HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

Report to the Auditor, State of Hawaii, and the Board of Directors of the Hawaii Community Development Authority, State of Hawaii

Year Ended June 30, 2009

Submitted by

THE AUDITOR
STATE OF HAWAII

DARRELL LIM AND COMPANY, INC.
A Corporation of Certified Public Accountants

November 10, 2009

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, 2009. 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 primary purpose of our audit was to form an opinion on the fairness of the presentation of the HCDA's basic financial statements for the year ended June 30, 2009.

More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fair presentation of the HCDA's basic financial statements.

2. To determine whether the HCDA's financial transactions have been recorded and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii.

3. To determine whether the HCDA's internal control structure is adequate in assuring that there is effective control over and proper accounting of revenues, expenditures, assets, and liabilities.

4. To determine whether the HCDA has complied with the laws, regulations, contracts, and grants that may have a material effect on the HCDA's basic 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 *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, 2009.

Organization of the Report

This report is presented in two parts as follows:

- Part I – The basic financial statements and related notes of the HCDA as of and for the year ended June 30, 2009, and our opinion on the financial statements.
- Part II – Our report on internal control over financial reporting and on compliance and other matters.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended to us by the staff of the HCDA.

Sincerely yours,

DARRELL LIM AND COMPANY, INC.
Certified Public Accountants

Darrell Lim
President

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

Year Ended June 30, 2009

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PART I

FINANCIAL SECTION

DARRELL LIM AND COMPANY, INC.
A Corporation of Certified Public Accountants

Independent Auditors' Report

The Auditor
State of Hawaii

The Board of Directors
Hawaii Community Development Authority
State of Hawaii:

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, 2009, which collectively comprise the HCDA's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the HCDA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note (1), the financial statements of the HCDA are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the HCDA. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2009, 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.

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, 2009 and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards,* we have also issued our report dated November 10, 2009, 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 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* and important for assessing the results of our audit.

The management's discussion and analysis information on pages 3 - 13 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Parnell Sand Company, Inc.

Certified Public Accountants

Honolulu, Hawaii
November 10, 2009

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

As management of the Hawaii Community Development Authority, State of Hawaii (HCDA), we offer readers of the HCDA's basic financial statements this narrative overview and analysis of the financial activities of the HCDA for the fiscal year ended June 30, 2009.

Financial Highlights

- The assets of the HCDA exceeded its liabilities at June 30, 2009 by approximately $183.5 million (net assets).

- The HCDA's total net assets decreased by approximately $2.1 million, as of June 30, 2009. The decrease is mainly attributable to a decrease in fair value related to its investments in auction rate securities.

- The HCDA's long-term liabilities increased during the current fiscal year to approximately $26.4 million from $26.2 million, an increase of approximately $.2 million or 1.0%.

- Revenues decreased by approximately $6.8 million, from approximately $11.7 million in fiscal year ended June 30, 2008 to approximately $4.9 million in fiscal year ended June 30, 2009. The decrease was mainly attributable to a decrease of approximately $2.4 million in fair value related to investments in auction rate securities and a decrease in leasing and management revenues by approximately $2.7 million.

Overview of the Basic 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 are designed to provide readers with a broad overview of the HCDA's finances, in a manner similar to a private sector business.

The statement of net assets presents information on all of the HCDA's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the HCDA is improving or deteriorating.

The statement of activities presents information showing how the HCDA's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses 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 14 – 16 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 the HCDA are categorized as Governmental Funds.

Governmental Funds are used to 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 financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the HCDA's near-term financing requirements.

Overview of the Basic Financial Statements (continued)

Because the focus of 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. By doing so, readers may better understand the long-term impact of the HCDA's near-term financing decisions. 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.

The basic Governmental Funds financial statements can be found on pages 17 – 21 of this report.

Notes to the Basic Financial Statements

The *notes to the basic 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 basic financial statements* can be found on pages 22 – 45 of this report.

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

MANAGEMENT'S DISCUSSION AND ANALYSIS

Year Ended June 30, 2009

Government-Wide Financial Analysis

The following is a financial analysis on the governmental activities of the HCDA. Net assets are a useful indicator of a government's financial position. For the HCDA, total assets exceeded liabilities by approximately $183.5 million, and decreased by approximately $2.1 million or 1.1% over the course of this fiscal year's operations.

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

Summary Schedule of Net Assets
June 30, 2009 and 2008

	2009	2008
Assets:		
Current assets	$ 50,292,707	$ 51,020,308
Capital assets	160,824,462	161,159,677
Other assets	483,192	409,924
Total assets	$211,600,361	$212,589,909
Liabilities:		
Current liabilities	$ 1,597,311	$ 745,810
Long-term liabilities	26,466,763	26,216,956
Total liabilities	28,064,074	26,962,766
Net assets:		
Invested in capital assets	160,824,462	161,159,677
Restricted	49,030,678	50,527,998
Unrestricted (deficit)	(26,318,853)	(26,060,532)
Total net assets	183,536,287	185,627,143
Total liabilities and net assets	$211,600,361	$212,589,909

Analysis of Net Assets

Net assets of the HCDA decreased by 1.1% over fiscal year ended June 30, 2008. 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 $49.0 million in fiscal year ended June 30, 2009 and $50.5 million in fiscal year ended June 30, 2008 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. The negative balance in unrestricted net assets is attributable to deferred revenues attributable to public facility and reserved housing credits, and to a much lesser extent, the investments in limited partnership losses and an increase in employee benefits.

Changes in Net Assets

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

Changes in Net Assets
For the Years Ended June 30, 2009 and 2008

	2009	2008
Revenues:		
Program revenues:		
Leasing and management	$ 2,732,884	$ 5,467,442
Community redevelopment	563,295	3,151,060
Capital improvement projects	-	-
General revenues:		
Investment earnings (loss) and others	(1,075,235)	795,422
State allotted appropriations	2,649,058	2,320,656
Lapsed appropriations related to prior years	(449,378)	(6,476,032)
Total revenues	4,420,624	5,258,548

Changes in Net Assets (continued)

Changes in Net Assets
For the Years Ended June 30, 2009 and 2008

	2009	2008
Expenses:		
General government	$ 329,058	$ 321,156
Leasing and management	2,000,952	1,738,291
Community redevelopment	1,475,583	1,553,605
Capital improvement projects	6,463,501	12,811,382
Total expenses	10,269,094	16,424,434
Changes in net assets before transfers	(5,848,470)	(11,165,886)
Transfers	3,757,614	-
Changes in net assets	(2,090,856)	(11,165,886)
Net assets, beginning of year	185,627,143	196,793,029
Net assets, end of year	$183,536,287	$185,627,143

Analysis of Changes in Net Assets

The HCDA's net assets decreased by approximately $2.1 million or 1.1% during the fiscal year ended June 30, 2009. Approximately $2.3 million and $2.0 million in fiscal years ended June 30, 2009 and 2008, respectively, of the HCDA's revenues came from State allotted appropriations for capital improvement projects. Approximately $.4 million and $6.5 million of State allotted appropriations for the capital improvement projects lapsed during the fiscal years ended June 30, 2009 and 2008, respectively. The HCDA's decrease in net assets is primarily attributable to a decrease in fair value related to its investments in auction rate securities.

The expenses for the HCDA were approximately $10.3 million for the fiscal year ended June 30, 2009. The decrease of approximately $6.2 million or 37.5% was primarily due to the transfer of capital assets to other jurisdictions in the fiscal year ended June 30, 2008.

Financial Analysis of the HCDA's Individual Funds

As noted earlier, the HCDA uses fund accounting to ensure and demonstrate compliance with finance 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 a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the HCDA's governmental funds reported combined ending fund balances of approximately $49.0 million, or a decrease of approximately $1.5 million or 3.0% from the prior fiscal year. Approximately $32.1 million or 65.6% of this total amount constitutes the unreserved fund balance, which is available for spending at the HCDA's discretion in the coming fiscal year.

Leasing and Managing

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 44 acres of park lands and open spaces.

Revenues from leasing and management decreased by approximately $2.7 million in fiscal year ended June 30, 2009 due to the receipt of settlement and reserved housing fees in fiscal year ended June 30, 2008. At the end of the current fiscal year, the fund balance of the leasing and management special revenue fund was approximately $12.9 million, of which approximately $12.7 million was unreserved and available for the HCDA's expenses. The HCDA is facing additional legal and construction costs of its commercial rental property, the American Brewery Building (See Note (9) of the financial statements for further details).

Community Redevelopment

The HCDA was established to supplement traditional community development 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 assumed the role of redeveloping authority for the Kalaeloa Community Development District (Kalaeloa) during the fiscal year ended June 30, 2003.

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

Overall redevelopment costs for ongoing construction and property management expenses in fiscal year ended June 30, 2009, decreased by approximately $78,000 over fiscal year ended June 30, 2008.

In fiscal year ended June 30, 2009, interest earned allocated to community redevelopment was approximately $1.0 million which is approximately $0.6 million less than fiscal year ended June 30, 2008. Due to recording a decrease in fair value related to investments in auction rate securities, the net interest earned has resulted in a net loss of $.8 million allocated to community redevelopment.

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 fiscal year ended June 30, 2009, the HCDA did not receive any payments relating to utility agreements.

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. For Improvement Districts 1, 2, and 3, the HCDA issued Special Assessment Bonds for landowners that decided to pay on an installment basis. The HCDA collects the installment payments from the landowners and makes the payments to the bond trustee.

At the end of the current fiscal year, the fund balance of the community redevelopment special revenue fund was approximately $35.2 million, of which approximately $19.5 million was unreserved and available for HCDA's expenses.

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

Capital Project Fund

Capital Project Fund accounts are used to account for financial resources for the acquisition or construction of major capital improvements. Net assets of the Capital Project Fund decreased by approximately $1.0 million which was mainly attributable to lapsed appropriations and an increase in construction activity over allotted appropriations. State allotted appropriations increased by approximately $0.3 million or 16.0% in fiscal year ended June 30, 2009 over fiscal year ended June 30, 2008.

Construction costs decreased by approximately $0.6 million from $3.4 million in fiscal year ended June 30, 2008 to approximately $2.8 million in fiscal year ended June 30, 2009. By the close of fiscal year ended June 30, 2009, the HCDA had completed eleven Improvement District projects.

Budgetary Analysis

Differences between the original and final amended budgets were relatively minor.

Capital Assets and Debt Administration

Capital Assets

The HCDA's investment in capital assets as of June 30, 2009, amounted to approximately $160.8 million (net of accumulated depreciation of approximately $44.1 million) This investments in capital assets includes land, land improvements, construction in progress, buildings, infrastructure networks, and furniture and fixtures. Major capital improvement project expenses for the fiscal year ended June 30, 2009 included the renovation of the Honuakaha complex and construction of the Open Box, Queen Park, Kewalo Basin Park, Makai Gateway Park, Waterfront Park, and Traffic Signal projects.

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.

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 not a general obligation of the HCDA but 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

In January, 2003, the HCDA contracted with outside legal counsel for special deputy attorney general services in pursuing the HCDA's claims for construction defects, including the treatment of wood products with Permaclear 65, in the renovation of the American Brewery Building and to handle all necessary mediation, arbitration, litigation, appeal, and post judgment remedies. On August 8, 2006 a settlement and release agreement was signed by the HCDA and one of the defendants resulting in a payment of $101,000.

Current and Future Development

The University of Hawaii (UH) officially opened the doors to its new bioscience research lab and educational complex of the John A. Burns School of Medicine (JABSOM) in 2005. The HCDA is currently in discussion with the UH on the (1) development of the Cancer Research Center of Hawaii, which will be constructed adjacent to JABSOM, and (2) the John A. Burns School of Medicine Phase II, which would include additional research space and a parking structure. The Cancer Research Center of Hawaii will give Hawaii residents access to innovative new drugs and devices.

The HCDA continues its efforts through a community participatory planning process to develop an appropriate vision and philosophy and the preferred land uses for the waterfront area located in the Makai area of the Kaka'ako District. The Kaka'ako Makai Community Planning Advisory Council (CPAC) was formed to develop a strategic plan that will include a vision for the Makai Area, guiding principles, and an action plan.

Currently Known Facts, Decisions or Conditions (continued)

The Kalaeloa Master Plan was adopted by the HCDA on March 1, 2006 and subsequently approved by Governor Linda Lingle in August, 2006, and will serve as an amendment to the existing Kalaeloa Community Redevelopment Plan, which was prepared as part of the Base Realignment and Closure (BRAC) process. The HCDA is focusing on the development of Administrative Rules for the Kalaeloa Development District and needed infrastructure planning.

The HCDA completed a comprehensive review and proposed revisions of the plan and rules governing the Mauka portion of the Kaka'ako District. A Draft Mauka Area Plan has been completed and is in the process of being circulated for public review and comment through a Supplemental Environmental Impact Statement (SEIS) process. The Draft Mauka Area Plan proposes a mixed-use district where developmental projects are to include residential, commercial, industrial, community service and public uses.

However, future redevelopment is dependent upon State allotments and appropriation from the State Legislature.

Requests 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 ASSETS

June 30, 2009

ASSETS

CURRENT ASSETS	
Cash in State Treasury and petty cash	$ 47,826,862
Due from State	1,324,249
Due from Agent - Almar Management, Inc.	163,341
Accounts receivable	548,643
Interest receivable	401,891
Prepaid expenses	27,721
TOTAL CURRENT ASSETS	50,292,707
LONG-TERM ASSETS	
Loan receivable - Halekauwila Partners, LLC	81,782
Investment in limited partnerships	144,410
Water source allocation credits	257,000
TOTAL LONG-TERM ASSETS	483,192
CAPITAL ASSETS	
Land, improvements, infrastructure networks, and construction in progress	117,293,574
Other capital assets, net of depreciation	43,530,888
TOTAL CAPITAL ASSETS	160,824,462
TOTAL ASSETS	$ 211,600,361

See accompanying notes to the basic financial statements

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

STATEMENT OF NET ASSETS

June 30, 2009

LIABILITIES

CURRENT LIABILITIES	
Accounts payable	$ 1,160,740
Accrued payroll	122,049
Unearned revenues	86,984
Rental security deposits	227,538
TOTAL CURRENT LIABILITIES	1,597,311
LONG-TERM LIABILITIES	
Due within one year	96,315
Due in more than one year	26,370,448
TOTAL LONG-TERM LIABILITIES	26,466,763
TOTAL LIABILITIES	28,064,074

NET ASSETS

INVESTED IN CAPITAL ASSETS	160,824,462
RESTRICTED FOR:	
Capital projects	894,314
Community redevelopment	35,193,484
Other purposes	12,942,880
UNRESTRICTED (DEFICIT)	(26,318,853)
TOTAL NET ASSETS	183,536,287
TOTAL LIABILITIES AND NET ASSETS	$ 211,600,361

See accompanying notes to the basic financial statements

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets
GOVERNMENTAL ACTIVITIES:			
General government	$ 329,058	$ -	$ (329,058)
Leasing and managing	2,000,952	2,732,884	731,932
Community redevelopment	1,475,583	563,295	(912,288)
Capital improvement projects	6,463,501	-	(6,463,501)
TOTAL GOVERNMENTAL ACTIVITIES	$ 10,269,094	$ 3,296,179	(6,972,915)
GENERAL REVENUES:			
State allotments			2,649,058
Investment earnings (loss)			(1,075,833)
Miscellaneous			598
Lapsed appropriations related to prior years			(449,378)
OTHER USES - Transfers, net			3,757,614
CHANGE IN NET ASSETS			(2,090,856)
NET ASSETS, beginning of year			185,627,143
NET ASSETS, end of year			$ 183,536,287

See accompanying notes to the basic financial statements

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2009

	General Fund	Leasing and Managing	Community Redevelopment	Capital Projects Fund	Total Governmental Funds
ASSETS					
Cash in State Treasury and petty cash	$ 3,500	$ 12,604,426	$ 35,218,936	$ -	$ 47,826,862
Due from State	-	-	-	1,324,249	1,324,249
Due from Agent - Alamar Management, Inc.	-	163,341	-	-	163,341
Note receivable, net of allowance	-	-	-	-	-
Accounts receivable	-	516,391	32,252	-	548,643
Interest receivable	-	92,219	309,672	-	401,891
Prepaid expenses	-	27,721	257,000	-	284,721
Loan receivable - Halekauwila Partners, LLC	-	-	81,782	-	81,782
Due from other funds	-	-	-	-	-
TOTAL ASSETS	$ 3,500	$ 13,404,098	$ 35,899,642	$ 1,324,249	$ 50,631,489
LIABILITIES AND FUND BALANCES					
Accounts payable	$ -	$ 137,465	$ 691,236	$ 332,039	$ 1,160,740
Accrued payroll	-	24,153	-	97,896	122,049
Deferred rent	-	-	-	-	-
Unearned revenues	-	72,062	14,922	-	86,984
Rental security deposits	-	227,538	-	-	227,538
Due to other funds	-	-	-	-	-
Due to State General Fund	3,500	-	-	-	3,500
TOTAL LIABILITIES	3,500	461,218	706,158	429,935	1,600,811
FUND BALANCES					
Reserved for:					
Encumbrances	-	272,590	450,990	222,826	946,406
Public facilities	-	-	11,899,042	-	11,899,042
Housing program	-	-	3,367,496	-	3,367,496
Future debt service	-	-	-	-	-
Continuing appropriations	-	-	-	671,488	671,488
Unreserved	-	12,670,290	19,475,956	-	32,146,246
TOTAL FUND BALANCES	-	12,942,880	35,193,484	894,314	49,030,678
TOTAL LIABILITIES AND FUND BALANCES	$ 3,500	$ 13,404,098	$ 35,899,642	$ 1,324,249	$ 50,631,489

See accompanying notes to the basic financial statements

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

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

June 30, 2009

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	$ 49,030,678
Amounts reported for governmental activities are different in the *Statement of Net Assets* because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	160,824,462
Investments in limited partnerships are not financial resources and therefore are not reported in the governmental funds	144,410
Accrued employee benefits payable are not reported in the governmental funds	(377,810)
Accrued other post employment benefits payable are not reported in the governmental funds	(361,242)
Deferred reserved housing and public facility credits are not reported in the governmental funds	(25,724,211)
NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ 183,536,287

See accompanying notes to the basic financial statements

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

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

June 30, 2009

	General Fund	Leasing and Managing	Community Redevelopment	Capital Projects Fund	Total Governmental Funds
REVENUES					
State allotted appropriations	$ 329,058	$ -	$ -	$ 2,320,000	$ 2,649,058
Contributions from property owners	-	-	563,295	-	563,295
Reimbursements for capital outlays	-	-	-	-	-
Dedication and reserve housing fees	-	-	-	-	-
Investment earnings (loss)	-	(284,010)	(791,823)	-	(1,075,833)
Leasing and management	-	2,732,884	-	-	2,732,884
Other	-	588	10	-	598
TOTAL REVENUES	329,058	2,449,462	(228,518)	2,320,000	4,870,002
EXPENDITURES					
General government	329,058	24,153	-	-	353,211
Capital outlays	-	1,585,951	1,142,003	2,836,779	5,564,733
TOTAL EXPENDITURES	329,058	1,610,104	1,142,003	2,836,779	5,917,944
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	839,358	(1,370,521)	(516,779)	(1,047,942)
OTHER FINANCING SOURCES (USES)					
Transfers in (out)	-	127,057	(127,057)	-	-
Transfer to General Fund	-	-	-	-	-
Lapsed appropriations	-	-	-	(449,378)	(449,378)
NET CHANGE IN FUND BALANCES	-	966,415	(1,497,578)	(966,157)	(1,497,320)
FUND BALANCES, July 1, 2008	-	11,976,465	36,691,062	1,860,471	50,527,998
FUND BALANCES, June 30, 2009	$ -	$ 12,942,880	$ 35,193,484	$ 894,314	$ 49,030,678

See accompanying notes to the basic financial statements

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

RECONCILIATION OF THE CHANGE IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2009

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		$ (1,497,320)
Amounts reported for governmental activities in the *Statement of Activities are* different because:		
Governmental funds report capital asset outlays as expenditures. However, in the *Statement of Activities,* the cost of capital assets is allocated over their estimated estimated useful lives and reported as depreciation expense. This is the amount by which capital asset outlays net of reimbursements exceeded depreciation expense in the current period.		
Capital asset outlays	$ 1,933,965	
Transfers, net	418,271	
	2,352,236	
Depreciation expense	2,687,451	
Excess of transfers and depreciation over capital asset outlays		(335,215)
The net change in deferred revenues are reported in the *Statement of Activities,* but are not reported in the governmental funds as it does not provide current financial resources. The net limited partnership losses and distributions are reported in the *Statement of Activities,* but are not reported in the governmental funds as they they do not provide current financial resources.		
Na Lei Hulu Kupuna Limited Partnership	$ (3,322)	
Honuakaha Limited Partnership	(5,192)	
Net change in limited partnerships		(8,514)
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.		(54,572)
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.		(195,235)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		$ (2,090,856)

See accompanying notes to the basic financial statements

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL - GENERAL FUND

For the Year Ended June 30, 2009

	Budgeted		Actual Budgetary Basis	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
State allotted appropriations	$ 310,710	$ 329,058	$ 329,058	$ -
EXPENDITURES				
General government	310,710	329,058	329,058	-
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ -	$ -

See accompanying notes to the basic financial statements

(1) Financial Reporting Entity

The Hawaii Community Development Authority, State of Hawaii (HCDA) was established by Hawaii Revised Statutes (HRS) Chapter 206E-3, 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 is comprised of eighteen (thirteen regular members and five members who vote only on Kalaeloa matters) voting members who, as a body (the Authority), oversees the HCDA's operations and establishes policies to implement its legislative objectives. The Authority is required to report annually to the State Legislature and the Governor.

In creating the HCDA, the State Legislature designated the Kaka'ako area as the first Community Development District (Kaka'ako District). The Kaka'ako District is comprised of 670 acres of land and is largely composed of industrial, retail, commercial businesses, and single and multi-family residences.

Act 184, Session Laws of Hawaii 2002, transferred the redevelopment responsibility for the Kalaeloa Community Development District (Kalaeloa District) from the Barbers Point Naval Air Station Redevelopment Commission to the HCDA effective July 1, 2002. The Kalaeloa District is comprised of about 3,698 acres of land including approximately 1,052 acres of Navy-retained land and 2,646 acres of land to be conveyed to various federal, state and city entities. Act 184 also added five new members who only vote on issues related to the Kalaeloa District.

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.

Government-Wide and Fund Financial Statements – The government-wide financial statements (the statement of net assets 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.

Net assets are restricted when legally enforceable enabling legislation places restrictions or are externally imposed. Internally imposed designations of resources are not presented as restricted net assets. 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.

(2) Summary of Significant Accounting Policies (continued)

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.

The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. They also reflect the transfer and reserve of funds for future debt service related to the Improvement District Bonds. The HCDA's major Special Revenue Funds are as follows:

Leasing and Managing – 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 to revitalize urban areas in the State which lawmakers find to be in need of timely redevelopment. In creating the HCDA, the State Legislature also 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. The plan serves as the basis for providing both public and private development activities in the Kaka'ako District.

Redevelopment in the Kaka'ako District provides for the following:

- Improved infrastructure and public facilities;
- Increased housing opportunities for all segments of the community;
- Increased business (commercial and industrial) opportunities;
- Increased economic activity; and
- Increased public recreation and open space.

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 Kaka'ako District.

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.

(2) Summary of Significant Accounting Policies (continued)

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.

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 assets 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 assets and balance sheet – governmental funds and revenue is recognized. Unearned revenues are rent collected in advance by the HCDA.

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 year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

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.

(2) Summary of Significant Accounting Policies (continued)

Prepaid Expenses - Prepaid expenses are payments to vendors for services or goods that will benefit periods beyond June 30, 2009.

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 assets. 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.

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.

(2) Summary of Significant Accounting Policies (continued)

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 assets.

Reserved for Public Facilities – Portions of the fund balances are restricted for expenditures for public facilities.

Reserved for Housing Program – Portions of the fund balances are restricted for expenditures for affordable housing projects or units.

Reserved for Relocation Loan Program – Portions of the fund balances may be restricted for the funding of loans to assist in the re-establishment and continuance of displaced small businesses in the Kaka'ako District; however, this program is currently unfunded.

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. Amounts reflected as budgeted revenues in the *Statement of Revenues and Expenditures – Budget and Actual – General Fund* are those estimates as compiled by the HCDA. 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.

(3) Budgeting and Budgeting Control (continued)

To the extent not expended or encumbered, the General Fund's 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.

Summarizations of the budget adopted by the State Legislature for the *budgetary* General Fund is presented in the *Statement of Revenues and Expenditures – Budget and Actual – General Fund.* For the fiscal year ended June 30, 2009, there were no differences between the budgetary fund structure and accounting principles and those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America. For the fiscal year ended June 30, 2009, the adoption of an annual budget for the Special Revenue Funds was not required.

(4) Unallotted Appropriation

The unallotted appropriation of the Capital Projects Fund at June 30, 2009, is comprised of the following:

Act 158, Session Laws of Hawaii 2008	$ 850,000
	$ 850,000

(5) 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 amounts 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.

(5) Cash (continued)

At June 30, 2009, a portion of the State Treasury Investment Pool was invested in auction rate securities. Due to ongoing issues in the credit market of the United States, particularly related to auction rate securities, the State Treasury Investment Pool recorded a decrease in fair value related to its investments in auction rate securities. The change in fair value amounts to approximately $2.4 million, which is recorded against investment earnings in the accompanying financial statements.

(6) Note receivable and Other Amounts Due From Rosette Steel Hawaii, LLC

At June 30, 2009 note receivable and other amounts due from Rosette Steel Hawaii, LLC is comprised of the following:

Note receivable (May 9, 2006)	$ 341,659
Additional rental charges and fees	158,615
Accrued interest	62,434
	562,708
Less: Allowance for doubtful accounts	562,708
	$ -

(7) Ceded Land Revenues

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 receives revenue from properties that are considered to be ceded lands and has recorded approximately $64,500 of ceded land payments to OHA for 2009. All ceded land payments were made to OHA as of June 30, 2009.

(8) 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 with Bank of Hawaii, the limited partner, in November, 1991. The partnership will continue until December, 2030 for the purpose of constructing, maintaining and operating an elderly, low-income housing project called Na Lei Hulu Kupuna. The HCDA provided a capital contribution of $72,000 which represented a 1% interest in the partnership. The project was completed and opened for occupancy in November, 1992. 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 and First Hawaiian Bank 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. The housing project was completed and opened for occupancy in October, 1995. 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, 2009 the HCDA's investment, net of distributions, in the limited partnerships is as follows:

Na Lei Hulu Kupuna Limited Partnership	$ 35,271
Honuakaha Limited Partnership	109,139
	$144,410

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	$24,077
Honuakaha Limited Partnership	39,397
	$63,474

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

(9) Capital Assets

Capital assets activity for the fiscal year ended June 30, 2009 was as follows:

	Balance June 30, 2008	Additions	Deductions	Balance June 30, 2009
Capital assets not being depreciated				
Land	$104,137,837	$ 9,626	$ 453,900	$103,693,563
Land improvements	11,497,022	277,993	979	11,774,036
Construction in progress	3,207,680	1,503,738	2,885,443	1,825,975
Total capital assets not being depreciated	118,842,539	1,791,357	3,340,322	117,293,574
Capital assets being depreciated:				
Buildings	17,528,248	1,152,164	15,116	18,665,296
Wharves	-	4,654,964	387,008	4,267,956
Land improvements	17,930,295	3,963,351	634,201	21,259,445
Infrastructure networks	43,098,386	26,264	-	43,124,650
Furniture and equipment	262,664	4,341	-	267,005
Total capital assets being depreciated	78,819,593	9,801,084	1,036,325	87,584,352
Less accumulated depreciation for:				
Buildings	5,707,605	1,184,558	15,116	6,877,047
Wharves	-	3,533,702	287,623	3,246,079
Land improvements	17,736,458	2,336,165	630,264	19,442,359
Infrastructure networks	12,806,251	1,421,697	-	14,227,948
Furniture and equipment	252,141	7,890	-	260,031
Total accumulated depreciation	36,502,455	8,484,012	933,003	44,053,464
Total capital assets, net	$161,159,677	$ 3,108,429	$ 3,443,644	$160,824,462

As of June 30, 2009, the following capitalized assets are in the process of being dedicated and/or transferred to other governmental jurisdictions:

Land improvements, nondepreciable	$ 1,583,095
Infrastructure networks, net of depreciation	28,747,734
	$30,330,829

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

(9) Capital Assets (continued)

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

Governmental activities	
Leasing and managing	$ 382,334
Community redevelopment	333,580
Capital improvement projects	1,971,537
Total depreciation expense	$ 2,687,451

(10) American Brewery Building and Honuakaha Complex

The HCDA capitalized construction costs of $3,354,052 for the construction of the commercial space/community center in the American Brewery Building (Building). After the Building's renovations were completed, a series of studies and remediation attempts were conducted to deal with the presence of an odor throughout the Building. It has been determined that the odor was caused by the application of termite treatment to the structure's flooring and wood beams.

The HCDA has hired outside legal counsel for special deputy attorney general services in pursuing the HCDA's claims for construction defects, including treatment of wood products with Permaclear 65, in the renovation of the American Brewery Building, and to handle all necessary mediation, arbitration, litigation, appeals and post judgment remedies. The outside legal council is responsible for any costs and expenses exceeding $50,000 and shall be paid a fee contingent upon a recovery structure that first reimburses costs and expenses incurred by the HCDA and outside legal council in the order paid or advanced.

On August 8, 2006, a settlement was reached with one of the defendants and a release agreement was signed which terminated all disputed claims and causes of action against that defendant asserted in this litigation. The HCDA received $101,000 from the released defendant.

(10) American Brewery Building and Honuakaha Complex (continued)

In conjunction with the development of the American Brewery Building, the HCDA constructed a residential building, the Honuakaha Complex (Complex). The Complex was completed in October, 1995, which included 150 elderly rental units and 93 affordable for-sale condominium units. The rental units are owned by the Honuakaha Limited Partnership as discussed in Note (7) of the financial statements. It has been determined that the Complex has severe and persistent leaking problems. A consultant was hired to investigate the leaking problem and confirmed the previous finding that both the roof and courtyard waterproofing membrane have failed. Installation, waterproofing details and choice of materials and systems all contribute to the problem. The 2002 State Legislature appropriated $1.4 million in general obligation bonds for reconstruction and improvements to the Complex and the balance of approximately $1.6 million of the estimated $3 million cost was to be paid by the HCDA. The 2004 State Legislature allowed the $1.4 million in general obligation bonds to lapse and appropriated $3 million in new general obligation bonds to fund the entire estimated project cost. As of June 30, 2009 all work was substantially completed. The HCDA is looking into aggressively pursuing reimbursement of remediation cost and costs for other defects from the contractors, the architects, and/or suppliers. As of June 30, 2009, the outcome of any legal action is uncertain and not determinable.

(11) Changes in Long-Term Liabilities

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

	Balance July 1, 2008	Additions	Deduction	Balance June 30, 2009	Due Within One Year
Deferred reserved housing credit	$ 311,400	$ -	$ -	$ 311,400	$ -
Deferred public facility credits	25,412,811	-	-	25,412,811	-
Due to General Fund	3,500	-	-	3,500	-
Accrued vacation leave	323,238	223,526	168,954	377,810	96,315
Accrued other post employment benefits	166,007	305,423	110,188	361,242	-
Total long-term liabilities	$26,216,956	$ 528,949	$ 279,142	$26,466,763	$ 96,315

(12) Retirement Benefits

All eligible employees of the HCDA are required by HRS Chapter 88 to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer 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 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 option. The non-contributory option 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.

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.

Most covered employees of the contributory plan are required to contribute 7.8% 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, 2008 employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179 SLH 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. All members of the noncontributory plan and certain members of the contributory plan are eligible to join the hybrid plan. Most new employees hired from July 1, 2006 are required to join the hybrid plan.

(12) Retirement Benefits (continued)

The State's contribution requirement as of June 30, 2008, the most recent information available, was approximately $377,475,000. The State contributed 100% of its required contribution for 2008. Covered payroll for the fiscal year ended June 30, 2008 was approximately $2,657,906,000.

(13) Post-Employment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State, pursuant to HRS Chapter 87, provides certain health care and life insurance benefits to all qualified employees.

For employees hired before July 1, 1996, the State pays the entire monthly health care premium for employees retiring with ten or more years of credited service, and 50 percent of the monthly premium for employees retiring with fewer than ten years of credited service.

For employees hired after June 30, 1996, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50 percent of the retired employees' monthly Medicare or non-Medicare premium. For employees hired after June 30, 1996, and who retire with at least 15 years but fewer than 25 years of service, the State pays 75 percent of the retired employees' monthly Medicare or non-Medicare premium; for those retiring with over 25 years of service, the State pays the entire health care 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, 2009 was $110,188, which represented 36.1% of the HCDA's share of the ARC for postretirement healthcare and life insurance benefits of $305,423.

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2009:

Balance at June 30, 2008	$166,007
Additions	305,423
Deletions	110,188
Balance at June 30, 2009	$361,242

(13) Post-Employment Health Care and Life Insurance Benefits (continued)

Effective July 1, 2003, the EUTF placed the Hawaii Public Employees Health Fund under Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county employees, retirees and their dependents.

(14) Commitments and Contingencies

Lease

The HCDA leases its office space situated at 677 Ala Moana Boulevard, Honolulu, Hawaii, under an extended operating lease expiring on December 31, 2009. The lease provides for a base lease rent of $11,369.60 per month plus common area maintenance costs from January 1, 2008 through December 31, 2008 and $11,824.38 per month plus common area maintenance costs from January 1, 2009 through December 31, 2009.

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

Fiscal Year Ending June 30,	Amount
2010	$ 70,946
	$ 70,946

On October 15, 2009, the HCDA entered into a lease for replacement 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.

The lease provides for a lease rent of $9,221.30 per month from January 1, 2010 through December 31, 2010, plus a charge for the tenant's share of operating expenses. The monthly base rent increases annually over the next five years as follows:

Dates	Monthly Base Rent
January 1, 2011 – December 31, 2011	$ 9,472.79
January 1, 2012 – December 31, 2012	9,808.11
January 1, 2013 – December 31, 2013	10,059.60
January 1, 2014 – December 31, 2014	10,394.92

(14) Commitments and Contingencies (continued)

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, 2009, accumulated sick leave was approximately $1,203,866.

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, 2009, the following amounts were authorized and unissued:

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

(15) Transfer of Lands

Pursuant to Act 86, Session Laws of Hawaii 1990, the State Legislature authorized the conveyance of all fast and submerged lands owned by the State within the Makai portion of the Kaka'ako District, as established by HRS Section 206E-32, to the HCDA. The HCDA has obtained deeds for all of these properties.

(16) Leases

The HCDA entered into a sublease agreement with the Department of Accounting and General Services (DAGS) for the lease of the AAFES building for a term commencing on August 1, 1993 and ending on May 31, 1998. A subsequent amendment to the agreement extended the term of the lease to July 31, 2018.

The lease provides for annual lease payments by DAGS of $1,749,600 in the initial period ending on July 31, 1994, with annual increases to the final period ending on July 31, 2018. Beginning August 1, 1999 and at three-year intervals, the scheduled increase in the lease rent is subject to renegotiation, but in no event will it be less than the rent for the immediately preceding year.

As of July 1998, DAGS ceased the payment of lease rents. The lease agreement with DAGS was based on the assumption that purchase of the AAFES building was to be funded with the issuance of revenue bonds. The AAFES building's purchase was, however, funded with general obligation bonds, which eliminated the need for revenues from DAGS to cover the bond debt. A new lease is pending.

The HCDA also leases various other owned 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 for the other leases are as follows:

Fiscal Years Ending June 30,	Amount
2010	$ 793,322
2011	937,322
2012	817,322
2013	817,322
2014	414,000
	$3,779,288

(17) Land Exchange Agreement

On November 1, 2000, the HCDA entered into a Land Exchange Agreement (Agreement) with Nauru Phosphate Royalties (Honolulu), Inc. (NPR) and Nauru Phosphate Royalties Development (Honolulu), Inc. (NPRD) (collectively referred to as Nauru) and Victoria Ward, Limited (VWL), who as the owners of the fee simple parcels located in the Kaka'ako District agreed to a mutually beneficial land exchange that will facilitate the construction of the Queen Street Extension (ID-10), the development of two public parks and the consolidation of land holdings of all parties.

The following is a summary of the closing conditions and contingencies of the Agreement:

a. The HCDA and VWL acknowledge that: (1) the VWL may construct two residential towers on Parcel S; (2) the NPRD will construct a tower (Phase III) on Parcels G, H and M; and (3) final approval on the tower spacing is subject to the HCDA's review and approval of a planned development permit application to be submitted by VWL with respect to Parcel S. Therefore, Nauru and VWL agree that at the closing of the Agreement, a Declaration of Restrictive Covenant, which provides in pertinent part that any tower(s) to be constructed on Parcel S may be located on Parcel S such that the resulting spacing between the Parcel S towers and the Phase III tower may be a minimum of 175 feet, shall be filed and recorded against Parcels G, H, and M. This Declaration of Restrictive Covenant shall be in a form and content mutually acceptable to Nauru and VWL, and shall constitute a covenant running with the land comprising Parcels G, H, and M in favor of Parcel S.

b. With respect to Parcel D and F given up by VWL to the HCDA for development of the two public parks, the HDCA and VWL will agree on the public facilities dedication credits to be granted to VWL at the closing.

c. The HCDA and VWL entered into an agreement setting forth the terms and conditions regarding the ownership, use and occupancy of the structure and improvements located on Parcel F and the lease of Parcel F by VWL from the HCDA after the conveyance of such parcel to the HCDA.

   The HCDA and VWL entered into an initial five-year lease agreement with an option to extend such initial term for such additional amount of time as agreed upon by both the HCDA and VWL. It was agreed that VWL shall retain ownership of the structure and improvements located on Parcel F and shall pay to the HCDA the sum of $12,000 per year as ground lease rent for Parcel F.

(17) Land Exchange Agreement (continued)

d. VWL, Nauru and the HCDA (if required) shall enter into an agreement with the City and County of Honolulu (City), in a form and substance acceptable to the HCDA, pursuant to which the City shall agree to accept a dedication of the two (2) public parks upon the completion of construction. VWL and Nauru will be responsible for and take all reasonable actions to cause the City to agree to accept such dedication and shall cooperate with the HCDA in submitting to the City an application to incorporate the parks in the Development Plan for the Primary Urban Center. VWL and Nauru shall also (a) have established an endowment to provide funds for use by the parties that accept responsibility for the parks' maintenance after the completion date, and (b) each contribute one half of the endowment amount required by the City, but in no event more than $60,000 each, to fund the endowment. In the event the City fails to accept the dedication of the parks, for the period commencing on the completion date and ending on the earlier of (a) the date the City accepts the parks, or (b) two years after the completion date (VWL/Nauru Maintenance Period), VWL and Nauru shall each bear 50% of the cost of maintaining the parks in excess of the annual investment income generated from the endowment during the VWL/Nauru Maintenance Period.

e. Nauru received a refund of the excess cash-in-lieu payment for public facilities dedication in the amount of $709,356.

On April 1, 2003, the escrow requirements were satisfied and the various deeds and related agreements were exchanged and executed, respectfully. In conjunction with escrow, the HCDA paid VWL $846,756 to complete acquisition of right-of-way for the Queen Street Extension (Improvement District 10). Completion of the land exchange is subject to minor follow-up subdivision and Land Court approval for property line adjustments along the Queen Street Extension.

(18) Development Credits

The HCDA entered into various transactions with the Trustees of the Estate of Bernice Pauahi Bishop (Bishop Estate) in which the HCDA received land parcels in the Kaka'ako development district and, in exchange, granted public facilities dedication credits (Dedication Credit) to the Bishop Estate.

(18) Development Credits (continued)

In June, 1989 the Bishop Estate conveyed 24,793 square feet of land along Coral Street for the HCDA's Pohulani Elderly housing project. Upon completion of construction, the housing project was transferred to the Housing and Community Development Corporation of Hawaii (HCDCH), another State of Hawaii agency. In payment for the land acquired, the HCDA issued a promissory note in the amount of $2,002,000. In the agreement of conveyance, the Bishop Estate had an option to obtain Dedication Credits from the HCDA consisting of the same square footage of land in fulfilling public facilities dedication requirements imposed as part of the HCDA's approval of the Bishop Estate's Master Plan, rather than cash payment.

In September, 1989, the Bishop Estate exercised the option, and the HCDA granted the Bishop Estate 24,973 square feet of Dedication Credit. The promissory note of $2,002,000 was cancelled as a result.

In December, 1989, the HCDA paid $8,226,060 to the Bishop Estate for condemnation of 61,275 square feet of land for the Improvement District project of Cooke Street improvements and realignment, and Mother Waldron Park expansion. The parcels were not used for the project, and the Bishop Estate returned the payment to the HCDA, who transferred the $8,226,060 plus accrued interest or a total of $10,000,000 to the State Treasury in July, 2004. In July, 1992, the HCDA and the Bishop Estate entered into a Memorandum of Credit (MOC) in which the HCDA granted 61,275 square feet in Dedication Credits to the Bishop Estate.

In July, 1991 the HCDA entered into a land exchange with the Bishop Estate to acquire a land parcel known as the "Honolulu Ford Block", for the Makai Gateway Park the HCDA was to build. The Bishop Estate wished to exchange a portion of the Heeia Meadowlands referred to as Heeia Wetlands and Honolulu Ford Block in exchange for a land parcel known as the "Board of Water Supply site". The HCDA agreed to grant $11,705,500 worth of Dedication Credit for the valuation difference between the Board of Water Supply site and Honolulu Ford Block plus Heeia Wetlands.

In March, 1992, the HCDA and the Bishop Estate entered into a MOC in which the HCDA granted 37,398 square feet of Dedication Credit for the $11,705,500 resulting from the Honolulu Ford Block-Heeia Wetlands-Board of Water Supply site exchange.

The HCDA also entered into various transactions with Victoria Ward, Limited (VW) in which the HCDA received land parcels in the Kaka'ako development district and granted Dedication Credit.

(18) Development Credits (continued)

In October, 1993, the HCDA granted 9,898 square feet of Dedication Credit to VW. The 9,898 square feet land parcel was used for the Kauhale Kaka'ako housing project which was transferred to HCDCH upon its completion.

In October, 1993, the HCDA granted an additional 12,710 square feet of Dedication Credit to VW. These land parcels were used for the Improvement District project of Kamakee Street.

In November, 2000, the HCDA entered into a land exchange agreement with Nauru Phosphate Royalties (Honolulu), Inc. and VW. With respect to two parcels given up by VW, the HCDA was to grant Dedication Credit at the closing. Subsequently in February, 2003, the HCDA granted 26,298 square feet of Dedication Credit to VW.

The HCDA valued $111.50 and $80.00, per square foot, for the 1993 and 2003 Dedication Credit, respectively. The valuation is based on appraisals for comparable real estate transactions in 1993 and 2003 in the vicinity.

The HCDA issued a permit to Servco Pacific Inc. (Servco) for the Kaka'ako Mixed-Use Elderly Rental project in December, 1989. Servco paid $1,490,625 and $311,400 of in-lieu fees, respectively, to meet the public facilities dedication and reserved housing requirements.

Servco did not start the project as permitted. In July, 1998, upon request by Servco, the HCDA returned the $1,490,625 in-lieu fee for public facilities dedication and granted $311,400 reserved housing credit (Housing Credit), without accrued interest, to be available to Servco for its future planned development project(s).

(18) Development Credits (continued)

Dedication Credit
June 30, 2009

Credit Recipient	Date Granted	Square Feet	Valuation
Bishop Estate	September, 1989	24,793	$ 2,002,000
Bishop Estate	July, 1992	61,275	8,226,060
Bishop Estate	March, 1992	37,398	11,705,500
Subsequent use		(2,952)	(396,301)
Subtotal: Bishop Estate		120,514	21,537,259
VW	October, 1993	22,608	2,520,792
VW	February, 2003	26,298	2,103,840
Subsequent use		(6,718)	(749,080)
Subtotal: VW		42,188	3,875,552
Total Dedication Credit (net of useage)		162,702	$25,412,811

Housing Credit
June 30, 2009

Credit Recipient	Date Granted	Valuation
Servco	July, 1998	$311, 410

(19) 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:

(19) Risk Management (continued)

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, expect 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.

(20) Kewalo Basin Harbor

In 1990, ownership of Kewalo Basin and the surrounding fast land Makai of Ala Moana Boulevard from Ala Moana Beach Park to Pier 1 was transferred by the Hawaii State Legislature to the HCDA by Act 86, Session Laws of Hawaii 1990.

By agreement between the agencies, jurisdiction remained with the Department of Transportation – Harbors Division (DOTH) until March 1, 2009 when the HCDA officially assumed jurisdiction over the harbor. The fixed assets at Kewalo Basin were also transferred from the DOTH to the HCDA, at that time, as follows:

Category	Original Cost	Accumulated Depreciation	Book Value
Land	$ 9,626	$ -	$ 9,626
Land improvements	277,993	-	277,993
Wharf	4,654,964	3,482,029	1,172,935
Building	748,202	573,467	174,735
Other improvements	3,963,351	1,736,725	2,226,626
Equipment	4,341	4,341	-
	$ 9,658,477	$ 5,796,562	$ 3,861,915

In anticipation of the transfer and with the participation of stakeholders, the HCDA promulgated Administrative Rules under which the harbor is operated on November 8, 2008. The set rules were registered with the Lieutenant Governor's office and were added to the Hawaii Administrative Rules as Title 15, subtitle 14, sections 211 to 214.

The HCDA, through a competitive procurement method, selected and awarded Almar Management, Inc. (ALMAR) for management services for the day-to-day operations at the harbor. ALMAR, a California corporation, is the largest private owner/operator of salt-water marinas in the United States. ALMAR has over 30 years of experience developing, constructing, managing and operating recreational boat marinas.

The Kewalo Basin Harbor was originally built in the late 1920s. Expansion of the harbor continued intermittently until mid 1980. However, some of the piers and other facilities have deteriorated and are in need of repairs to function safely and properly. The HCDA approved a $4.9 million loan at its February 11, 2009 meeting for the design and construction of improvements to the harbor. The HCDA will be reimbursed for the $4.9 million repair project from the excess of revenues over expenses of the harbor operations.

PART II

AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

DARRELL LIM AND COMPANY, INC.
A Corporation of Certified Public Accountants

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

The Auditor
State of Hawaii

The Board of Directors
Hawaii Community Development Authority
State of Hawaii:

We have audited 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, 2009 which collectively comprise the HCDA's basic financial statements and have issued our report thereon dated November 10, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the HCDA's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HCDA's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the HCDA's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the HCDA's financial statements that is more the inconsequential will not be prevented or detected by the HCDA's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the HCDA's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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, 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.*

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.

Haulu and Company, Inc.

Certified Public Accountants

Honolulu, Hawaii
November 10, 2009