, net of depreciation	<u>22,784,908</u>
	<u>\$ 26,562,809</u>

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	\$ 322,276
Community redevelopment	449,757
Capital improvement projects	<u>1,969,110</u>
Total depreciation expense	<u>\$2,741,143</u>

8. AMERICAN BREWERY BUILDING

At its April 10, 2013 meeting, the Authority approved \$6.1 million to renovate the American Brewery Building. The renovation will remove and replace existing timber beams, floor framing and flooring. The existing exterior brick shell is to remain intact. The renovated building will consist of five floors providing a permanent location for HCDA's Kaka'ako offices. The top three floors will accommodate HCDA offices, the second floor will be used for Authority meetings, and the ground floor will be designated as community space.

Construction started in July 2013 and is scheduled to be completed by December 2014.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

9. CHANGES IN LONG-TERM LIABILITIES

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

	Balance July 1, 2013	Additions	Deductions	Balance June 30, 2014	Due Within One Year
Accrued rent	\$ 9,269	\$ -	\$ 5,477	\$ 3,792	\$ 3,792
Unearned reserved housing credit	311,400	-	-	311,400	-
Unearned public facility credits	25,412,811	-	12,073,922	13,338,889	-
Due to State Treasury	3,500	-	-	3,500	-
Accrued vacation leave	491,466	189,023	250,683	429,806	131,324
Accrued other post-employment benefits	<u>1,392,806</u>	<u>261,102</u>	<u>-</u>	<u>1,653,908</u>	<u>-</u>
Total long-term liabilities	<u>\$27,621,252</u>	<u>\$450,125</u>	<u>\$12,330,082</u>	<u>\$15,741,295</u>	<u>\$135,116</u>

10. RETIREMENT BENEFITS

Employee Retirement System

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. The ERS 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. That report may be obtained by writing to the ERS at 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, legislation was enacted to add a new non-contributory plan for members of the ERS who are also covered under Social Security. Police officers, firefighters, judges, elected officials and persons employed in positions not covered by Social Security are precluded from the non-contributory plan. The non-contributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new non-contributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and non-contributory plans, respectively.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date is based on the three highest paid years of service, excluding the vacation payment.

On July 1, 2006, a newly hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited service or age 55 and 30 years of credited service. Members receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the non-contributory plan and certain members of the contributory plan, were eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, were required to join the hybrid plan.

Funding Policy - Most covered employees of the contributory plan are required to contribute 7.8% of their salary. Police officers, firefighters, investigators of the departments of the County Prosecuting Attorney and the Attorney General, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2% of their salary. Most covered employees of the hybrid plan are required to contribute 6% of their salary. The funding method used to calculate the total employer contribution requirement is the Entry Age Normal Actuarial Cost Method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The State's contribution requirements as of June 30, 2013, 2012, and 2011, were approximately \$418,415,000, \$396,380,000, and \$388,242,000, respectively. The State contributed 84.7%, 108.6% and 105.3% of its required contribution for those years, respectively. Covered payroll for the fiscal year ended June 30, 2013, was approximately \$2,694,852,000.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

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 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 201 Merchant Street, Suite 1520, Honolulu, Hawaii 96813.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 years or more 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 at 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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

Funding Policy and Annual OPEB Cost - Effective July 1, 2006, the State implemented GASB Statement No. 43 (GASB 43), *Financial Reporting for Postemployment Benefit Plans Other Than Pensions*. 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 trust 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 State 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*, as amended.

Effective July 1, 2007, the State implemented GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires reporting the OPEB liability on an accrual basis. Because the Statement was implemented on a prospective basis, the OPEB liability at transition was zero.

The State is required by GASB 45 to obtain an actuarial valuation every other year. An actuarial valuation was performed as of July 1, 2011.

The State's base contribution levels to EUTF are established by statutes and 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, 2014 was \$82,518, which represented 24.0% of the HCDA's share of the ARC for post-retirement healthcare and life insurance benefits of \$343,620.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

The following is a summary of changes in post-retirement liability during the fiscal year ended June 30, 2014:

Balance at July 1, 2013	\$1,392,806
Additions	343,620
Deletions	<u>82,518</u>
 Balance at June 30, 2014	 <u>\$1,653,908</u>

11. COMMITMENTS AND CONTINGENCIES

Lease - The HCDA leases its office space situated at 461 Cooke Street, Honolulu, Hawaii, under a five-year operating lease expiring on December 31, 2014. There is an option to renew the lease for an additional five years at an amount equal to the greater of (i) the monthly base rent payable for the last month of the term or (ii) the prevailing market rent. Total office rent expense amounted to \$128,510 for the fiscal year ended June 30, 2014.

The HCDA also 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, 2014.

The following is a schedule of minimum future rentals on the operating leases:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 184,700
2016	122,400
2017	122,400
2018	122,400
2019	122,400
Thereafter	<u>1,152,300</u>
	<u>\$1,826,600</u>

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

Accumulated Sick Leave - Sick leave for employees accumulates at the rate of one and three-quarters 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 sixty days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2014, accumulated sick leave was approximately \$1,524,400.

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, 2014, the following amounts were authorized and unissued:

<u>Purpose</u>	<u>Authorized</u>	<u>Unissued</u>
Improvement project	<u>\$60,000,000</u>	<u>\$47,245,000</u>

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

Encumbrances - Commitments for HCDA include encumbrances outstanding as of June 30, 2014 for its major governmental funds. Encumbrances are included in each fund's respective fund balance as follows:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ -
Leasing and Management Fund	4,380,451
Community Redevelopment Fund	350,234
Capital Projects Fund	<u>6,361,715</u>
	<u>\$11,092,400</u>

12. 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.

The future minimum lease rentals for the next five fiscal years are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2015	\$ 151,400
2016	150,000
2017	150,000
2018	150,000
2019	150,000
Thereafter	<u>1,126,500</u>
	<u>\$1,877,900</u>

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

13. 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 \$25,412,811 as of the beginning of the year of which Bishop Estate and VWL used dedication credits valued at \$12,073,922, leaving a balance of \$13,338,889 as of June 30, 2014. 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).

14. 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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

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.

15. 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.

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.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

The loan follows terms similar to HHFDC'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 fifty (50) years beginning upon issuance of certificate of occupancy of the last residential unit.

16. 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.

17. SETTLEMENT WITH OFFICE OF HAWAIIAN AFFAIRS FOR PAST CEDED LAND CLAIMS

On April 11, 2012, Senate Bill 2783 was signed into law to settle past ceded land claims by the Office of Hawaiian Affairs (OHA). In accordance with Act 015, Session Laws of Hawaii 2012 (Act 015), effective July 1, 2012, the State of Hawaii (State) conveyed to OHA, parcels of land controlled by the State through HCDA. The parcels conveyed included about 25 acres of contiguous and adjacent parcels of lands in Kaka'ako valued at about \$200 million. The State and OHA agreed that a \$200 million approximate settlement amount represented a reasonable compromise of the disputed claims.

The HCDA and OHA executed an agreement for the HCDA to manage the settlement lands for OHA, for the period July 2012 to June 2013. Revenues collected from the settlement lands were deposited into a fiduciary fund which was also used to pay property-related expenses. As of June 30, 2013, the fiduciary fund had approximately \$14,500 which was remitted to OHA in July 2013.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Notes To The Financial Statements
June 30, 2014

18. TRANSFER OF FUNDS FOR CONSTRUCTION PROJECT

In February 2014, pursuant to Section 79 of Act 134, SLH 2013 (Act), the Department of Labor and Industrial Relations, State of Hawaii, transferred \$1,000,000 in capital improvement project funds to the HCDA, for the purpose of constructing a community resource center. The transfer is reported in the Capital Projects Fund.

19. SUBSEQUENT EVENT

Effective September 1, 2014, the HCDA entered into a 35-year lease agreement with a private entity to lease the Kewalo Basin Harbor from the HCDA and manage and operate the harbor facilities. The lease expires on August 31, 2049 with an option to extend the lease term for an additional 10 years. The lessee is required to pay the HCDA a lease fee premium of \$500,000 and annual base rent for the initial term of \$300,000.

PART III

COMPLIANCE AND INTERNAL CONTROL SECTION

INDEPENDENT AUDITORS' 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

The Board of Directors
Hawaii Community Development Authority
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 Hawaii Community Development Authority, State of Hawaii (HCDA), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the HCDA's basic financial statements, and have issued our report thereon dated October 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the HCDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

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.

A handwritten signature in cursive script that reads "Chata Chan Juen LLP".

Honolulu, Hawaii
October 14, 2014