STATE OF HAWAII
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
FINANCIAL AUDIT
JUNE 30, 2012

Submitted By
The Auditor
State of Hawaii

PART I

INTRODUCTORY SECTION

Ohata Chun Yuen LLP
CERTIFIED PUBLIC ACCOUNTANTS

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October 11, 2012

Ms. Marion Higa
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, 2012. 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, 2012.

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,

Ohata Chun Yuen LLP

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
June 30, 2012

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PART II

FINANCIAL SECTION

Ohata Chun Yuen LLP
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

Office of 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, 2012, 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, 2012, 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, 2012 and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2012, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 6 through 16 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.

Okata Chun Yuen LLP

Honolulu, Hawaii
October 11, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2012

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 fiscal year ended on June 30, 2012.

Financial Highlights

- The assets of the HCDA exceeded its liabilities at June 30, 2012 by $187.5 million (net assets).
- The HCDA's total net assets decreased by approximately $1.1 million, or 0.58%, as of June 30, 2012.
- The HCDA's long-term liabilities increased during the current fiscal year to approximately $27.2 million from $26.9 million, an increase of approximately $0.3 million or 1.12%.
- Revenues increased by approximately $1.1 million, or 12.8% from approximately $8.6 million in fiscal year ended June 30, 2011 to approximately $9.7 million in fiscal year ended June 30, 2012. The increase was mainly due to receipt of approximately $1.1 million from final settlement of litigation over American Brewery Building. Refer to Footnote No. 8, AMERICAN BREWERY BUILDING AND HONUAKAHA COMPLEX on page 37 for details.

Overview of the Financial Statements

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

Government-Wide Financial Statements

The government-wide financial statements 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 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 17-19 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 balance of spendable resource 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 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. 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 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 20-24 of this report.

Notes to the Basic Financial Statements

The *Notes to 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 25-56 of this report.

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 agency's financial position. For the HCDA, total assets exceeded liabilities by approximately $187.5 million, and decreased by approximately $1.1 million or 0.58% over the course of this fiscal year's operations.

Government-Wide Financial Analysis (continued)

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

Summary Schedule of Net Assets
June 30, 2011 and 2012

	2012	2011
Assets:		
Current assets	39,276,057	38,953,247
Capital assets	173,324,071	175,051,710
Other assets	3,643,306	2,919,554
Total Assets	216,243,434	216,924,511
Liabilities:		
Current liabilities	1,486,758	1,401,282
Long-term liabilities	27,234,586	26,898,319
Total Liabilities	28,721,344	28,299,601
Net Assets:		
Invested in capital assets	173,324,071	175,051,710
Restricted	1,242,016	1,931,064
Unrestricted (deficit)	12,956,003	11,642,136
Total Net Assets	187,522,090	188,624,909
Total Liabilities and Net Assets	216,243,434	216,924,511

Analysis of Net Assets

Net assets of the HCDA decreased by 0.58% over fiscal year ended June 30, 2011. 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 $1.2 million in fiscal year ended June 30, 2012 and $1.9 million in fiscal year ended June 30, 2011 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.

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.

Analysis of Changes in Net Assets

Changes in Net Assets
For the Years ended June 30, 2012 and 2011

	2012	2011
Revenues:		
Program revenues:		
Leasing and management	5,266,863	3,824,660
Community redevelopment	2,690,588	1,740,574
General revenues:		
Investment earnings and others	58,855	1,409,303
State allotted appropriations	1,762,250	1,683,783
Lapsed appropriations related to prior years	(52,149)	(25,124)
Total Revenues	9,726,407	8,633,196
Expenses:		
General government	399,322	374,387
Leasing and management	3,332,667	2,380,213
Community redevelopment	978,461	546,495
Capital improvement projects	6,118,776	3,485,358
Total Expenses	10,829,226	6,786,453
Changes in net assets before transfers	(1,102,819)	1,846,743
Transfers	-	(1,000,000)
Change in Net Assets	(1,102,819)	846,743
Net Assets, beginning of year	188,624,909	187,778,166
Net Assets, end of year	187,522,090	188,624,909

Analysis of Changes in Net Assets (continued)

The HCDA's net assets decreased by approximately \$1.1 million or 0.58% during the fiscal year ended June 30, 2012. Approximately \$1.71 million in fiscal years ended June 30, 2012 and \$1.66 million in fiscal year ended June 30, 2011, respectively, of the HCDA's revenues came from State allotted appropriation for capital improvement projects.

The expenditures for the HCDA were approximately \$10.8 million for the fiscal year ended June 30, 2012. The increase of approximately \$4.0 million or 58.82% was primarily due to the facts that projects were completed during the fiscal year and therefore were removed from construction in progress to capital assets.

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 a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2012, the HCDA's governmental funds reported combined ending fund balances of approximately \$41.3 million, or an increase of approximately \$1.0 million or 2.48% from the prior 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 increased by approximately \$1.1 million, or 26.2% in fiscal year ended June 30, 2012 mainly due to receipt of approximately \$1.1 million of litigation settlement. At the end of the current fiscal year, the fund balance of the leasing and management special revenue fund was approximately \$14.9 million, of which substantially all was committed and was not available for the HCDA's expenditure.

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

Community Redevelopment

The HCDA was established to supplement traditional community renewal methods by promoting and coordinating public and private sector community developments. The 1976 State Legislature created the HCDA to plan for and to revitalize urban areas designated "Community Development Districts", which were determined to be underused or deteriorating but with potential, once redeveloped, to address the needs of Hawaii's people and to provide economic opportunities for the State 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. 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 fiscal year ended June 30, 2012 decreased by approximately $6.7 million, or 79.76% over fiscal year ended June 30, 2011.

In fiscal year ended June 30, 2012, interest earned allocated to community redevelopment was approximately $0.02 million which is approximately $0.984 million, or 98.0% lesser than fiscal year ended June 30, 2011.

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, 2012, the HCDA did not receive any funds relating to utility agreements.

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. For Improvement Districts ("ID") 1, 2, and 3, the HCDA issued Special Assessment Bonds for landowners that decided to pay on an installment basis. Installment payment programs for ID1, ID2 and ID3 ended June 1, 2011.

At the end of the current fiscal year, the fund balance of the community redevelopment special revenue fund was approximately $25.2 million.

Capital Project Fund

Capital Project Funds are used to account for financial resources for acquisition or construction of major capital improvements. Net assets of the Capital Project Fund decreased by approximately $0.7 million. State allotted appropriations remained the same in fiscal year ended June 30, 2012 over fiscal year ended June 30, 2011.

Construction costs decreased by approximately $0.4 million, or 30.8% from $1.3 million in fiscal year ended June 30, 2011 to approximately $0.9 million in fiscal year ended June 30, 2012. By the close of fiscal year ended June 30, 2012, 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, 2012, amounted to approximately $173.3 million (net of accumulated depreciation of approximately $51.8 million). 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 fiscal year ended June 30, 2012 included the improvements to the Kewalo Basin Park, Makai Gateway Park and Waterfront Park, constructions of Safety Improvement and Electric Corridor projects in Kalaeloa District, and capital repairs to AAFES building, and improvements to Kewalo Basin Harbor.

Capital Assets and Debt Administration (continued)

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

Debt Administration

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

Currently Known Facts, Decisions or Conditions

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. These funds were used to pay down the outstanding litigation expenses. On December 7, 2011, a final Release, Indemnity and Settlement Agreement was executed by the HCDA and all remaining defendants, resulting in a payment to the HCDA of $1,100,710.50 which is net of attorney fees and all incidental expenses. It legally closed the litigation.

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.

Currently Known Facts, Decisions or Conditions (continued)

In 2009, the HCDA entered into an agreement with the Department of Public Safety to manage the development of an approximately 4,500 s.f. modular building on the HCDA's vacant Keawe Street parcel in the Kakaako Makai area for the Sheriff Division's Interim Facility. The HCDA has spent approximately $1.55 million in funds provided by the Department of Public Safety to plan, design and construct the facility. Design started in October 2009, construction began in October 2010. As of October 31, 2011, the project was substantially completed and the facility was occupied.

At its October 26, 2011 special meeting, the HCDA Authority approved 690 Pohukaina Development Project, a public-private partnership, mixed-use, transit-oriented development next to Mother Waldron Park. The three-phase project will be developed on state-owned land of approximate 3.42 acres of former Pohukaina School Site at 690 Pohukaina Street, TMK: 2-1-051:041. The first phase could break ground in February 2012 with 204 units of affordable rental housing at Halekauwila Place and 282 parking stalls. The second phase, targeted to be completed in 2019, involves 500 units of market-rate housing in a tall building, 300 units of affordable, office space for civic interests and community groups. Perceivably the HCDA may allow the tall building to be 650-foot high. The third phase, also targeted to be completed in 2019, involves a high-tech business incubator, commercial office space and 810 parking stalls. The HCDA has since developed and issued a Request For Proposal for selection of a private developer for this project. Total project costs are estimated at $500 million.

The HCDA has completed Kakaako Makaki Conceptual Master Plan through a community participatory planning process. In April 2011 the Authority adopted the Kakaako Makai Conceptual Master Plan Report as the guiding document for reviewing and approving any future projects in State-owned lands in Kakaako Makai.

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.

Currently Known Facts, Decisions or Conditions (continued)

The proposed Kaka'ako Community Development District Mauka Area Plan and Rules (Chapter 217, Hawaii Administrative Rules) and Reserved Housing Rules (Chapter 218, Hawaii Administrative Rules) was approved by the Authority on September 14, 2011. Pursuant to Chapter 91, HRS and Chapter 206E-5.6, HRS, two public hearings were held on May 18, 2011 and September 14, 2011. The proposed Mauka Area Plan and Rules were submitted to Governor for approval.

Act 015, Session Law Hawaii 2012 signed into law on April 11, 2011, conveys about 25 acres of lands controlled and managed by the HCDA to the Office of Hawaiian Affairs. The law takes effect on July 1, 2012. As results of the conveyance, the HCDA's revenue sources will be reduced. In the current fiscal year, the HCDA collected about $1.727 million revenue (on cash basis) from these lands.

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

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 Assets
June 30, 2012

ASSETS

Current Assets	
Cash in State Treasury and petty cash	$ 34,828,325
Due from State	1,383,723
Due from Agent - Almar Management, Inc.	2,411,350
Accounts receivable	637,696
Interest receivable	7,860
Prepaid expenses	7,103
Total current assets	39,276,057
Long-Term Assets	
Loan receivable - Halekauwila Partners, LLC	3,269,558
Investment in limited partnership	124,106
Water source allocation credits	249,642
Total long-term assets	3,643,306
Capital Assets	
Land, improvements, infrastructure networks, and construction in progress	127,122,169
Other capital assets, net of depreciation	46,201,902
Total capital assets	173,324,071
Total assets	$216,243,434

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Statement Of Net Assets
June 30, 2012

LIABILITIES

Current Liabilities	
Accounts payable	$ 447,092
Accrued payroll	146,889
Unearned revenue	39,302
Rental security deposits	346,323
Due to Office of Hawaiian Affairs	507,152
Total current liabilities	1,486,758
Long-Term Liabilities	
Due within one year	105,162
Due in more than one year	27,129,424
Total long-term liabilities	27,234,586
Total liabilities	28,721,344

NET ASSETS

Invested In Capital Assets	173,324,071
Restricted For Capital Projects	1,242,016
Unrestricted	12,956,003
Total net assets	187,522,090
Total liabilities and net assets	$216,243,434

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, 2012

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenues and Changes in Net Assets
Governmental Activities:			
General government	$ 399,322	$ -	$ (399,322)
Leasing and management	3,332,667	5,266,863	1,934,196
Community redevelopment	978,461	2,690,588	1,712,127
Capital improvement projects	6,118,776	-	(6,118,776)
Total governmental activities	$10,829,226	$7,957,451	(2,871,775)
General Revenues:			
State allotments, net of lapsed appropriations			1,710,101
Investment earnings			58,855
Total general revenues			1,768,956
Change in net assets			(1,102,819)
Net assets at July 1, 2011			188,624,909
Net assets at June 30, 2012			$187,522,090

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Balance Sheet - Governmental Funds
June 30, 2012

	General Fund	Leasing and Management	Community Redevelopment	Capital Projects Fund	Total Governmental Funds
Assets					
Cash in State Treasury and petty cash	$3,500	$13,177,899	$21,646,926	$ -	$34,828,325
Due from State	-	-	-	1,383,723	1,383,723
Due from Agent - Almar Management, Inc.	-	2,411,350	-	-	2,411,350
Accounts receivable	-	392,885	244,812	-	637,697
Interest receivable	-	3,119	4,740	-	7,859
Prepaid expenses	-	7,103	249,642	-	256,745
Loan receivable - Halekauwila Partners, LLC	-	-	3,269,558	-	3,269,558
Total assets	$3,500	$15,992,356	$25,415,678	$1,383,723	$42,795,257
Liabilities And Fund Balances					
Accounts payable	$ -	$ 139,465	$ 264,370	$ 43,257	$ 447,092
Accrued payroll	-	48,439	-	98,450	146,889
Deferred rent	-	11,060	-	-	11,060
Unearned revenues	-	39,302	-	-	39,302
Rental security deposits	-	346,323	-	-	346,323
Due to State General Fund	3,500	-	-	-	3,500
Due to Office of Hawaiian Affairs	-	507,152	-	-	507,152
Total liabilities	3,500	1,091,741	264,370	141,707	1,501,318
Fund Balances					
Nonspendable:					
Prepaid expenses	-	7,103	249,642	-	256,745
Loan receivable	-	-	3,269,558	-	3,269,558
Total nonspendable fund balances	-	7,103	3,519,200	-	3,526,303
Restricted	-	-	-	1,242,016	1,242,016
Committed	-	14,893,512	21,632,108	-	36,525,620
Total fund balances	-	14,900,615	25,151,308	1,242,016	41,293,939
Total liabilities and fund balances	$3,500	$15,992,356	$25,415,678	$1,383,723	$42,795,257

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 Assets
June 30, 2012

Total fund balances - governmental funds	$ 41,293,939
Amounts reported for governmental activities are different in the statement of net assets because:	
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	173,324,071
(2) Investments in limited partnerships are not financial resources and therefore are not reported in the governmental funds	124,106
(3) Accrued employee benefits are not reported in the governmental funds	(390,456)
(4) Accrued other post-employment benefits payable are not reported in the governmental funds	(1,105,359)
(5) Deferred reserved housing and public facility credits are not reported in the governmental funds	(25,724,211)
Total net assets	$187,522,090

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, 2012

	General Fund	Leasing and Management	Community Redevelopment	Capital Projects Fund	Total Governmental Funds
Revenues					
State allotted appropriations	$ -	$ -	$ -	$1,762,250	$ 1,762,250
Contributions from property owners	-	-	989,322	-	989,322
Dedication and reserve housing fees	-	-	941,449	-	941,449
Investment earnings	-	37,954	20,901	-	58,855
Leasing and management	-	3,990,696	-	-	3,990,696
Litigation claim	-	1,100,711	-	-	1,100,711
Other	-	175,457	-	-	175,457
Total revenues	-	5,304,818	1,951,672	1,762,250	9,018,740
Expenditures					
General government	-	388,166	-	-	388,166
Capital outlays	-	3,539,650	1,673,338	2,399,149	7,612,137
Total expenditures	-	3,927,816	1,673,338	2,399,149	8,000,303
Excess of revenues over (under) expenditures	-	1,377,002	278,334	(636,899)	1,018,437
Other financing sources (uses)					
Transfers in (out)	-	(215,248)	215,248	-	-
Lapsed appropriations	-	-	-	(52,149)	(52,149)
Total other financing sources (uses)	-	(215,248)	215,248	(52,149)	(52,149)
Net change in fund balances	-	1,161,754	493,582	(689,048)	966,288
Fund balances, July 1, 2011	-	13,738,861	24,657,726	1,931,064	40,327,651
Fund balances, June 30, 2012	$ -	$14,900,615	$25,151,308	$1,242,016	$41,293,939

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
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Change in fund balances - governmental funds		$ 966,288
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	$3,323,224	
Capital asset outlays	835,768	
Excess of depreciation expense over capital asset outlays		(2,487,456)
(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	$(2,597)	
Honuakaha Limited Partnership	(4,500)	
Net change in limited partnerships		(7,097)
(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.		(33,324)

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
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(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.	$ (301,047)
(5) The donated value of capital assets acquired is not reported in governmental funds.	759,817
Change in net assets	$(1,102,819)

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

1. FINANCIAL REPORTING ENTITY

The Hawaii Community Development Authority, State of Hawaii (HCDA) was established 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 is comprised of twenty one (thirteen regular members and eight members who vote only on Kalaeloa and He'eia 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 Authority members who only vote on issues related to the Kalaeloa District.

Act 210, Session Laws of Hawaii 2011, established the He'eia Community Development District. The He'eia District is comprised of approximately 405 acres of land commonly known as "He'eia wetlands". The district includes lands from the southern boundary along the residential portion of lands owned by the Kamehameha Schools and then west to Kahekili highway and east to Kamehameha highway. The northern boundary borders the McCabe property where it runs west to Kahekili highway and east to Kamehameha highway. Act 210 also added three Authority members who will only vote on issues related to the He'eia 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. There were no General Fund appropriations for HCDA for the fiscal year ended June 30, 2012.

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 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 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 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.

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 represent commitments related to unperformed contracts for goods or services and are included in restricted or committed fund balance.

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, 2012.

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.

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.

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.

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, 2012, 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.

At June 30, 2012, a portion of the State Treasury Investment Pool was invested in auction rate securities. In prior years, 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. For the fiscal year ended June 30, 2012, the change in fair value reflected a decrease of approximately $111,000, which is recorded in investment earnings in the accompanying financial statements.

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 receives revenue from properties that are considered to be ceded lands and has recorded approximately $271,400 of ceded land payments owed to OHA for 2012. Substantially all of the ceded land payments owed were made to OHA as of June 30, 2012.

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 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, 2012, the HCDA's investment, net of distributions, in the limited partnerships is as follows:

Na Lei Hulu Kupuna Limited Partnership	$ 27,190
Honuakaha Limited Partnership	96,916
	$124,106

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	$21,944
Honuakaha Limited Partnership	47,365
	$69,309

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

7. CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
Capital assets not being depreciated:				
Land	$108,875,988	$ 759,822	$ -	$109,635,810
Land improvements	13,958,760	10,082	-	13,968,842
Construction in progress	12,830,616	2,200,899	11,513,998	3,517,517
Total capital assets not being depreciated	135,665,364	2,970,803	11,513,998	127,122,169
Capital assets being depreciated:				
Buildings	18,665,296	235,000	-	18,900,296
Wharves	4,267,956	-	-	4,267,956
Land improvements	21,259,445	8,676,249	-	29,935,694
Infrastructure networks	43,124,650	1,189,622	-	44,314,272
Furniture and equipment	591,666	37,909	-	629,575
Total capital assets being depreciated	87,909,013	10,138,780	-	98,047,793
Less accumulated depreciation for:				
Buildings	8,125,706	632,163	-	8,757,869
Wharves	3,556,115	155,018	-	3,711,133
Land improvements	19,409,049	1,025,580	-	20,434,629
Infrastructure networks	17,071,343	1,441,524	-	18,512,867
Furniture and equipment	360,454	68,939	-	429,393
Total accumulated depreciation	48,522,667	3,323,224	-	51,845,891
Total capital assets, net	$175,051,710	$ 9,786,359	$11,513,998	$173,324,071

As of June 30, 2012, 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	25,685,540
	$ 29,463,441

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	$ 327,467
Community redevelopment	333,580
Capital improvement projects	2,662,177
Total depreciation expense	$3,323,224

8. 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 was 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.

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 which was used to pay down outstanding litigation expenses.

On December 7, 2011, a final Release, Indemnity and Settlement Agreement was executed by the HCDA and all remaining defendants, resulting in a payment to the HCDA of approximately $1,100,700 which is net of attorney fees and all incidental expenses.

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 6 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 obligations 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.

9. CHANGES IN LONG-TERM LIABILITIES

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due Within One Year
Deferred rent	$ 9,164	$ 1,896	$ -	$ 11,060	$ 11,060
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	357,132	161,137	127,813	390,456	94,102
Accrued other post-employment benefits	804,312	301,047	-	1,105,359	-
Total long-term liabilities	$26,898,319	$464,080	$127,813	$27,234,586	$105,162

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.

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. 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, 2011, 2010, and 2009, were approximately \$388,242,000, \$398,724,000, and \$387,748,000, respectively. The State contributed 100% of its required contribution for those years. Covered payroll for the fiscal year ended June 30, 2011, was approximately \$2,581,687,000.

Post-Employment Health Care and Life Insurance Benefits

Plan Description - The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH of 2001, the State contributes to the 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 State also contributed to the Hawaii State Teachers Association (HSTA) Voluntary Employees Beneficiary Association (VEBA) Trust that was established effective March 1, 2006 and repealed on December 31, 2010. HSTA VEBA provided health benefits only to HSTA members, retirees and their dependents. Effective January 1, 2011 all members covered by the HSTA VEBA plans including reitrees and their dependents were transitioned to the EUTF. Specific plans were created for HSTA VEBA members and retirees such that the EUTF currently provides the retirees who transitioned from the HSTA VEBA to the EUTF with the same standard of coverage benefits that they had in their HSTA VEBA trust health benefit plans. 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. The HSTA VEBA also issues an annual financial report that is available to the public. That report may be obtained by writing to the HSTA VEBA at 1350 South King Street, Suite 230, Honolulu, Hawaii 96814.

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 family plan to cover dependents.

For employees hired after June 30, 1996 but before 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. 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.

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 Employer 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, therefore, an actuarial valuation was performed for July 1, 2009.

The State's base contribution levels to EUTF are established by statutes while the contribution levels to the HSTA VEBA are determined under collective bargaining agreements. In both plans, 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, 2012 was $111,134, which represented 27.0% of the HCDA's share of the ARC for post-retirement healthcare and life insurance benefits of $412,181.

The following is a summary of changes in post-retirement liability during the fiscal year ended June 30, 2012:

Balance at July 1, 2011	$ 804,312
Additions	412,181
Deletions	111,134
Balance at June 30, 2012	$1,105,359

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 rent expense amounted to $121,113 for the fiscal year ended June 30, 2012.

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

Fiscal Year Ending June 30,	Amount
2013	$119,200
2014	122,700
2015	62,400
	$304,300

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, 2012, accumulated sick leave was approximately $1,157,300.

Supplemental Time-Off – Under a collective bargaining agreement with the Hawaii Government Employees Association, effective for the period July 1, 2011 through June 30, 2013, salaries of certain covered employees are subject to a 5% decrease. In exchange for the reduction, these employees will receive 13 days of supplemental time-off (STO) for each year of the contract period. The STO must be taken by June 30, 2013 and is not convertible to pay. At June 30, 2012, accumulated STO was approximately $47,300.

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, 2012, the following amounts were authorized and unissued:

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

Encumbrances - Commitments for HCDA include encumbrances outstanding as of June 30, 2012 for its major governmental funds. Encumbrances are included in each fund's respective fund balance as follows:

Fund	Amount
General Fund	$ -
Leasing and Management Fund	1,188,172
Community Redevelopment Fund	1,005,375
Capital Projects Fund	253,515
	$2,447,062

12. 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.

13. 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:

Fiscal Year Ending June 30,	Amount
2013	$ 166,100
2014	166,100
2015	151,400
2016	150,000
2017	150,000
Thereafter	1,426,500
	$2,210,100

14. 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 HCDA 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.

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.

15. 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.

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 24,793 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 He'eia Meadowlands referred to as He'eia 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 He'eia 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-He'eia Wetlands-Board of Water Supply site exchange.

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

In October 1993, the HCDA granted 9,898 square feet of Dedication Credit to VWL. 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 VWL. 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 VWL. With respect to two parcels given up by VWL, 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 VWL.

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).

Dedication Credit
June 30, 2012

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
VWL	October 1993	22,608	2,520,792
VWL	February 2003	26,298	2,103,840
Subsequent use		(6,718)	(749,080)
Subtotal: VWL		42,188	3,875,552
Total Dedication Credit (net of usage)		162,702	$25,412,811

Housing Credit
June 30, 2012

Credit Recipient	Date Granted	Valuation
Servco	July 1998	$ 311,400

16. RISK MANAGEMENT

The State records a liability for risk financing and insurance related losses if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

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

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

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

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

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

17. 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 $4.9 million in harbor improvements at its February 11, 2009 meeting.

18. CONSTRUCTION LOAN TO HALEKAUWILA PLACE, AN AFFORDABLE RENTAL HOUSING PROJECT

In April 2009, the HCDA entered into an agreement with Halekauwila Partners, LLC (HP) whose members were Stanford Carr Development, LLC and UniDev Hawaii, LLC to lend up to $15,000,000 interest-free from the HCDA revolving fund to finance development of Halekauwila Place, an affordable rental housing project. The 204-unit project is located at the intersection of Halekauwila and Keawe Streets, Oahu, Hawaii, tax map key 1-2-1-51: portion of 009.

The 1.25 acres of land on which the project is being built is owned by the State of Hawaii through the Board of Department of Land and Natural Resources. The Parcel was leased to Hawaii Housing Finance and Development Corporation (HHFDC) for the development of affordable housing pursuant to Act 179, Session Laws of Hawaii 2006. The HHFDC will provide HP with a 65-year sub-lease at $1.00 per year.

The purpose of this interim construction loan was to bridge the financing gap of the project. HP was selected through a Request for Proposal issued in October 2006 by the HHFDC for the development and management of this 204-unit project. HP tried to secure financing for the $71.2 million project with tax-exempt 501(c)(3) multi-family housing revenue bonds, and New Market Tax Credits. Additionally, at the signing of the agreement, HP was seeking IRS Section 42-Low Income Housing Tax Credit (LITHC) program funding. Despite their attempts to secure financing, HP still lacked the initial funding to start the project.

The loan is broken into three phases. Phase-I of the loan totaling $2,000,000 is to finance pre-development expenses prior to lease execution. The Phase-I loan is unsecured. Phase-II of the loan totaling $2,800,000 is to be secured by a leasehold mortgage and will be used to finance pre-development expenses payable upon recordation of a leasehold mortgage and submission by HP of LITHC program financing application. Phase-III of the loan totaling $10,200,000 is to be secured by a subordinate leasehold mortgage and will be used to finance development expenses. This loan amount is payable upon closing and initial funding of all the construction financing for the project, and receipt of all approvals required for construction, including permits.

The loan follows terms similar to HHFDC's "Rental Housing Trust Fund" interim construction loan program. The repayment period is over fifty (50) years beginning upon issuance of certificate of occupancy.

The HCDA has disbursed $3,269,558 pursuant to this loan agreement as of June 30, 2012.

19. LAND ACQUISITION

In April 2007, the HCDA issued a joint development permit to KC Rainbow 2 Development Co. LLC, for a project then known as Moana Vista. The project included several land parcels along Kapiolani Boulevard and one parcel along Waimanu Street identified as Lot 40. The development on the Kapiolani Boulevard site included a building composed of 492 residential units and commercial and industrial space. All of the parcels are subject to a joint development agreement.

Due to the economic downturn caused by the financial crises, the developer decided to stop the project in 2008 and in 2009 sold it to Oliver McMillan, a San Diego-based developer. The project is now called Pacifica and is currently under construction.

The development permit for the Moana Vista project dated April 4, 2007 includes provisions that allow the HCDA to condemn Lot 40 and associated floor area of the parcel, for public purposes, if the developer was unable to develop the property.

In April 2009, the HCDA approved the purchase of Lot 40 for $4,200,000 using HCDA revolving funds. The land parcel purchase from Evershine X of 19770 Stevens Creek Boulevard, Cupertino, CA 95014 closed on May 20, 2010 for $4,216,644, consisting of the $4,200,000 purchase price and incidental costs of $16,644. The parcel is identified as TMK: 1-2-3-03:40, Kewalo Track, and is located on 1025 Waimanu Street.

20. BRAC LAND PARCELS CONVEYANCE

In 1993, the U.S. Congress approved the Department of Defense's recommendation for 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 to be conveyed to various state and city agencies. The HCDA, as the designated Local Redevelopment Authority expressed interest in receiving BRAC parcels.

In September 2010, the HCDA received three BRAC land parcels totaling 87.426 acres, which are: Lot 13073-B of approximately 65.356 acres, TMK No.: 9-1-013: 067; Lot 13073-D of approximately 11.501 acres, TMK No.: 9-1-013: 069; and Lot 13126-D of approximately 10.569 acres, TMK No.: 9-1-031: 047. The HCDA has obtained deeds for all of these properties. HCDA's capital assets reflects the land acquisitions at an estimated value of $952,069.

In October 2011, the HCDA received three additional BRAC land parcels totaling 69.772 acres. The parcels are: Lot 13073-C of approximately 19.361 acres, TMK No.: 9-1-013: 068; Lot 13073-E of approximately 44.280 acres, TMK No.: 9-1-013: 070, and Lot 13074-A of approximately 6.131 acres, TMK No.: 9-1-013: 074. The HCDA has obtained deeds for all of these properties. HCDA's capital assets reflects the land acquisitions at an estimated value of $759,817.

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

On April 11, 2012, Governor Neil Abercrombie signed into law, Senate Bill 2783, a proposal introduced by the Governor's administration to settle past ceded land claims by the Office of Hawaiian Affairs (OHA). Under Act 015, Session Laws of Hawaii 2012 (Act 015), effective July 1, 2012, the State of Hawaii (State) is to convey to OHA, parcels of land controlled by the State through HCDA. The parcels to be conveyed include 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 represents a reasonable compromise of the disputed claims.

Under Act 015, all disputes and claims relating to OHA's portion of income and proceeds from the public trust lands from November 7, 1978 through June 30, 2012, will be considered settled. The agreement does not preclude future claims or claims brought prior to 1978.

The lands to be conveyed by Act 015 include the following parcels listed by OHA letter code:

A: 1011 Ala Moana Boulevard, TMK Nos.: 2-1-58-95 and 2-1-58-125 of approximately 221,372 square feet;
B: 123 Ahui and 113 Ahui Streets, TMK Nos.: 2-1-58-2 and 2-1-58-35 of approximately 137,213 square feet;
C: 59 Ahui Street, TMK Nos.: 2-1-58-124 and 2-1-58-126 of approximately 88,996 square feet;
D: 45 Ahui and 53 Ahui Streets, TMK Nos.: 2-1-58-48 and 2-1-60-13 of approximately 40,841 square feet;
E: 919 Ala Moana Boulevard, TMK No.: 2-1-58-9 of approximately 95,832 square feet;
F/G: 160 Ahui Street, TMK Nos.: 2-1-60-5 and 2-1-60-6 of approximately 311,846 square feet;
I: Ala Moana Boulevard, TMK No.: 2-1-15-53 of approximately 145,316 square feet;
K: Point Panic of 40 Ahui Street, TMK No.: 2-1-60-1 of approximately 69,000 square feet;
L: End of Keawe Street, TMK No.: 2-1-15-51 of approximately 227,645 square feet.

PART III

COMPLIANCE AND INTERNAL CONTROL SECTION

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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

Office of 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, 2012 which collectively comprise the HCDA's basic financial statements and have issued our report thereon dated October 11, 2012. 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

Management of the HCDA is responsible for establishing and maintaining effective 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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.*

We noted a certain matter that we reported to management of the HCDA in a separate letter dated October 11, 2012.

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.

Ohata Chun Yuen LLP

Honolulu, Hawaii
October 11, 2012