STATE OF HAWAII
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
FINANCIAL AUDIT
JUNE 30, 2015

Submitted By
The Auditor
State of Hawaii

PART I

INTRODUCTORY SECTION

Ohata Chun Yuen LLP
CERTIFIED PUBLIC ACCOUNTANTS

3684 Waialae Avenue, Honolulu, Hawaii 96816
Phone (808) 735-8585 / Fax (808) 737-5017
E-Mail: ocycpas@hawaiiantel.net

December 11, 2015

Ms. Jan Yamane
Office of the Auditor
State of Hawaii

The Board of Directors
Hawaii Community Development Authority
State of Hawaii

This is our report on the financial audit of the Hawaii Community Development Authority, State of Hawaii (HCDA) for the year ended June 30, 2015. 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, 2015.

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, 2015

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PART II

FINANCIAL SECTION

Ohata Chun Yuen LLP
CERTIFIED PUBLIC ACCOUNTANTS

3684 Waialae Avenue, Honolulu, Hawaii 96816
Phone (808) 735-8585 / Fax (808) 737-5017
E-Mail: ocycpas@hawaiiantel.net

INDEPENDENT AUDITORS' REPORT

Office of the Auditor
State of Hawaii

The Board of Directors
Hawaii Community Development Authority
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hawaii Community Development Authority, State of Hawaii (HCDA), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the HCDA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the HCDA, as of June 30, 2015, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the HCDA include only the governmental activities, each major fund, and the aggregate remaining fund information of the HCDA, and are not intended to present fairly the financial position of the State of Hawaii as of June 30, 2015, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2015, on our consideration of the HCDA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering HCDA's internal control over financial reporting and compliance.

Ohata Chun Yuen LLP

Honolulu, Hawaii
December 11, 2015

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2015

The following provides an overview of the Hawaii Community Development Authority, State of Hawaii (HCDA)'s financial activities for the fiscal year ended June 30, 2015. It should be read in conjunction with the audited financial statements which follow this section.

Financial Highlights

- The assets of the HCDA exceeded its liabilities at June 30, 2015 by $185.1 million (net position).

- The HCDA's total net assets increased by approximately $9.9 million, or 5.68% as of June 30, 2015.

- The HCDA's long-term liabilities decreased during the $1.9 million, or 12.3% as of June 30, 2015

- For the fiscal year ended, June 30, 2015, the HCDA adopted Government Accounting Standards Board, *Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of Statement No. 27* (GASB Statement No. 68). This resulted in the restatement of Net Position as of June 30, 2014 and other modifications to the government-wide financial statements, see the *Notes to the Financial Statements* for more information on this pronouncement and its impact.

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

The statement of net position presents information on all of the HCDA's assets and liabilities, with the difference between the two reported as net position. Increases or decreases in net position are one indicator of whether the financial position of the HCDA is improving or deteriorating, respectively.

The statement of activities presents changes to HCDA's net position during the most recent fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. unused vacation leave).

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The HCDA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of HCDA are categorized as Governmental Funds.

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

Fund Financial Statements (continued)

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

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

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

Notes to the Financial Statements

The *Notes to the Financial Statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The *Notes to the Financial Statements* can be found on pages 24-54 of this report.

Government-Wide Financial Analysis

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

Summary Schedule of Net Position
June 30, 2015 and 2014

	2015	2014
Current assets	$ 34,123,132	$ 27,719,626
Capital assets	149,973,169	150,334,131
Other assets	17,369,191	17,375,466
Deferred outflows of resources	302,952	-
Total Assets and Deferred Outflows of Resources	$ 201,768,444	$ 195,429,223
Current liabilities	$ 2,664,886	$ 2,162,935
Long-term liabilities	13,811,567	15,741,295
Deferred inflows of resources	219,098	-
Net Position:		
Invested in capital assets	149,973,169	150,334,131
Restricted	14,115,259	7,455,279
Unrestricted	20,984,465	19,735,583
Total Net Position	185,072,893	177,524,993
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 201,768,444	$ 195,429,223

Analysis of Net Position

The assets of the HCDA exceeded its liabilities at June 30, 2015 by $185 million (net position). Investments in capital assets (e.g. land, buildings, infrastructure, construction in progress, improvements, and equipment, furniture and fixtures), represent a large portion of the HCDA's net assets. The HCDA uses these capital assets for the benefit 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 $14.1 million as of June 30, 2015 and $7.5 million as of June 30, 2014, 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.

Analysis of Net Position (continued)

During the fiscal year, the HCDA adopted Government Accounting Standards Board, *Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of Statement No. 27* (GASB Statement No. 68). Adoption of GASB Statement No. 68, resulted in a restatement of net position, as of June 30, 2014, in the amount of approximately $2.4 million. GASB Statement No. 68, is discussed further in the *Notes to the Financial Statements*.

Changes in Net Position

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

Analysis of Changes in Net Position

Changes in Net Position
For the Years ended June 30, 2015 and 2014

	2015	2014
Revenues:		
Program Revenues:		
Leasing and management	$ 2,395,300	$ 2,821,819
Community redevelopment	7,533,844	13,087,627
General Revenues		
Investment earnings (losses) and others	74,169	(248,287)
State allotted appropriations	9,555,000	2,125,735
Lapsed appropriations related to prior years	-	-
Total revenues	19,558,313	17,786,894
Expenses:		
General government	426,718	453,624
Leasing and management	2,273,673	2,525,858
Community redevelopment	2,549,352	1,383,986
Capital improvement projects	4,360,448	5,048,109
Total expenses	9,610,191	9,411,577
Changes in net position before transfers	9,948,122	8,375,317
Transfers	-	1,000,000
Change in net position	9,948,122	9,375,317
Net Position at July 1	177,524,993	168,149,676
Adjustment related to net pension liability	(2,400,222)	-
Net Position, beginning of year	175,124,771	168,149,676
Net Position, end of year	$ 185,072,893	$ 177,524,993

Analysis of Changes in Net Position (continued)

The HCDA's net position increased by approximately $9.9 million or 5.68% during the fiscal year ended June 30, 2015. Approximately $9.6 million in the fiscal year ended June 30, 2015 and $2.1 million in the fiscal year ended June 30, 2014, of the HCDA's revenues came from State allotted appropriations for capital improvement projects. In addition, previously granted public facilities dedication credits valued at approximately $4.4 million were used and reported as community development program revenue in the current fiscal year.

As previously mentioned, during the fiscal year, the HCDA adopted GASB Statement No. 68. In addition to the restatement, the pronouncement requires that additional line items be presented in the statement of net position; deferred outflows of resources and deferred inflows of resources in the amounts of approximately $303,000 and $219,000, respectively. GASB Statement No. 68 is discussed further in the *Notes to the Financial Statements*.

Financial Analysis of the HCDA's Individual Funds

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

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

At June 30, 2015, the HCDA's governmental funds reported combined ending fund balances of approximately $48.7 million, an increase of approximately $5.9 million or 13.8% from the previous fiscal year.

Leasing and Management

The HCDA leases and manages various properties located in the Kaka'ako District. The land being managed and leased by the HCDA includes yard, warehouse, parking, and storage acreage. The HCDA manages over 44 acres of park lands and open spaces.

Leasing and Management (continued)

Revenues from leasing and management decreased by approximately $250,000, or 9.4%, in fiscal year ended June 30, 2015 mainly because of a decrease in lease rents. Effective September 2015, the HCDA leased the Kewalo Basin Harbor in a public private partnership which is expected to yield approximately $20 million in capital improvements while realizing a decrease in lease rents for the term of the lease.

The State liquidated its holdings in auction rate securities in the prior fiscal year. At the end of the current fiscal year, the fund balance of the leasing and management special revenue fund was approximately $9 million, of which substantially all was committed and not available for the HCDA's expenditure.

Community Redevelopment

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

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, 2015, the HCDA did not receive any funds relating to utility agreements.

Community Redevelopment (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.

Capital Projects Fund

The capital projects fund is used to account for financial resources for acquisition or construction of major capital improvements. For the current fiscal year, the fund balance of the capital projects fund increased by approximately $6.7 million, or 89.3% mainly due to an increase in allotted appropriations. State allotted appropriations in the current fiscal year increased by approximately $7.4 million over the prior fiscal year. The increase is primarily attributable to one large project, electrical improvements along Enterprise Avenue, in Kalaeloa.

Capital Assets and Debt Administration

Capital Assets

The HCDA's investment in capital assets as of June 30, 2015, amounted to approximately $150 million (net of accumulated depreciation). These investments in capital assets include land, land improvements, construction in progress, buildings, infrastructure networks, and furniture and fixtures. Major capital improvements project expenditures for the current fiscal year included the renovation of the American Brewery Building.

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

Debt Administration

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

Currently Known Facts, Decisions or Conditions

Current and Future Development

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

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

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

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

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

The HCDA otherwise has other planning activities underway in the Kaka'ako Community Development District, including the Transit-Oriented Development Master Plan and the Parks Master Plan. Both planning documents are expected to be finalized and approved in 2016. Upon approval, the HCDA anticipates activity relative to rule and plan amendments.

Request for Information

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Statement Of Net Position
June 30, 2015

Current Assets	
Cash in State Treasury and petty cash	$ 19,195,139
Due from State	14,462,730
Accounts receivable	463,872
Prepaid expenses	1,391
Total current assets	34,123,132
Long-Term Assets	
Loan receivable - Halekauwila Partners, LLC	17,000,000
Investment in limited partnership	119,549
Water source allocation credits	249,642
Total long-term assets	17,369,191
Capital Assets	
Land, improvements, infrastructure networks, and construction in progress	112,027,015
Other capital assets, net of depreciation	37,946,154
Total capital assets	149,973,169
Total assets	201,465,492
Deferred Outflows Of Resources	302,952
Total assets and deferred outflows of resources	$201,768,444

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Statement Of Net Position
June 30, 2015

Current Liabilities	
Accounts payable	$ 847,652
Accrued payroll	156,214
Unearned revenue	243,081
Rental security deposits	149,694
Due to State Treasury	1,268,245
Total current liabilities	2,664,886
Long-Term Liabilities	
Due within one year	123,767
Due in more than one year	13,687,800
Total long-term liabilities	13,811,567
Total liabilities	16,476,453
Deferred Inflows Of Resources	219,098
Net Position	
Invested In Capital Assets	149,973,169
Restricted For Capital Projects	14,115,259
Unrestricted	20,984,465
Total net position	185,072,893
Total liabilities, deferred inflows of resources and net position	$201,768,444

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, 2015

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenues and Changes in Net Assets
Governmental Activities:			
General government	$ 426,718	$ -	$ (426,718)
Leasing and management	2,273,673	2,395,300	121,627
Community redevelopment	2,549,352	7,533,844	4,984,492
Capital improvement projects	4,360,448	-	(4,360,448)
Total governmental activities	$ 9,610,191	$9,929,144	318,953
General Revenues:			
State allotments, net of lapsed appropriations			9,555,000
Investment earnings			74,169
Total general revenues			9,629,169
Change in net position			9,948,122
Net position at July 1, 2014, as previously stated			177,524,993
Adjustment relating to net pension liability			(2,400,222)
Net position at July 1, 2014, as restated			175,124,771
Net position at June 30, 2015			$185,072,893

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Balance Sheet - Governmental Funds
June 30, 2015

	General Fund	Leasing and Management	Community Redevelopment	Capital Projects Fund	Total Governmental Funds
Assets					
Cash in State Treasury and petty cash	$3,500	$10,852,943	$ 8,338,696	$ -	$19,195,139
Due from State	-	-	-	14,462,730	14,462,730
Accounts receivable	-	463,872	-	-	463,872
Prepaid expenses	-	1,391	249,642	-	251,033
Loan receivable - Halekauwila Partners, LLC	-	-	17,000,000	-	17,000,000
Total assets	$3,500	$11,318,206	$25,588,338	$14,462,730	$51,372,774
Liabilities And Fund Balances					
Accounts payable	$ -	$ 599,406	$ 33,434	$ 214,812	$ 847,652
Accrued payroll	-	23,555	-	132,659	156,214
Unearned revenues	-	243,081	-	-	243,081
Rental security deposits	-	149,694	-	-	149,694
Due to State Treasury	3,500	1,268,245	-	-	1,271,745
Total liabilities	3,500	2,283,981	33,434	347,471	2,668,386
Fund Balances					
Nonspendable:					
Prepaid expenses	-	1,391	249,642	-	251,033
Loan receivable	-	-	17,000,000	-	17,000,000
Total nonspendable fund balances	-	1,391	17,249,642	-	17,251,033
Restricted	-	-	-	14,115,259	14,115,259
Committed	-	9,032,834	8,305,262	-	17,338,096
Total fund balances	-	9,034,225	25,554,904	14,115,259	48,704,388
Total liabilities and fund balances	$3,500	$11,318,206	$25,588,338	$14,462,730	$51,372,774

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Reconciliation Of The Governmental Funds
Balance Sheet To The Statement Of Net Position
June 30, 2015

Total fund balances - governmental funds	$ 48,704,388
Amounts reported for governmental activities are different in the statement of net position because:	
(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds	149,973,169
(2) Investments in limited partnerships are not financial resources and therefore are not reported in the governmental funds	119,549
(3) Accrued employee benefits are not reported in the governmental funds	(383,294)
(4) Accrued other post-employment benefits payable are not reported in the governmental funds	(1,751,542)
(5) Unearned reserved housing and public facility credits are not reported in the governmental funds	(9,258,317)
(6) Deferred outflows of resources represent a consumption of fund equity that will be reported as an outflow of resources in a future period and therefore are not reported in the governmental funds	302,952
(7) Deferred inflows of resources represent an acquisition of fund equity that will be recognized as an inflow of resources in a future period and therefore are not reported in the governmental funds	(219,098)
(8) Net pension liability is not reported in the governmental funds	(2,414,914)
Total net position	$185,072,893

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, 2015

	General Fund	Leasing and Management	Community Redevelopment	Capital Projects Fund	Total Governmental Funds
Revenues					
State allotted appropriations	$ -	$ -	$ -	$ 9,555,000	$ 9,555,000
Contributions from property owners	-	-	484,405	-	484,405
Dedication and reserve housing fees	-	-	2,650,958	-	2,650,958
Investment earnings	-	34,432	39,737	-	74,169
Leasing and management	-	2,325,221	-	-	2,325,221
Other	-	70,079	6,508	-	76,587
Total revenues	-	2,429,732	3,181,608	9,555,000	15,166,340
Expenditures					
General government	-	441,161	-	-	441,161
Capital outlays	-	3,963,839	1,960,973	2,895,020	8,819,832
Total expenditures	-	4,405,000	1,960,973	2,895,020	9,260,993
Excess of revenues over (under) expenditures	-	(1,975,268)	1,220,635	6,659,980	5,905,347
Other financing sources (uses)					
Transfers in (out)	-	227,894	(227,894)	-	-
Lapsed appropriations	-	-	-	-	-
Total other financing sources (uses)	-	227,894	(227,894)	-	-
Net change in fund balances	-	(1,747,374)	992,741	6,659,980	5,905,347
Fund balances, July 1, 2014	-	10,781,599	24,562,163	7,455,279	42,799,041
Fund balances, June 30, 2015	$ -	$ 9,034,225	$25,554,904	$14,115,259	$48,704,388

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

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII
Reconciliation Of Governmental Funds Statement Of Revenues, Expenditures, And Changes In Fund Balances To The Statement Of Activities
June 30, 2015

Change in fund balances - governmental funds		$ 5,905,347
Amounts reported for governmental activities in the statement of activities are different because:		
(1) Governmental funds report capital asset outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital asset outlays net of reimbursements in the current period.		
Depreciation expense	$ 2,677,809	
Capital asset outlays	2,316,847	
Excess of depreciation expense over capital asset outlays		(360,962)
(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	$(1,666)	
Honuakaha Limited Partnership	(4,609)	
Net change in limited partnerships		(6,275)
(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.		46,512

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

(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.	$ (97,634)
(5)	The net change in obligations for unearned public facility dedication credits is reported in the statement of activities, but is not reported as revenue in the governmental funds as it does not provide current financial resources.	4,391,972
(6)	The net change in deferred outflows and inflows of resources is reported in the statement of activities, but is not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.	(89,992)
(7)	The net change in obligations for net pension liability is reported in the statement of activities, but is not reported as an expenditure in the governmental funds as it does not require the use of current financial resources.	159,154
Change in net position		$9,948,122

1. FINANCIAL REPORTING ENTITY

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information of all of the nonfiduciary activities of the HCDA. The effect of interfund activity has been removed from these government-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net position is reported as restricted when legally enforceable enabling legislation places restrictions or are externally imposed. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the HCDA's policy to use restricted resources first, then unrestricted resources as they are needed.

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

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

<u>Governmental Fund Types</u> - 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, 2015.

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.

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

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

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

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the HCDA considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current year. Expenditures are recorded when the related fund liability is incurred.

Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results could differ from those estimates.

Appropriations

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

Unearned Revenues

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

Encumbrances

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

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, 2015.

Capital Assets

Capital assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the statement of net position. Capital assets are defined by the HCDA as land, land improvements, buildings, infrastructure networks, construction in progress, and those assets with estimated useful lives greater than one year and acquisition costs greater than:

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

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

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

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

Depreciation expense is recorded on capital assets in the government-wide statement of activities. The HCDA utilizes the straight-line method over the assets' estimated useful lives. No depreciation is recorded for land and construction in progress. The estimated useful lives for depreciable assets are as follows:

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

Accumulated Vacation

Eligible employees are credited with vacation at the rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net position.

Deferred Outflows/Inflows of Resources

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

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

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

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS.

Governmental Fund Balances

The HCDA reports fund balance in classifications which reflect 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.

Newly Issued Accounting Pronouncements

GASB Statement No. 69 - The GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which was effective for financial statements for periods beginning after December 15, 2013. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This statement did not have a material effect on the HCDA's financial statements.

GASB Statement Nos. 68 and 71 - During fiscal year 2015, the State implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27,* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68.* Statement No. 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered though trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.

- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.

- Pension plan assets are legally protected from the creditors of employer, nonemployee contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

Statement No. 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* as well as the requirements of Statement No. 50, *Pension Disclosures,* as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements No. 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

Statement No. 71 is required to be implemented simultaneously with Statement No. 68 and amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of Statement No. 68 by employers and nonemployer contributing entities.

The adoption of Statements No. 68 and 71 has no impact on the State's governmental fund financial statements, which continue to report expenditures in the amount statutorily required. However, adoption has resulted in the restatement of the State's fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liability in accordance with the provisions of Statement No. 68 and deferred outflows of resources related to pensions in accordance with Statement No. 71. Net pension liability of $4,447,474,196 and deferred outflow of resources related to pensions of $331,128,244 was reported as of June 30, 2014.

HCDA's proportionate share of the net pension liability and deferred outflow of resources as of June 30, 2014 amounted to $2,574,068 and $173,846, respectively. Accordingly, as a result of implementing GASB Statement No. 68, HCDA recorded a reduction of $2,400,222 to beginning net position. HCDA's proportionate share of the net pension liability as of June 30, 2015 amounted to $2,414,914 and is included in Note 9, Changes in Long-Term Liabilities.

GASB Statement No. 72 - The GASB issued Statement No. 72, *Fair Value Measurement and Application*. The Statement will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The Statement will also enhance fair value application guidance and disclosure. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015. The HCDA has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 73 - The GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The Statement establishes accounting and financial reporting requirements by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, and for the assets accumulated for purposes of providing those pensions. The requirements of this Statement that address accounting and reporting by employers and government nonemployer contributing entities for pensions are effective for reporting periods beginning after June 15, 2016. The requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for reporting periods beginning after June 15, 2015. The HCDA has not yet determined the effect this Statement will have on its financial statements.

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

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

GASB Statement No. 76 - The GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The Statement supercedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The Statement reduces the generally accepted accounting principles ("GAAP") to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The HCDA has not yet determined the effect this Statement will have on its financial statements.

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

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, 2015, 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.

5. CEDED LAND REVENUE

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

The HCDA pays to OHA its share of revenue received from properties that are considered ceded lands. Under Act 015, Session Laws of Hawaii 2012, as part of the State of Hawaii's settlement with OHA to settle past ceded land claims, effective July 1, 2012, most of the ceded lands controlled by the State through HCDA were conveyed to OHA.

During the fiscal year ended June 30, 2013, HCDA discovered that certain properties located at Kewalo Basin Harbor (KBH) were deemed ceded lands. Upon discovery, HCDA calculated amounts owed from March 1, 2009 when HCDA took over management of KBH. As of June 30, 2015, the balance owed to OHA on the KBH ceded lands amounts to $1,268,245.

6. INVESTMENT IN LIMITED PARTNERSHIPS

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

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

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

As of June 30, 2015, the HCDA's investment, net of distributions, in the limited partnerships is as follows:

Na Lei Hulu Kupuna Limited Partnership	$ 36,073
Honuakaha Limited Partnership	83,476
	$119,549

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	$32,084
Honuakaha Limited Partnership	54,238
	$86,322

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, 2015 was as follows:

	Beginning Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015
Capital assets not being depreciated:				
Land	$ 95,136,918	$ -	$ -	$ 95,136,918
Land improvements	13,968,842	-	-	13,968,842
Construction in progress	6,349,095	2,437,626	5,865,466	2,921,255
Total capital assets not being depreciated	115,454,855	2,437,626	5,865,466	112,027,015
Capital assets being depreciated:				
Buildings	14,858,937	5,687,723	-	20,546,660
Wharves	4,267,956	-	-	4,267,956
Land improvements	26,150,784	-	-	26,150,784
Infrastructure networks	44,314,272	-	-	44,314,272
Furniture and equipment	646,837	56,964	355,702	348,099
Total capital assets being depreciated	90,238,786	5,744,687	355,702	95,627,771
Less accumulated depreciation for:				
Buildings	8,032,075	592,246	-	8,624,321
Wharves	4,021,169	26,505	-	4,047,674
Land improvements	21,299,376	551,873	-	21,851,249
Infrastructure networks	21,435,570	1,461,352	-	22,896,922
Furniture and equipment	571,320	45,833	355,702	261,451
Total accumulated depreciation	55,359,510	2,677,809	355,702	57,681,617
Total capital assets, net	$150,334,131	$5,504,504	$5,865,466	$149,973,169

As of June 30, 2015, 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	21,334,591
	$ 25,112,492

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	$ 391,323
Community redevelopment	449,757
Capital improvement projects	1,836,729
Total depreciation expense	$2,677,809

8. AMERICAN BREWERY BUILDING

In March 2015, HCDA moved its Kaka'ako offices into the newly renovated American Brewery Building. Renovation costs amounted to approximately $5,688,000. The building consists of five floors providing a permanent location for HCDA's Kaka'ako offices. The top three floors consists of HCDA offices, the second floor is used for Authority meetings, and the ground floor is designated as community space.

9. CHANGES IN LONG-TERM LIABILITIES

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

	Balance, As Restated July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due Within One Year
Accrued rent	$ 3,792	$ -	$ 3,792	$ -	$ -
Unearned reserved housing credit	311,400	-	-	311,400	-
Unearned public facility credits	13,338,889	-	4,391,972	8,946,917	-
Due to State Treasury	3,500	-	-	3,500	-
Accrued vacation leave	429,806	202,705	249,217	383,294	123,767
Accrued other post-employment benefits	1,653,908	97,634	-	1,751,542	-
Accrued net pension liability	2,574,068	-	159,154	2,414,914	-
Total long-term liabilities	$18,315,363	$300,339	$4,804,135	$13,811,567	$123,767

10. RETIREMENT BENEFITS

General Information on the Pension Plan

Plan Description - All eligible employees of the State and counties are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the ERS. Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS's website: http://ers.ehawaii.gov/.

Benefits Provided - The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement membership classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory class members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any 3 years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

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

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

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

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

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

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension.

Contributory Class for Employees Hired Prior to July 1, 2012

Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 55.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 5 years of credited service are eligible to retire at age 55.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Death Benefits - For service-connected deaths, the designated beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation to the surviving spouse/reciprocal beneficiary until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

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

Contributory Class for Employees Hired After June 30, 2012

Retirement Benefits - Judges and elected officers' retirement benefits are determined as 3% of average final compensation multiplied by the years of credited service up to a maximum of 75%. Judges and elected officers with 10 years of credited service are eligible to retire at age 60.

Police and firefighters' retirement benefits are determined as 2.25% of average final compensation for each year of service up to a maximum of 80%. Police and firefighters with 10 years of credited service are eligible to retire at age 60.

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

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

Hybrid Class for Employees Hired Prior to July 1, 2012

Retirement Benefits - General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits - For service-connected deaths, the designated beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation to the surviving spouse/reciprocal beneficiary until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the death benefit is payable to the designated beneficiary.

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

Hybrid Class for Employees Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and EMTs may retire with 25 years of credited service at age 55.

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

Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2015 were 24.00% for police and firefighters and 16.50% for all other employees. Contributions to the pension plan from the State were $350,350,163 for the fiscal year ended June 30, 2015.

The employer is required to make all contributions for noncontributory members. For contributory class employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary and police and firefighters are required to contribute 12.2% of their salary. For contributory class employees hired after June 30, 2012, judges and elected officials are required to contribute 9.8% of their salary and police and firefighters are required to contribute 14.2% of their salary. Hybrid members hired prior July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

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

At June 30, 2015, the State reported a liability of $4,047,881,728 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The State's proportion of the net pension liability was based on a projection of the State's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2014, the State's proportion was 58.4835% which was an increase of .8459% from its proportion measured as of June 30, 2013.

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2014, and the reporting date, June 30, 2015, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2015, the State recognized pension expense of $347,022,146. At June 30, 2015, the State reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 51,070,819	$ (1,151,626)
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	(472,757,812)
Changes in proportion and differences between State contributions and proportionate share of contributions	7,352,250	-
State contributions subsequent to the measurement date	445,933,543	-
Total	$504,356,612	$(473,909,438)

The $445,933,543 reported as deferred outflows of resources related to pensions resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2016	$(122,715,023)
2017	(122,715,023)
2018	(122,715,023)
2019	(122,715,018)
2020	10,640,054
Thereafter	-
	$(480,220,033)

Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Payroll growth rate	3.5%
Investment rate of return	7.75% per year, compounded annually including inflation

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. ERS updates their experience studies every five years.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30.0%	8.5%
International equity	26.0%	9.0%
Total fixed-income	20.0%	3.1%
Real estate	7.0%*	8.5%
Private equity	7.0%*	11.8%
Real return	5.0%*	6.1%
Covered calls	5.0%	7.7%
Total Investments	100.0%	

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

Discount Rate

The discount rate used to measure the net pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

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

The following presents the State's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the State's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate:

	Decrease (6.75%)	Rate (7.75%)	Increase (8.75%)
State's proportionate share of the net pension liability	$5,144,452,874	$4,047,881,728	$2,968,816,077

Pension Plan Fiduciary Net Position

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

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

Payables to the Pension Plan

At June 30, 2015, the amount payable to the ERS was $14,936,932.

Post-Employment Health Care and Life Insurance Benefits

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

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

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

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

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.

The State is required by GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to obtain an actuarial valuation every other year. An actuarial valuation was performed as of July 1, 2013.

The State's base contribution levels to EUTF are established by statutes and the retiree is responsible to pay the difference if the base contribution is less than the cost of the monthly premium.

The HCDA is required to contribute the annual required contribution of the employer (ARC), which is an amount actuarially determined in accordance with the parameters of GASB 45. Measurement of the actuarial valuation and the annual required contribution are made for the State as a whole and the State allocates the ARC to the various departments and agencies based upon a systematic methodology. The HCDA's contribution for the year ended June 30, 2015 was $111,632, which represented 53.3% of the HCDA's share of the ARC for post-retirement healthcare and life insurance benefits of $209,266.

The following is a summary of changes in post-retirement liability during the fiscal year ended June 30, 2015:

Balance at July 1, 2014	$1,653,908
Additions	209,266
Deletions	111,632
Balance at June 30, 2015	$1,751,542

11. COMMITMENTS AND CONTINGENCIES

The HCDA leases a parking garage situated at 860 Halekauwila Street, Honolulu, Hawaii, from the Hawaii Housing Finance and Development Corporation, State of Hawaii, under a 99-year operating lease expiring on November 30, 2092. During the current lease term which ends November 2028, the monthly rent is $10,197. For the remainder of the lease term the rent will be a $1 per year. Total rent expense related to this lease amounted to $122,364 for the fiscal year ended June 30, 2015.

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

Fiscal Year Ending June 30,	Amount
2016	$ 122,400
2017	122,400
2018	122,400
2019	122,400
2020	122,400
Thereafter	1,029,900
	$1,641,900

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, 2015, accumulated sick leave was approximately $1,453,100.

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, 2015, 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, 2015 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	1,796,899
Community Redevelopment Fund	693,877
Capital Projects Fund	5,746,299
	$8,237,075

12. LEASES

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

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

Fiscal Year Ending June 30,	Amount
2016	$ 466,100
2017	467,600
2018	469,300
2019	471,200
2020	451,800
Thereafter	9,726,300
	$12,052,300

13. DEVELOPMENT CREDITS

In previous years, the HCDA entered into various transactions with the Trustees of the Estate of Bernice Pauahi Bishop (Bishop Estate) and with Victoria Ward, Limited (VWL) in which the HCDA received land parcels in the Kaka'ako development district and, in exchange, granted public facilities dedication credits (Dedication Credit). The credits, net of usage, totaled $13,338,889 as of the beginning of the year of which Bishop Estate and VWL used dedication credits valued at $4,391,972, leaving a balance of $8,946,917 as of June 30, 2015. The dedication credits used is reported as Program Revenue in the Statement of Activities.

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

14. RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

16. BRAC LAND PARCELS CONVEYANCE

In 1993, the U.S. Congress approved the closure of the Barbers Point Naval Air Station (BPNAS), as part of the Base Closure and Realignment (BRAC) process. Land parcels of former BPNAS identified as BRAC parcels were conveyed to various state and city agencies.

By October 2011, the HCDA, as the designated Local Redevelopment Authority, had received six BRAC land parcels totaling approximately 157.198 acres. HCDA's capital assets reflects the land acquisitions at an estimated value of $1,711,886.

PART III

COMPLIANCE AND INTERNAL CONTROL SECTION

Ohata Chun Yuen LLP
CERTIFIED PUBLIC ACCOUNTANTS

3684 Waialae Avenue, Honolulu, Hawaii 96816
Phone (808) 735-8585 / Fax (808) 737-5017
E-Mail: ocycpas@hawaiiantel.net

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

Office of the Auditor
State of Hawaii

The Board of Directors
Hawaii Community Development Authority
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hawaii Community Development Authority, State of Hawaii (HCDA), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the HCDA's basic financial statements, and have issued our report thereon dated December 11, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Ohata Chun Yuen LLP

Honolulu, Hawaii
December 11, 2015