FINANCIAL AUDIT OF THE HAWAII COMMUNITY DEVELOPMENT AUTHORITY STATE OF HAWAII

Fiscal Year Ended June 30, 2021

Submitted by
The Auditor
State of Hawaii

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

999 BISHOP STREET, SUITE 2200 | HONOLULU, HAWAII 96813
T (808) 524-2255 F (808) 523-2090 | nkcpa.com

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

TABLE OF CONTENTS

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII

TABLE OF CONTENTS

PART I

FINANCIAL SECTION

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

999 BISHOP STREET, SUITE 2200
HONOLULU, HAWAII 96813
T (808) 524-2255 F (808) 523-2090

INDEPENDENT AUDITOR'S REPORT

To the Auditor
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), a component unit of the State of Hawaii, as of and for the fiscal year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the HCDA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express as 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.

Opinions

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, 2021, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Correction of an Error

As discussed in Note U to the basic financial statements, the 2020 financial statements have been restated to correct an understatement of liabilities in the governmental funds and governmental activities of the government-wide statement of net position and an overstatement of capital assets in the governmental activities of the government-wide statement of net position. Our opinions are 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 8 to 15 and the schedules of the proportionate share of the net pension liability, pension contributions, the proportionate share of the net OPEB liability, and OPEB contributions on pages 58 to 63 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 8, 2021 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the HCDA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HCDA's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
December 8, 2021

This section of the annual financial report presents management's discussion and analysis of the HCDA's financial performance during the fiscal year ended June 30, 2021. It should be read in conjunction with the HCDA's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the HCDA exceeded its liabilities and deferred inflows at June 30, 2021 by approximately $120 million (net position).
- The HCDA's assets and deferred outflows increased by approximately $913,000, or 0.7% from June 30, 2020 to June 30, 2021.
- The HCDA's total liabilities and deferred inflows decreased by approximately $87,000, or 0.4% from June 30, 2020 to June 30, 2021.
- The HCDA's total net position increased by approximately $1.0M, or 0.8% from June 30, 2020 to June 30, 2021.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements report information about the HCDA using accounting methods similar to those used by private sector companies. The *Statement of Net Position* provides both short-term and long-term information about the HCDA's financial position, which reflects the HCDA's financial condition at the end of the fiscal year.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Governmental Funds Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Other Reports

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-Wide Financial Analysis

The following presents a summarized comparison of net position and changes in net position for the fiscal years ended June 30, 2021 and 2020 (as restated).

	2021	2020
ASSETS		
Current assets	$ 29,814,000	$ 27,138,000
Capital assets, net of depreciation	94,053,000	95,566,000
Other assets	15,678,000	15,834,000
Deferred outflows of resources	640,000	734,000
Total assets and deferred outflows of resources	$ 140,185,000	$ 139,272,000
LIABILITIES		
Current liabilities	$ 2,046,000	$ 2,383,000
Long-term liabilities	17,959,000	17,833,000
Deferred inflows of resources	189,000	65,000
Total liabilities and deferred inflows of resources	$ 20,194,000	$ 20,281,000
NET POSITION		
Invested in capital assets	$ 94,053,000	$ 95,566,000
Restricted for capital assets	2,660,000	1,690,000
Unrestricted	23,278,000	21,735,000
Total net position	$ 119,991,000	$ 118,991,000
Total liabilities, deferred inflows of resources, and net position	$ 140,185,000	$ 139,272,000

Analysis of Net Position

The assets and deferred outflows of the HCDA exceeded its liabilities and deferred inflows at June 30, 2021 by approximately $119,991,000 (net position). Investments in capital assets (e.g. land, buildings, infrastructure networks, construction in progress, land improvements, and equipment, furniture and fixtures), represent a significant portion of the HCDA's net position. The HCDA uses these capital assets for the benefit of and use by government agencies and the public; consequently, these assets are not available for future spending and cannot be used to settle any liabilities. The restricted assets of approximately $2,660,000 at June 30, 2021, represent resources that are subject to external restrictions or enabling legislation on how they may be used. The unrestricted assets may be used to finance day-to-day operations without any constraints established by debt, or other legal requirements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Changes in Net Position

The following financial information was derived from the government-wide statement of activities and reflects how the HCDA's net position changed for the fiscal years ended June 30, 2021 and June 30, 2020.

	2021	2020
Revenues:		
Program revenues:		
Leasing and management	$ 1,903,000	$ 2,384,000
Community redevelopment	2,151,000	1,382,000
General revenues:		
State allotted appropriations, net of lapsed appropriations	2,800,000	1,165,000
Investment earnings	255,000	607,000
Nonimposed employee wages and fringe benefits	420,000	496,000
Other	72,000	453,000
Total revenues	$ 7,601,000	$ 6,487,000
Expenses:		
General government	$ 2,799,000	$ 3,168,000
Leasing and management	867,000	3,298,000
Community redevelopment	365,000	11,506,000
Capital projects	2,482,000	1,819,000
Total expenses	$ 6,513,000	$ 19,791,000
Change in net position	1,088,000	(13,304,000)
Net position – beginning of year	165,172,000	178,476,000
Restatement adjustment	(46,269,000)	--
Net position – beginning of year, as restated	118,903,000	178,476,000
Net position – end of year	$ 119,991,000	$ 165,172,000

Analysis of Changes in Net Position

The HCDA's net position increased by $1,088,000 during the fiscal year ended June 30, 2021.

In 2012, the HCDA lost a significant amount of recurring revenues from its leasing and management activities when a significant portion of its land holdings and associated rents were transferred to the Office of Hawaiian Affairs under Act 15 of the 2012 legislative session. Since then, HCDA operations have become largely dependent on State allotments and development activity in its districts.

FINANCIAL ANALYSIS OF THE HCDA'S INDIVIDUAL FUNDS

Analysis of Changes in Net Position (Continued)

The historical trend of expenses in excess of revenues in both fiscal years 2020 and 2019, and nominal increase in net position in fiscal year 2021 directly attributable to state appropriations, demonstrates HCDA's sensitivity and reliance upon legislative funding.

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, 2021, the HCDA's governmental funds reported combined ending fund balances of approximately $43.5 million, an increase of approximately $2.9 million or 7.3% from the previous fiscal year.

General Fund

For the fiscal year ended June 30, 2021, funding for HCDA's 23 positions remained unchanged, 13 from a General Fund appropriation and 10 from a Revolving Fund appropriation. The appropriation amounted to approximately $639,000 for the fiscal year ended June 30, 2021, and resulted in an ending general fund balance of $-0-.

Hawaii Community Development Revolving Fund

This fund was originally established when HCDA was created. Pursuant to HRS § 206E-16, this fund was created for the receipt and disbursement of moneys directed or allocated to the HCDA. Proceeds from the funds are to be expressly used for the purposes of the HCDA.

Activity in this fund is primarily comprised of the activity of the Kaka'ako community development district. When subsequent community development districts were created, district-specific revolving funds were also created. As the most mature of the development districts, it is the largest of the revolving funds and has the most activity.

The net increase in fund balance of approximately $1,879,000 is primarily attributable to the nominalization of expenses in the fiscal year ended June 30, 2021. In the fiscal year ended June 30, 2020, the HCDA recorded a one-time payment to the City and County of Honolulu.

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

Kalaeloa Community Development Revolving Fund

This fund was established with the Kalaeloa community development district. Pursuant to HRS § 206E-195, this fund was created for the receipt and disbursement of moneys directed or allocated to the HCDA for Kalaeloa. The statute expressly restricts the use of proceeds to administration and operation of the Kalaeloa Community Development District.

The net increase of approximately $325,000 is primarily attributable to the nominalization of expenses in the fiscal year ended June 30, 2021. In the fiscal year ended June 30, 2020, the HCDA recorded an adjustment for the over accrual of a contingent liability related to remediation costs.

He'eia Community Development Revolving Fund

This fund was established with the He'eia community development district. Pursuant to HRS § 206E-204, this fund was created for the receipt and disbursement of moneys directed or allocated to the HCDA for He'eia. The statute expressly restricts the use of proceeds to the administration and operation of the He'eia community development district.

The net decrease of approximately, $15,800 is attributable to the expenses for work done to complete the Heeia Community Development District Master Plan and Hawaii Administrative Rules for the district.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources for the acquisition or construction of major capital improvements. For the current fiscal year, the fund balance of the capital projects fund increased by approximately $969,000 or 141.90%. The HCDA received no new appropriations for the fiscal year ended June 30, 2021.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The HCDA's investment in capital assets as of June 30, 2021 and 2020, consisted of the following:

	2021	2020 (restated)
Capital assets not being depreciated		
Land	$ 58,129,000	$ 58,129,000
Land improvements	3,840,000	3,840,000
Construction in progress	14,165,000	15,598,000
Total capital assets not being depreciated	$ 76,134,000	$ 77,567,000
Capital assets being depreciated		
Buildings	$ 12,418,000	$ 11,121,000
Wharves	4,268,000	4,268,000
Land improvements	5,755,000	5,758,000
Infrastructure networks	38,120,000	38,120,000
Furniture and equipment	386,000	428,000
Total assets being depreciated	$ 60,947,000	$ 59,695,000
Less accumulated depreciation	$ 43,028,000	$ 41,696,000
Capital assets, net of depreciation	$ 94,053,000	$ 95,566,000

The HCDA's investments in capital assets as of June 30, 2021, amounted to approximately $94.1 million (net of accumulated depreciation). These investments in capital assets include land, land improvements, construction in progress, buildings, wharves, infrastructure networks, and furniture and equipment. Major capital improvements project expenditures for the current fiscal year included the renovation of the Historic Kaka‘ako Pumping Station located in Kaka‘ako and the Enterprise Energy Corridor project in Kalaeloa.

Debt Administration

The HCDA is authorized to issue revenue bonds relative to its reserved housing loan program and special facility projects. Under the reserved housing loan program, the HCDA may lend loan proceeds to qualifying applicants, lenders, or developers to acquire or develop reserved housing units. The bonds are payable solely from proceeds derived from loan re-payments and other financing charges. At the end of the current fiscal year, the HCDA did not have any outstanding revenue bonds. Special facility project bonds are payable solely from user fees or leasing revenues derived from the special facility. As of June 30, 2021, the HCDA has no outstanding bonds issued under either program.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Kaka'ako

Development continued at a robust pace with four projects under construction - ‘A‘ali‘i, The Block 803 Waimanu, Koʻula, andVictoria Place. HCDA also approved Development Permits for The Park and Ulana in May 2021.

The Reserved Housing Rules (Hawaii Administrative Rules 15-218-41) were amended in June 2021, allowing Reserved Housing Unit Owners to prepay their shared equity amount without sale or transfer of their unit. Previously, the payment of shared equity was only allowed if an owner was selling or otherwise transferring title to their unit after the expiration of the regulated term.

Kalaeloa

HCDA approved a Development Permit for the Department of Veteran Affairs Multi-Specialty Outpatient Clinic in August 2021.

The HCDA also continued work toward updating the Kalaeloa community development plan and rules. This work will consider some of the recent work done by the HCDA relative to the right-of-way survey as well as the ongoing reliable energy study in terms of infrastructure improvements.

He‘eia

The He‘eia Master Plan and Rules project was initiated by the He‘eia Authority in 2017. The master plan process included extensive background research of He‘eia and the He‘eia ahupua‘a; analysis of site resources and constraints; and consultations with stakeholders, community members, and government agencies. The He‘eia Plan and Rules went through HRS Chapter 91, Rule Making Procedures and was adopted by the He‘eia Authority on June 23, 2021. Governor Ige approved the He‘eia Master Plan and Rules on July 30, 2021, and it became effective on August 9, 2021.

In 2021, the HCDA with the help of its partner and lessee Kākoʻo ‘Ō‘iwi continued its efforts to open up more land for lo‘i and the cultivation of kalo to improve the food security of the island. Work has also continued on a poi mill in the district.

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://dbedt.hawaii.gov/hcda.

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
STATEMENT OF NET POSITION
June 30, 2021

		Governmental Activities
ASSETS		
Current assets		
Cash in State Treasury and petty cash	$	27,518,864
Due from State		1,672,253
Accounts receivable, net		578,580
Interest receivable		44,793
Total current assets		29,814,490
Noncurrent assets		
Loan receivable - Halekauwila Partners, LLC		15,377,214
Investment in limited partnership		50,880
Water source allocation credits		249,642
Capital assets, net		94,053,133
Total noncurrent assets		109,730,869
Total assets		139,545,359
DEFERRED OUTFLOWS OF RESOURCES		
Related to pension		520,954
Related to other postemployment benefits		118,969
Total deferred outflows of resources		639,923
Total assets and deferred outflows of resources	$	140,185,282

See accompanying notes to financial statements.

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
STATEMENT OF NET POSITION (Continued)
June 30, 2021

	Governmental Activities
LIABILITIES	
Current liabilities	
Accounts payable	$ 187,724
Unearned revenue	225,024
Accrued payroll	143,801
Rental security deposits	71,882
Current portion of long-term obligations	100,999
Due to State Treasury	1,316,862
Total current liabilities	2,046,292
Long-term liabilities	
Due in more than one year	11,052,349
Net pension liability	4,237,183
Net other postemployment benefits liability	2,669,722
Total long-term liabilities	17,959,254
Total liabilities	20,005,546
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	55,380
Related to other postemployment benefits	133,502
Total deferred inflows of resources	188,882
Total liabilities and deferred inflows of resources	20,194,428
NET POSITION	
Net investment in capital assets	94,053,133
Restricted for capital projects	2,659,654
Unrestricted	23,278,067
Total net position	$ 119,990,854
Total liabilities and deferred inflows of resources and net position	$ 140,185,282

See accompanying notes to financial statements.

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2021

		Program revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Revenue (Expenses) and Change in Net Position
Governmental activities					
General government	$ 2,799,111	$ --	$ --	$ --	$ (2,799,111)
Leasing and management	866,856	1,903,062	--	--	1,036,206
Community redevelopment	364,590	2,151,390	--	--	1,786,800
Capital projects	2,482,412	--	--	--	(2,482,412)
Total governmental activities	$ 6,512,969	$ 4,054,452	$ --	$ --	(2,458,517)
General revenues					
State allotted appropriations, net of lapses					2,799,542
Interest and investment earnings					255,030
Nonimposed employee wages and fringe benefits					419,566
Other					72,359
Total general revenues					3,546,497
Change in net position					1,087,980
Net position at June 30, 2020, as previously reported					165,172,324
Prior period adjustment					(46,269,450)
Net position at June 30, 2020, as restated					118,902,874
Net position at June 30, 2021					$ 119,990,854

See accompanying notes to financial statements.

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2021

	General Fund	Hawaii Community Development	Kalaeloa Community Development	He'eia Community Development	Capital Projects	Total Governmental Funds
Assets						
Cash in State Treasury and petty cash	$ 3,500	$ 25,888,371	$ 1,607,918	$ 19,075	$ --	$ 27,518,864
Due from State		--	--	--	1,672,253	1,672,253
Accounts receivable - net	--	573,186	5,394	--	--	578,580
Interest receivable	--	44,559	230	4	--	44,793
Water source allocation credits	--	249,642	--	--	--	249,642
Loan receivable - Halekauwila Partners, LLC	--	15,377,214	--	--	--	15,377,214
Total assets	$ 3,500	$ 42,132,972	$ 1,613,542	$ 19,079	$ 1,672,253	$ 45,441,346
Liabilities						
Accounts payable	$ --	$ 107,204	$ 51,068	$ 9,204	$ 20,248	$ 187,724
Unearned revenues	--	225,024	--	--	--	225,024
Accrued payroll	--	136,159	7,642	--	--	143,801
Rental security deposits	--	71,882	--	--	--	71,882
Due to State Treasury	3,500	1,313,362	--	--	--	1,316,862
Total liabilities	3,500	1,853,631	58,710	9,204	20,248	1,945,293
Fund Balances						
Nonspendable						
Water source allocation credits	--	249,642	--	--	--	249,642
Loan receivable	--	15,377,214	--	--	--	15,377,214
Total nonspendable fund balances	--	15,626,856	--	--	--	15,626,856
Restricted	--	24,652,485	1,554,832	9,875	1,652,005	27,869,197
Total fund balances	--	40,279,341	1,554,832	9,875	1,652,005	43,496,053
Total liabilities and fund balances	$ 3,500	$ 42,132,972	$ 1,613,542	$ 19,079	$ 1,672,253	$ 45,441,346

See accompanying notes to financial statements.

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2021

Total fund balances - governmental funds	$	43,496,053
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		94,053,133
Investments in limited partnerships are not financial resources and therefore not reported in the governmental funds		50,880
Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.		(324,126)
Unearned reserved housing and public facility credits are not reported in the governmental funds		(10,829,222)
Deferred amounts related to pensions reported as deferred outflows/inflows of resources in the government-wide financial statements but are not reported in the governmental fund statements		465,574
Deferred amounts related to other postemployment benefits reported as deferred outflows/inflows of resources in the government-wide financial statements but are not reported in the governmental fund statements		(14,533)
Net pension liability is not reported in the governmental funds		(4,237,183)
Net other postemployment benefits liability is not reported in the governmental funds		(2,669,722)
Net position of governmental activities	$	119,990,854

See accompanying notes to financial statements.

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2021

	General Fund	Hawaii Community Development	Kalaeloa Community Development	He'eia Community Development	Capital Projects	Total Governmental Funds
Revenues						
State allotted appropriations, net	$ 639,227	$ --	$ --	$ --	$ 2,160,315	$ 2,799,542
Contributions from property owners	--	252,571	325,623	--	--	578,194
Dedication and reserve housing fees	--	1,573,196	--	--	--	1,573,196
Investment earnings	--	252,063	2,834	133	--	255,030
Leasing and management	--	1,713,100	187,497	2,465		1,903,062
Nonimposed employee wages and fringe benefits	419,566	--	--	--	--	419,566
Other	--	65,634	6,725	--	--	72,359
Total	1,058,793	3,856,564	522,679	2,598	2,160,315	7,600,949
Expenditures						
General government	1,235,898	1,201,756	--	--	--	2,437,654
Leasing and management	--	433,330	197,773	--	--	631,103
Community redevelopment	--	203,461	--	18,374	--	221,835
Capital outlays	--	139,092	--	--	1,191,245	1,330,337
Total	1,235,898	1,977,639	197,773	18,374	1,191,245	4,620,929
Excess of revenues over (under) expenditures	(177,105)	1,878,925	324,906	(15,776)	969,070	2,980,020
Other financing sources (uses)						
Transfers out	--	(22,783,739)	(1,142,362)	(11,150)	--	(23,937,251)
Transfers in	--	22,783,739	1,142,362	11,150	--	23,937,251
Total	--	--	--	--	--	--
Net change in fund balances	(177,105)	1,878,925	324,906	(15,776)	969,070	2,980,020
Fund balances, beginning of year as previously reported	232,105	38,400,416	1,263,371	25,651	682,935	40,604,478
Prior period adjustment	(55,000)	--	(33,445)	--	--	(88,445)
Fund balances, beginning of year, as restated	177,105	38,400,416	1,229,926	25,651	682,935	40,516,033
Fund balances, end of year	$ --	$ 40,279,341	$ 1,554,832	$ 9,875	$ 1,652,005	$ 43,496,053

See accompanying notes to financial statements.

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2021

Net change in fund balances - total government funds	$	2,980,020
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense.		
Loss on retirement of capital assets		(1,538)
Depreciation expense		(1,511,441)
Net limited partnership losses and distributions reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(17,604)
Expenses reported in the statement of activities do not involve current financial resources and therefore, are not reported as expenditures in the governmental funds:		
Change in compensated absences		(54,268)
Net pension activity		(211,000)
Net other post employment benefit obligation activity		(96,189)
Change in net position of governmental activities	$	1,087,980

See accompanying notes to financial statements.

NOTE A - FINANCIAL REPORTING ENTITY

The Hawaii Community Development Authority, State of Hawaii (HCDA) was created in 1976 by Hawaii Revised Statutes (HRS) Chapter 206E, to establish community development plans in community development districts; determine community development programs; and cooperate with private enterprise and various components of federal, state, and county governments to bring community plans to fruition. Kaka'ako was the first designated community development district, the Kalaeloa community development district (Kalaeloa) was later established in 2002, and He'eia was designated as a community development district in 2011.

Each community development district has its own board with nine voting members who only vote on issues in their respective district. The three boards together as a body oversee the HCDA's operations and establish policies to implement its legislative objectives.

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

The HCDA is a component unit of the State. The financial statements of the HCDA are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the HCDA. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2021, and the changes in its financial position for the fiscal year then ended, in accordance with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all state funds and publishes the State's Annual Comprehensive Financial Report (ACFR), which includes the HCDA's financial activities.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the HCDA have been prepared in accordance 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 of the HCDA:

(1) ***Government-Wide and Fund Financial Statements*** - The government-wide financial statements report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and activities of the HCDA as a whole.

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. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Net position is restricted when constraints placed on it are either imposed by constitutional provision or enabling legislation or are externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governmental agencies. 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.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

(2) ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental Fund Financial Statements

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

Encumbrances are recorded obligations in the form of purchase orders or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities.

(3) ***Fund Accounting***

The financial transactions of the HCDA are recorded in individual funds that are reported in the fund financial statements and are described in the following sections. Each fund is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The fund financial statements focus on major funds rather than reporting funds by type. Each major fund is reported in separate columns and nonmajor funds are combined in one column. Major funds are funds that have total assets, liabilities, revenues, or expenditures of the fund that are at least 10% of the same element for all funds of its fund type or at least 5% of the same element for all governmental funds combined.

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

Governmental Funds

General Fund - 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.

Special Revenue Funds - The special revenue funds consist of the Hawaii Community Development Revolving Fund created by HRS 206E-16, Kalaeloa Community Development Revolving Fund created by HRS 206E-195, and He'eia Community Development Revolving Fund created by HRS 206E-204. Except for 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.

Capital Projects Fund - 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 community development districts.

Fund Balance

In the governmental funds financial statements, fund balances are classified using a hierarchy based on the extent to which the HCDA is bound to follow constraints on how resources can be spent. Classifications include:

Nonspendable - Nonspendable fund balances are amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted - Restricted fund balances are amounts that are restricted for specific purposes which are usually imposed by external parties such as grantors, contributors, or laws or regulations of other governments.

Committed - Committed fund balances are amounts that can only be used for specific purposes pursuant to formal action of the State legislature.

Assigned - Assigned fund balances are amounts that are constrained by the policy board or management for specific purposes, but are neither restricted nor committed.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unassigned - Unassigned fund balances is the residual classification for the general fund. The classification represents amounts in the general fund that has not been assigned to other funds and that has not been restricted or assigned to specific purposes within the general fund.

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. When committed, assigned and unassigned resources are available for use, generally it is the HCDA's policy that committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

(4) ***Use of Estimates*** - The preparation of the 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, and it is reasonably possible that such estimates may change within the near term.

(5) ***Cash and Cash Equivalents*** - Cash and cash equivalents consists of amounts held in State Treasury as discussed in Note D.

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

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 projects are capitalized to the extent capitalization thresholds are met. Improvements to roadways and utility systems involve lands that are owned or acquired by the HCDA and lands owned by other governmental jurisdictions; primarily the City and County of Honolulu and the State of Hawaii, Highway Division of the Department of Transportation.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 then transferred to those jurisdictions. 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 statement of activities. The HCDA utilizes the straight-line method over the assets' estimated useful lives. No depreciation is recorded for land and construction in progress. The estimated useful lives for depreciable assets are 30 years for land improvements, infrastructure networks, buildings, and wharves, and seven years for furniture and equipment.

(7) ***Deferred Outflows of Resources and Deferred Inflows of Resources*** - Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The deferred outflows (inflows) of resources related to pensions and other post-employment benefits (OPEB) resulted from differences between expected and actual experiences, changes in assumptions, the net difference between projected and actual earnings on pension plan investments, and changes in proportion which will be amortized over approximately five years, and the HCDA's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the pension and OPEB plans which will be recognized as a reduction of the net pension liability and net OPEB liability in the subsequent fiscal year.

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

(9) ***Accumulated Sick Leave*** - Sick leave 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 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System (ERS). At June 30, 2021, accumulated sick leave was approximately $904,300.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

(10) ***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 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 recognized as revenue.

(11) ***State Allotted Appropriations*** - Appropriations represent the authorizations granted by the State Legislature that permit a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended or encumbered at the end of the fiscal year.

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

(13) ***Pensions*** - The actuarial valuation of the Employees' Retirement System of the State of Hawaii does not provide pension benefits information by department or agency. Accordingly, the State's policy on the accounting and reporting for pension benefits is to allocate a portion of the State's net pension liability, and any adjustment to the net pension liability, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's ACFR. The State allocates annual pension expense to component units and proprietary funds based on their proportionate percentage of the State's total covered payroll.

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 ERS, and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

(14) ***Other Postemployment Benefits*** - The actuarial valuation of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) does not provide OPEB information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to allocate a portion of the State's net OPEB liability, and any adjustment to the net OPEB liability, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's ACFR. The State allocates annual OPEB expense to component units and proprietary funds based on their proportionate percentage of the State's total contribution to the EUTF plan.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the EUTF, and additions to/deductions from the EUTF's fiduciary net position have been determined on the same basis as they are reported by the EUTF. For this purpose, benefit payments are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.

(15) ***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.

(16) ***New Accounting Pronouncements*** - The GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. HCDA has determined that this Statement does not have a material impact on the financial statements.

The GASB issued Statement No. 87, *Leases.* This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. HCDA has not yet determined the effect this Statement will have on the financial statements.

The GASB issued Statement No. 90, *Majority Equity Interests - An amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. HCDA has determined that this Statement does not have a material effect on the financial statements.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. For accounting and financial reporting purposes, a conduit debt obligation is a debt instrument issued in the name of a state or local government (the issuer) that is for the benefit of a third party primarily liable for the repayment of the debt instrument (the third-party obligor). The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. HCDA has not yet determined the effect this Statement will have on the financial statements.

The GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to the application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

HCDA has not yet determined the effect this Statement will have on the financial statements.

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to provide guidance for governments transitioning from interbank offered rates (IBOR) to other reference rates as the commonly used London Interbank Offered Rate (LIBOR) is set to expire at the end of 2021. The provisions of this Statement are effective for the reporting periods beginning after June 15, 2021. HCDA has not yet determined the effect this Statement will have on the financial statements.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022 and all reporting periods thereafter. HCDA has not yet determined the effect this Statement will have on the financial statements.

The GASB issued Statement No. 96*, Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter. HCDA has not yet determined the effect this Statement will have on the financial statements.

The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. HCDA has not yet determined the effect this Statement will have on the financial statements.

The GASB issued Statement No. 98, *The Annual Comprehensive Financial Report*. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. The new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounded like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness. This Statement did not have any effect on the HCDA's financial statements.

NOTE C - BUDGETING AND BUDGETARY CONTROL

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in other specific appropriation acts in various Session Laws of Hawaii.

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

For the fiscal year ended June 30, 2021, the adoption of an annual budget for the Special Revenue Funds was not required.

NOTE D - CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of amounts held in the State Treasury. The State Director of Finance (Director) is responsible for safekeeping of all monies paid into the State Treasury. The Director may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool system. Funds in the investment pool accrue interest based on the average weighted cash balances of each account. The State requires that depository banks pledge as collateral, governmental securities held in the name of the State for deposits not covered by federal deposit insurance.

All of the HCDA's monies are held in the State Treasury, the HCDA does not manage its own investments and the types of investments and related interest rate, credit and custodial credit risks are not determinable at the organization level. The risk disclosures of the State's cash pool are included in the State's ACFR which may be obtained from the State Department of Accounting and General Services' website: http://ags.hawaii.gov/accounting/annual-financial-reports/.

NOTE E - ACCOUNTS RECEIVABLE

At June 30, 2021, accounts receivable for the governmental funds consisted of the following:

	Hawaii Community Development	Kalaeloa Community Development	Total Governmental Funds
Rent	$ 727,255	$ --	$ 727,255
Assessment	6,576	5,394	11,970
Less: allowance for uncollectible accounts	(160,645)	--	(160,645)
	$ 573,186	$ 5,394	$ 578,580

NOTE F - LOAN RECEIVABLE

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 HCDA 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 HCDA 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. At June 30, 2021, HP repaid $1,422,786. As of June 30, 2021, the HCDA has outstanding disbursements of $15,377,214 pursuant to the loan agreement.

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

NOTE G - INVESTMENT IN LIMITED PARTNERSHIPS

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

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 is allocated to the partners based on their interest in the partnership.

As of June 30, 2021, the HCDA’s investment, net of distributions and allocated income and losses, in the limited partnerships was approximately $50,900.

The property is managed by a contracted property manager. The HCDA receives management fees of 5% of rental income collected. Management fees for the fiscal year ended June 30, 2021 was approximately $50,500 and is included in leasing and management revenue.

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

NOTE H - CAPITAL ASSETS

For the fiscal year ended June 30, 2021, the changes in capital assets were as follows:

	Balance July 1, 2020	Prior Period Adjustment	Balance July 1, 2020 As Restated	Additions	Deductions	Transfers	Ending Balance
Governmental activities:							
Capital assets not being depreciated							
Land	$ 87,886,917	$ (29,757,500)	$ 58,129,417	$ --	$ --	$ --	$ 58,129,417
Land improvements	13,968,842	(10,128,930)	3,839,912	--	--	--	3,839,912
Construction in progress	16,045,443	(447,124)	15,598,319	--	--	(1,433,766)	14,164,553
Total capital assets not being depreciated	117,901,202	(40,333,554)	77,567,648	--	--	(1,433,766)	76,133,882
Capital assets being depreciated							
Buildings	11,698,505	(577,141)	11,121,364	--	137,398	1,433,766	12,417,732
Wharves	4,267,956	--	4,267,956	--	--	--	4,267,956
Land improvements	26,805,024	(21,047,129)	5,757,895	--	2,788	--	5,755,107
Infrastructure networks	44,314,272	(6,194,389)	38,119,883	--	--	--	38,119,883
Furniture and equipment	427,644	--	427,644	--	41,467	--	386,177
Total capital assets being depreciated	87,513,401	(27,818,659)	59,694,742	--	181,653	1,433,766	60,946,855
Less accumulated depreciation for:							
Buildings	4,646,421	595,687	4,050,734	420,657	137,398	--	4,333,993
Wharves	4,170,469	583	4,169,886	12,258	--	--	4,182,144
Land improvements	24,351,622	18,593,727	5,757,895	--	2,788	--	5,755,107
Infrastructure networks	30,100,283	2,781,211	27,319,072	1,057,136	--	--	28,376,208
Furniture and equipment	398,691	--	398,691	21,390	39,929	--	380,152
Total accumulated depreciation	63,667,486	21,971,208	41,696,278	1,511,441	180,115	--	43,027,604
Capital assets, net of accumulated depreciation	$ 141,747,117	$ (46,181,005)	$ 95,566,112	$ (1,511,441)	$ 1,538	$ --	$ 94,053,133

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

For the fiscal year ended June 30, 2021, depreciation expense was charged to functions of the HCDA as follows:

Governmental Activity	Amount
Leasing and management	$ 235,753
Community redevelopment	123,613
Capital projects	1,152,075
	$ 1,511,441

NOTE I - 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 157.20 acres. The HCDA's capital assets reflects the land acquisitions at an estimated value of $1,711,886.

NOTE J - CEDED LAND REVENUE

In 1898, the Republic of Hawaii transferred certain lands to the United States. Upon Hawaii's admission to the Union in 1959, the United States conveyed title to those lands (collectively, the ceded lands) back to the State to be held as public trust for five purposes: (1) public education; (2) betterment of the conditions of native Hawaiians; (3) development of farm and homeownership; (4) making public improvements; and (5) provision of land for public use. In 1978, the State Constitution was amended expressly to provide that the ceded lands were to be held as a public trust for native Hawaiians and the general public, and to establish the Office of Hawaiian Affairs (OHA) to administer and manage the proceeds and income derived from a pro-rata portion of the ceded lands for native Hawaiians and included in Hawaii Revised Statutes (HRS) §10-3.5.

The HCDA deposits OHA's share of revenue received from properties that are considered ceded lands into a State Treasury account whose funds are subsequently transferred to OHA each quarter pursuant to HRS §10-3.5. Pursuant to Act 178, of the 2006 legislative session, the amount due to OHA is capped quarterly at $3,775,000 and annually at $15,100,000.

During the fiscal year ended June 30, 2013, the HCDA discovered that certain submerged lands located at Kewalo Basin Harbor were deemed ceded lands, however, the funds were not deposited. Upon discovery, the HCDA calculated the amount that should have been remitted to the State account from March 1, 2009 when HCDA took over management of Kewalo Basin Harbor. As of June 30, 2021, this balance due amounts to $1,268,923 and is reflected in the balance due to State Treasury.

NOTE K - LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Deductions	Ending Balance	Due Within One Year
Unearned reserved housing credit	$ 311,400	$ --	$ --	$ 311,400	$ --
Unearned public facility dedication credits	10,517,822	--	--	10,517,822	--
Accrued compensated absences	269,858	188,401	134,133	324,126	100,999
Total long-term liabilities	$ 11,099,080	$ 188,401	$ 134,133	$ 11,153,348	$ 100,999

NOTE L - DEVELOPMENT CREDITS

In previous years, the HCDA entered into various transactions with the Trustees of the Estate of Bernice Pauahi Bishop (Bishop Estate) and with Victoria Ward, Limited (VWL) in which the HCDA received land parcels in the Kaka'ako development district and, in exchange, granted public facilities dedication credits. The credits totaled $10,517,822 as of June 30, 2021.

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

NOTE M - RETIREMENT BENEFITS

Plan Description

Generally, all full-time employees of the State and counties are required to be members of the ERS, a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at the ERS website: https://ers.ehawaii.gov/resources/financials.

Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement 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. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members 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 members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

NOTE M - RETIREMENT BENEFITS (Continued)

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. 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 ten 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.

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/re-entry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired prior to July 1, 2012

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

NOTE M - RETIREMENT BENEFITS (Continued)

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.5% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with five years of credited service are eligible to retire at age 55. Police officers and firefighters with 25 years of credited service are eligible to retire at any age, provided the last five years is service credited in these occupations.

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 surviving spouse/reciprocal 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 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 ordinary 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 one 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 ten 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 Members 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 ten years of credited service are eligible to retire at age 60.

Police officers and firefighters' retirement benefits are determined using the benefit multiplier of 2.25% for qualified service, up to a maximum of 80% of average final compensation. Police officers and firefighters with ten years of credited service are eligible to retire at age 60. Police officers and firefighters with 25 years of credited service are eligible to retire at age 55, provided the last five years is service credited in these occupations.

NOTE M - RETIREMENT BENEFITS (Continued)

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 1.75% of average final compensation for each year of service for police officers and firefighters and are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

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

Hybrid Class for Members Hired Prior to July 1, 2012

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

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

Death Benefits:
For service-connected deaths, the designated surviving spouse/reciprocal 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 until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary 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 five 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 ten 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.

NOTE M - RETIREMENT BENEFITS (Continued)

Hybrid Class for Members 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 ten 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 emergency medical technicians 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 ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, 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 ten 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.

Contributions

Contributions are governed 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 2021 were 41.00% for police officers and firefighters and 24.00% for all other employees. Contributions to the ERS from the HCDA was $151,779 for the fiscal year ended June 30, 2021.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

NOTE M - RETIREMENT BENEFITS (Continued)

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

At June 30, 2021, the HCDA reported a net pension liability of $4,237,183 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

At June 30, 2020, the HCDA's proportionate share of the State's net pension liability was .05%, which was equal to its proportionate share as of June 30, 2019.

There were no significant changes of assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2021, the HCDA recognized pension expense of $362,778. At June 30, 2021, the HCDA reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 42,738	$ (36,820)
Changes in assumptions	107,623	(72)
Net difference between projected and actual earnings on pension plan investments	203,773	--
Changes in proportion and differences between HCDA's contributions and proportionate share of contributions	15,041	(18,488)
Contributions subsequent to the measurement date	151,779	--
	$ 520,954	$ (55,380)

NOTE M - RETIREMENT BENEFITS (Continued)

The $151,779 reported as deferred outflows of resources related to pensions at June 30, 2020 resulting from the HCDA's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at June 30, 2020 will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2022	$ 126,557
2023	64,689
2024	69,981
2025	51,478
2026	1,090
	$ 313,795

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on August 12, 2019, based on the 2018 Experience Study for the five-year period from July 1, 2013 through June 30, 2018:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% per year, compounded annual including inflation

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Post-retirement mortality rates are based on the 2019 Public Retirees of Hawaii mortality table, with adjustments based on generational projections of the BB projection table for 2019 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of the Pub-2010 mortality table based on the occupation of the member.

NOTE M - RETIREMENT BENEFITS (Continued)

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board of Trustees) 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 (real returns plus inflation) by the target asset allocation percentage.

The target asset allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table.

Strategic Allocation (Risk-Based Classes)	Target Allocation	Long-Term Expected Rate of Return	Long-Term Expected Real Rate of Return *
Broad growth	63.0%	7.90%	5.70%
Diversifying strategies	37.0%	3.70%	1.50%
Total investments	100.0%		

* Uses an expected inflation rate of 2.20%

Discount Rate

The discount rate used to measure the net pension liability was 7.00%, consistent with the rate used at the prior measurement date. 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, which includes the HCDA, will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE M - RETIREMENT BENEFITS (Continued)

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

The following presents the HCDA's proportionate share of the State's net pension liability calculated using the discount rate of 7.00%, as well as what the HCDA's proportionate share of the State's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
HCDA's proportionate share of the net pension liability	$ 5,443,237	$ 4,237,183	$ 3,242,905

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' complete financial statements are available at https://ers.ehawaii.gov/resources/financials.

NOTE N - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 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 a publicly available annual financial report that can be obtained at https://eutf.hawaii.gov/reports.

NOTE N - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten 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 ten 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 employees retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than ten 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 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.

Employees Covered by Benefit Terms

At July 1, 2020, the following number of plan members of the State were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	37,767
Inactive plan members entitled to but not yet receiving benefits	7,576
Active plan members	50,831
Total plan members	96,174

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Employer contributions to the EUTF from the HCDA was $70,236 for the fiscal year ended June 30, 2021. The employer is required to make all contributions for members.

NOTE N - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2021, the HCDA reported a net OPEB liability of $2,669,722. The net OPEB liability was measured as of July 1, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

At June 30, 2021, the HCDA's proportionate share of the State's net OPEB liability was 0.01%.

There were no changes between the measurement date, July 1, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the HCDA's proportionate share of the State's net OPEB liability.

For the fiscal year ended June 30, 2021, the HCDA recognized OPEB expense of $166,426. At June 30, 2021, the HCDA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ --	$ (122,859)
Changes in assumptions	17,653	(10,643)
Net difference between projected and actual earnings on OPEB plan investments	31,080	--
Contributions subsequent to the measurement date	70,236	--
	$ 118,969	$ (133,502)

NOTE N - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

The $70,236 reported as deferred outflows of resources related to OPEB resulting from the HCDA's contribution subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30,		Amount
2022	$	(17,007)
2023		(16,378)
2024		(16,218)
2025		(15,251)
2026		(19,772)
Thereafter		(143)
	$	(84,769)

Actuarial Assumptions

The total OPEB liability in the July 1, 2020 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF Board of Trustees, on January 13, 2020, based on the experience study covering the five-year period ended June 30, 2018:

Inflation	2.50%
Salary increases	3.50% to 7.00%, including inflation
Investment rate of return	7.00%

Healthcare Cost Trend Rates:

PPO*	Initial rate of 7.50%; declining to a rate of 4.70% after 13 years
HMO*	Initial rate of 7.50%; declining to a rate of 4.70% after 13 years
Part B & Base Monthly Contribution (BMC)	Initial rate of 5.00%; declining to a rate of 4.70% after 10 years
Dental	Initial rate of 5.00% for the first year, followed by 4.00%
Vision	Initial rate of 0.00% for the first year, followed by 2.50%
Life Insurance	0.00%

*Blended rates for medical and prescription drug.

NOTE N - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational mortality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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
Non-U.S. equity	16.00%	7.72%
U.S. equity	14.00%	6.23%
Private equity	10.00%	9.66%
Core real estate	10.00%	5.98%
Trend following	8.00%	2.12%
U.S. microcap	6.00%	7.85%
Global options	6.00%	4.65%
Private credit	6.00%	5.50%
Long treasuries	6.00%	0.86%
Reinsurance	5.00%	4.34%
Alternative risk premia	5.00%	1.56%
TIPS	5.00%	0.11%
Core bonds	3.00%	0.08%
	100.00%	

NOTE N - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

Single Discount Rate

The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on the EUTF's investments of 7.00%. Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend Act 268 contributions for the fiscal year ending June 30, 2021, and instead limit their contribution amounts to the OPEB benefits due. This temporary Act 268 suspension would not derail the plan's long-term funding progress. Even if Act 268 is suspended through fiscal year ending June 30, 2025, as is being discussed, the OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Act 229, SLH 2021 suspends the contributuion requirement for fiscal years 2022 and 2023. The State has made its full Annual Required Contribution in fiscal year 2021 and intends to make contributions for fiscal years 2022 and 2023. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position

The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer 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 on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. EUTF's complete financial statements are available at https://eutf.hawaii.gov/reports.

NOTE N - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

Changes in the HCDA's Proportionate Share of the State's Net OPEB Liability

The following table represents a schedule of changes in the HCDA's proportionate share of the State's net OPEB liability. The ending balances are as of the measurement date, July 1, 2020.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2020	$ 3,418,942	$ 619,480	$ 2,799,462
Changes for the fiscal year:			
Service cost	53,045	--	53,045
Interest on the total OPEB liability	170,342	--	170,342
Employer contributions	--	175,064	(175,064)
Net investment income	--	9,347	(9,347)
Difference between expected and actual experience	(155,954)	--	(155,954)
Changes in assumptions	(12,769)		(12,769)
Benefit payments	(78,342)	(78,342)	--
Administrative expense	--	(66)	66
Other	--	59	(59)
Net changes	(23,678)	106,062	(129,740)
Balance at June 30, 2021	$ 3,395,264	$ 725,542	$ 2,669,722

Sensitivity of the HCDA's Proportionate Share of the State's Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following table represents the HCDA's proportionate share of the State's net OPEB liability calculated using the discount rate of 7.00%, as well as what the HCDA's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
HCDA's proportionate share of the net OPEB liability	$ 3,203,466	$ 2,669,722	$ 2,249,133

NOTE N - POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (Continued)

The following table represents the HCDA's proportionate share of the State's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the HCDA's net OPEB liability would be if it were calculated using the trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
HCDA's proportionate share of the net OPEB liability	$ 2,230,107	$ 2,669,722	$ 3,238,358

NOTE O - 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 (excluding part-time, temporary, and casual/seasonal), 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 an 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.

NOTE P - NON-IMPOSED EMPLOYEE WAGES AND FRINGE BENEFITS

Payroll fringe benefit costs for employees of HCDA are funded and assumed by the State of Hawaii and are not charged to HCDA's operating funds. These costs, totaling $419,566 for the fiscal year ended June 30, 2021, have been reported as revenues and expenditures of HCDA's general fund.

NOTE Q - COMMITMENTS AND CONTINGENCIES

Leases - The HCDA leases a parking garage situated at 860 Halekauwila Street, Honolulu, Hawaii, from the Hawaii Housing Finance and Development Corporation, State of Hawaii, under a 99-year operating lease expiring on November 30, 2092. During the current lease term, which ends November 2028, the monthly rent is $10,197. For the remainder of the lease term, the rent will be $1 per year. Total rent expense related to this lease amounted to $122,364 for the fiscal year ended June 30, 2021.

At June 30, 2021, future minimum lease rent payments approximate the following:

Fiscal Year Ending June 30,	Amount
2022	$ 122,400
2023	122,400
2024	122,400
2025	122,400
2026	122,400
Thereafter	295,600
	$ 907,600

<u>Issuance of Revenue Bonds</u>

The State Legislature has authorized the issuance of revenue bonds for the Kaka'ako Community Development District Project. As of June 30, 2021, the following amounts were authorized and unissued:

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

<u>Encumbrances</u>

Commitments for the HCDA include contracts awarded and orders placed for construction, repairs and maintenance, expense, supplies, etc. These commitments as of June 30, 2021 were as follows:

Fund	Amount
Kaka`ako	$ 1,866,309
Kalaeloa	41,339
He`eia	8,500
Capital Projects	387,134
	$ 2,303,282

NOTE Q - COMMITMENTS AND CONTINGENCIES (Continued)

General Contingencies

Since September 2013, the HCDA operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of the HCDA, from such changes in economic conditions, if any, are not presently determinable.

NOTE R - LEASES

The HCDA leases properties located in the Kaka'ako District to various government agencies, non-profit organizations and private businesses under operating leases expiring at various dates through June 2083, various month-to-month and/or percentage rent leasing arrangements.

At June 30, 2021, future minimum lease rentals approximate the following:

Fiscal Year Ending June 30,	Amount
2022	$ 1,290,100
2023	1,279,400
2024	836,300
2025	723,600
2026	720,000
Thereafter	11,586,900
	$ 16,436,300

NOTE S - RISK MANAGEMENT

Insurance coverage is maintained at the State level. 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 ten fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance - The State has an insurance policy with various insurers for property coverage. The limit of loss per occurrence is $200,000,000, except for terrorism losses, which has a $100,000,000 per occurrence limit. There are two different types of deductibles for the property coverage. The deductible for losses such as hurricanes, floods and earthquakes are 3% of the replacement costs to the property subject to a $1,000,000 per occurrence minimum. The deductible for all other perils such as a fire is $1,000,000. The deductible for terrorism coverage is $1,000,000.

NOTE S - RISK MANAGEMENT (Continued)

Crime Insurance - 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 under the deductible amount are paid by the Risk Management Office of the Department of Accounting and General Services and losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

General Liability (Including Torts) - Liability (tort and auto) claims up to $25,000 are handled by the Risk Management Office. 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, employment liability, and employee benefits liability insurance policy in force with a $5,000,000 self-insured retention per occurrence. The annual aggregate per occurrence is $7,500,000 for wrongful action and $12,500,000 for Products/Completed Operations, Error & Omission and Employee Benefits Liability, and for crime loss, $10,000,000 with no aggregate limit. Losses under the deductible amount but over the Risk Management Office authority or over the aggregate limit are typically paid from legislative appropriations of the State's General Fund.

Cyber Liability Insurance - The State is insured for various types of cyber-related activities with a loss limit of $50,000,000 with a deductible of $1,000,000 per claim. This policy includes (with sub-limits) system failure business interruption, dependent business interruption, dependent business interruption system failure, and Payment Card Industry - Data Security Standard coverage.

Self-Insured Risks - The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to $25,000 are administered by the Risk Management Office. The State administers its workers' compensation losses.

NOTE T - NOVEL CORONAVIRUS DISEASE

On March 11, 2020, the World Health Organization declared the outbreak of novel coronavirus disease (COVID-19) as a pandemic, which has led to an economic downturn on a global scale that has created significant uncertainty, volatility, and disruption across economies and financial markets. The pandemic has also resulted in federal, state, and local governments and private entities mandating various restrictions, including travel and business restrictions, temporary closures of nonessential businesses, and wide-sweeping quarantines and stay-at-home orders. While the disruption caused by COVID-19 is expected to be temporary, there is uncertainty around the duration and severity of the pandemic. The related financial impact on the HCDA's financial statements cannot be reasonably determined at this time.

NOTE U - PRIOR PERIOD RESTATEMENTS

The accompanying financial statements have been restated to correct errors made in the prior period. The errors related to the understatement of liabilities and overstatement of capital assets. In fiscal year 2020, the HCDA did not record a liability in the General Fund and the Kalaeloa Community Development Revolving Fund, and also did not remove all the related components of the park transfer to the City and County of Honolulu that occurred in November 2019. This resulted in an understatement of liabilities of approximately $88,000 and an overstatement of net capital assets of approximately $46,200,000 as follows:

	Fund Level		Government-Wide
	Governmental Funds		
	General Fund	Kalaeloa Community Development Revolving Fund	Governmental Activities
Fund balance/Net position as June 30, 2020, as previously reported	$ 232,105	$ 1,263,371	$ 165,172,324
Misstatement of accounts payable	(55,000)	(33,445)	(88,445)
Misstatement of capital assets	--	--	(46,181,005)
Fund balance/Net position at June 30, 2020, as restated	$ 177,105	$ 1,229,926	$ 118,902,874

REQUIRED SUPPLEMENTARY INFORMATION

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Ten Fiscal Years*

Measurement Period Ended	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a %age of Covered Payroll	Plan Fiduciary Net Position as a %age of the Total Pension Liability
June 30, 2020	0.05%	$ 4,237,183	$ 1,491,265	284.13%	53.18%
June 30, 2019	0.05%	$ 4,018,622	$ 1,688,633	237.98%	54.87%
June 30, 2018	0.05%	$ 3,770,830	$ 1,761,282	214.10%	55.48%
June 30, 2017	0.05%	$ 3,581,915	$ 1,595,593	224.49%	54.80%
June 30, 2016	0.05%	$ 3,670,198	$ 1,587,106	231.25%	51.28%
June 30, 2015	0.05%	$ 2,738,862	$ 1,681,031	162.93%	62.42%
June 30, 2014	0.05%	$ 2,414,914	$ 1,658,554	145.60%	63.92%

* This schedule is intended to present information for ten years for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
SCHEDULE OF PENSION CONTRIBUTIONS
Last Ten Fiscal Years*

Year Ended	Statutorily Required Contribution	Contributions in Relation to Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a %age of Covered Payroll
June 30, 2021	$ 151,779	$ 151,779	$ --	$ 1,484,150	10.23%
June 30, 2020	$ 157,393	$ 157,393	$ --	$ 1,491,265	10.55%
June 30, 2019	$ 314,057	$ 314,057	$ --	$ 1,688,633	18.60%
June 30, 2018	$ 55,079	$ 55,079	$ --	$ 1,761,282	3.13%
June 30, 2017	$ 171,852	$ 171,852	$ --	$ 1,595,593	10.77%
June 30, 2016	$ 268,852	$ 268,852	$ --	$ 1,587,106	16.94%
June 30, 2015	$ 180,052	$ 180,052	$ --	$ 1,681,031	10.71%
June 30, 2014	$ 127,502	$ 127,502	$ --	$ 1,658,554	7.69%

* This schedule is intended to present information for ten years for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information

NOTE A - CHANGES OF ASSUMPTIONS

There were no changes of assumptions or other inputs that significantly affected the measurement of the total pension liability since the measurement period ended June 30, 2016.

Amounts reported in the schedule of the proportionate share of the net pension liability as of the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017) were significantly impacted by the following changes of actuarial assumptions:

- The investment return assumption decreased from 7.65% to 7.00%

- Mortality assumptions were modified to assume longer life expectancies as well as to reflect continuous mortality improvement

Prior to the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017), there were no other factors, including the use of different assumptions that significantly affect trends reported in these schedules.

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Ten Years*

	2021	2020	2019	2018
Total OPEB liability				
Service cost	$ 53,045	$ 120,879	$ 20,516	$ 53,669
Interest on the total OPEB liability	170,342	381,022	63,524	162,962
Difference between expected and actual experience	(155,954)	(3,172)	(18,784)	--
Changes in assumptions	(12,769)	30,624	11,368	--
Benefit payments	(78,342)	(182,470)	(30,930)	(80,571)
Net change in total OPEB liability	(23,678)	346,883	45,694	136,060
Total OPEB liability - Beginning	3,418,942	3,072,059	3,026,365	2,890,305
Total OPEB liability - Ending	$ 3,395,264	$ 3,418,942	$ 3,072,059	$ 3,026,365
Plan fiduciary net position				
Contributions - employer	$ 175,064	$ 402,503	$ 61,114	$ 160,226
Net investment income	9,347	36,595	7,040	16,042
Benefit payments	(78,342)	(182,470)	(30,930)	(80,571)
Administrative expense	(66)	(251)	(23)	(41)
Other	59	84,769	--	1,288
Net change in plan fiduciary net position	106,062	341,146	37,201	96,944
Plan fiduciary net position - Beginning	619,480	278,334	241,133	144,189
Plan fiduciary net position - Ending	$ 725,542	$ 619,480	$ 278,334	$ 241,133
Net OPEB liability	$ 2,669,722	$ 2,799,462	$ 2,793,725	$ 2,785,232
Plan fiduciary net position as a percentage of the total OPEB liability	21.37%	18.12%	9.06%	7.97%
Covered-employee payroll	$ 1,491,265	$ 1,688,633	$ 1,761,282	$ 1,595,593
Net OPEB Liability as a Percentage of Covered-employee Payroll	179.02%	165.78%	158.62%	174.56%

* This schedule is intended to present information for ten years for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
SCHEDULE OF OPEB CONTRIBUTIONS
Last Ten Years*

Year Ended	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a %age of Covered Payroll
June 30, 2021	$ 47,974	$ 70,236	$ (22,262)	$ 1,484,150	4.73%
June 30, 2020	$ 182,796	$ 175,064	$ 7,732	$ 1,491,265	11.74%
June 30, 2019	$ 387,889	$ 402,503	$ (14,614)	$ 1,688,633	23.84%
June 30, 2018	$ 61,114	$ 61,114	$ --	$ 1,761,282	3.47%

* This schedule is intended to present information for ten years for each respective fiscal year. Additional years will be built prospectively as information becomes available.

See accompanying notes to required supplementary information

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

The actuarially determined annual required contributions for the fiscal year ending June 30, 2021 was developed in the July 1, 2018 valuation. The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the fiscal year ended June 30, 2021:

Actuarial valuation date	July 1, 2018
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	24.0 as of June 30, 2021
Inflation rate	2.50%
Investment rate of return	7.00%
Payroll growth	3.50%
Salary increases	3.50% to 7.00% including inflation
Demographic assumptions	Based on the experience study covering the five year period ending June 30, 2015 as conducted for the Hawaii Employees' Retirement System (ERS)
Mortality	System-specific mortality tables utilizing scale BB to project generational mortality improvement
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution. Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the base monthly contribution, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates	
PPO	Initial rate of 10.00%, declining to a rate of 4.86% after 13 years
HMO	Initial rate of 10.00%, declining to a rate of 4.86% after 13 years
Part B	Initial rates of 4.00% and 5.00%; declining to a rate of 4.70% after 12 years
Dental	Initial rate of 5.00% for first 3 years, followed by 4.00%
Vision	Initial rate of 0.00% for first 3 years, followed by 2.50%
Life Insurance	0.00%

Prior to the fiscal year ended June 30, 2021, there were no other factors, including the use of different assumptions that significantly affected trends in the amounts reported in the schedule of changes in the net OPEB liability and related ratios or the schedule of OPEB contributions.

PART II

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

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

999 BISHOP STREET, SUITE 2200
HONOLULU, HAWAII 96813
T (808) 524-2255 F (808) 523-2090

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

The Auditor
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hawaii Community Development Authority, State of Hawaii (HCDA), a component unit of the State of Hawaii as of and for the fiscal year ended June 30, 2021, 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 8, 2021.

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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2021-001 and 2021-002 that we consider to be material weaknesses.

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 financial statements. 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*.

HCDA's Response to Findings

The HCDA's response to the findings identified in our audit is described in the accompanying schedule of findings. HCDA's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

N&K CPAs, Inc.

Honolulu, Hawaii
December 8, 2021

PART III

SCHEDULE OF FINDINGS

Ref. No. **Financial Statement Internal Control Findings**

2021-001 Prepare Timely Reconciliation of the Capital Assets - Material Weakness

Criteria:

Management is responsible for preparing timely reconciliation of the capital assets. Completeness and accuracy are fundamental components to establish and maintain internal control over financial reporting to permit the preparation of the HCDA's financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition:

In preparing for the fiscal year 2021 audit, the HCDA discovered that the capital assets listing was not accurate. Items were identified that should have been disposed in the prior fiscal year related to the Land Transfer Agreement ("Agreement") to effectuate the transfer of approximately 35-acres of park space, comprised of Gateway Park, Kakaako Waterfront Park, and Kewalo Basin Park to the City and County of Honolulu in November 2019.

Cause:

There appeared to be a breakdown in communication within the entity itself and also between governmental agencies as the information available in fiscal year 2020 was limited and contributed to the difficulty in preparing timely and accurate information.

The Tax Map Key was subsequently cross-referenced to the capital assets listing and confirmed by the HCDA Asset Manager. Moreover, the executed Agreement was not obtained until June 2021. Notes or a reconciliation between the Agreement and the capital assets listing was not prepared prior, during or soon after the transfer. HCDA maintains a separate capital assets listing to reconcile to the Department of Accounting and General Services (DAGS) Fixed Assets Inventory System (FAIS) reports.

The predecessor Administrative Services Officer ("ASO") terminated employment with the HCDA in November 2019 and the Executive Director terminated employment with HCDA in January 2020 while the new ASO started employment with HCDA in January 2020.

Ref. No. **Financial Statement Internal Control Findings**

2021-001 Prepare Timely Reconciliation of the Capital Assets - Material Weakness

Effect:

The HCDA noted the following errors in their capital asset balances during the preparation of the audit for the fiscal year ended June 30, 2021 which resulted in a net prior period overstatement of $46.2 million:

- Approximately $68.2 million in capital asset dispositions were related to the park transfer.
- Approximately $22.0 million in accumulated depreciation was overstated for assets related to the park transfer.

Recommendation:

The HCDA should enhance its communication channels within the entity and between governmental agencies to foster a positive working relationship to allow the entity to obtain information quickly. This should help to prepare a timely and accurate reconciliation of the capital assets to reflect the capital assets maintained through the DAGS FAIS where quarterly transaction reports of additions and deletions to capital assets are generated.

Departments are responsible for the additions and deletions of information entered into the FAIS as additions and dispositions are recorded only upon receipt of the SPO Form 17-A, Detail Inventory of Property Processing by DAGS. Departments are also responsible for the review of the FAIS quarterly reports and notification to DAGS of any errors. These FAIS reports should be reviewed quarterly and reconciled to the roll-forward spreadsheets to identify any assets to be added or removed from the FAIS until the extra reconciliation roll-forward spreadsheet is eliminated and there is only one source of data to track the completeness of the information.

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on pages 72 - 73.

Ref. No. **Financial Statement Internal Control Findings**

2021-002 Improve Recordkeeping to Prepare Accrual Basis Financial Statements - Material Weakness

Criteria:

Management is responsible for establishing and maintaining internal control over financial reporting to permit the preparation of the HCDA's financial statements in conformity with accounting principles generally accepted in the United States of America.

Condition:

During the audit, an understatement of liabilities of $55,000 and $33,445 was discovered in the General Fund and Kalaeloa Community Development Revolving Fund (KCDRF), respectively, which were related to the prior year.

Cause:

The understated liabilities were not recorded due to an oversight.

Effect:

The fund balances in the General Fund and KCDRF were overstated by $55,000 and $33,445, respectively, for the understated payables in the prior year.

Recommendation:

The HCDA should properly and accurately record all related payables for the fiscal year.

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on pages 72 - 73.

PART IV

CORRECTIVE ACTION PLAN

HAWAII COMMUNITY DEVELOPMENT AUTHORITY
547 Queen Street, Honolulu, Hawaii 96813
Telephone: (808) 594-0300 Fax: (808) 587-0299
Web site: http://dbedt.hawaii.gov/hcda/

DAVID Y. IGE
GOVERNOR

SUSAN TODANI
CHAIRPERSON

DEEPAK NEUPANE, P.E., AIA
EXECUTIVE DIRECTOR

December 7, 2021

N&K CPAs, Inc.
999 Bishop Street, Suite 2900
Honolulu, HI 96813

Dear N&K:

Re: Fiscal Year 2021 Audit Finding

In response to 2021-001, management agrees with the finding. Pertinent details are listed below:

1. The transfer was from the State of Hawaii to the City and County of Honolulu.
2. The transfer pertained to park lands and the characteristic of the land will not change.
3. The park lands are not developable so the adjustment amount does not correlate to an economic benefit.

Corrective Action Plan:

The HCDA ASO will meet with the HCDA Asset Manager annually and review the fixed asset listing to identify any additions, disposals, or changes. The responses provided by the HCDA Asset Manager will be cross-referenced to executed agreements and historical and contemporary TMK maps. This will be evidenced by a memo to the files with a copy of the marked up listing attached.

The HCDA capital asset reconciliation spreadsheet will continue to exist due to 1) the internal class designations and 2) timing differences. The HCDA ASO will continue to update the DAGS FAIS until the reconciling items are limited to the previously mentioned causes.

In response to 2021-002, management agrees with the finding. Pertinent details are listed below:

1. A reliable method to identify liabilities related to the prior fiscal year is to review expenditures in the subsequent period.
2. Typically, for the fiscal year ended June 30, the HCDA reviews expenditures from July 1 to mid-August.
3. The payments were recorded on October 9 and September 11, respectively.

Corrective Action Plan:

The HCDA ASO will perform a search for unrecorded liabilities up to October 15 to be recorded in the financial statements of the prior fiscal year ended June 30.

Please contact Garet Sasaki at 808-594-0343 or garet.a.sasaki@hawaii.gov if you have any questions or concerns.

Sincerely,

Deepak Neupane, P.E., AIA
Executive Director