

**FINANCIAL AUDIT OF THE
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
STATE OF HAWAII**

Fiscal Year Ended June 30, 2019

**Submitted by
The Auditor
State of Hawaii**



N&K CPAs, Inc.

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STATE OF HAWAII**

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STATE OF HAWAII**

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PART I
FINANCIAL SECTION

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, 2019, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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, 2019, 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 T to the basic financial statements, certain errors resulting in the understatement of deferred outflows and overstatement of deferred inflows related to pensions as of June 30, 2018 were discovered by management of the HCDA. Accordingly, an adjustment has been made to the net position as of June 30, 2018 to correct the errors. Our opinion has not been 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 16 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 55 to 60 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 12, 2019, 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 grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the HCDA's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
December 12, 2019

**STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

For the Year Ended June 30, 2019

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, 2019. 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, 2019 by approximately \$178.5 million (net position).
- Fund balance as of June 30, 2018 was restated resulting in an increase of approximately \$863,000 due to a prior year error in recording the deferred inflows and outflows of resources. The adjustment has been properly reflected in the comparative summaries included in this section and as well as the comparative highlights listed below.
- The HCDA's assets and deferred outflows decreased by approximately \$4.2 million, or 2.1% from June 30, 2018 to June 30, 2019.
- The HCDA's total liabilities and deferred inflows increased by approximately \$1.2 million, or 5.8% from June 30, 2018 to June 30, 2019.
- The HCDA's total net position decreased by approximately \$5.5 million, or 3.0% from June 30, 2018 to June 30, 2019.

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).

**STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY**
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended June 30, 2019

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 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*.

**STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2019

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, 2019 and 2018 as restated.

	<u>2019</u>	<u>2018</u>
ASSETS		
Current assets	\$ 34,089,000	\$ 39,531,000
Capital assets, net of depreciation	148,715,000	147,721,000
Other assets	15,922,000	16,046,000
Deferred outflows of resources	<u>1,242,000</u>	<u>945,000</u>
Total assets and deferred outflows of resources	<u>\$ 199,968,000</u>	<u>\$ 204,243,000</u>
LIABILITIES		
Current liabilities	\$ 3,714,000	\$ 2,441,000
Long-term liabilities	17,666,000	17,594,000
Deferred inflows of resources	<u>112,000</u>	<u>275,000</u>
Total liabilities and deferred inflows of resources	<u>\$ 21,492,000</u>	<u>\$ 20,310,000</u>
NET POSITION		
Invested in capital assets	\$ 148,715,000	\$ 147,721,000
Restricted for capital assets	6,556,000	10,234,000
Unrestricted	<u>23,205,000</u>	<u>25,978,000</u>
Total net position	<u>\$ 178,476,000</u>	<u>\$ 183,933,000</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 199,968,000</u>	<u>\$ 204,243,000</u>

Analysis of Net Position

The assets and deferred outflows of the HCDA exceeded its liabilities and deferred inflows at June 30, 2019 by approximately \$178,476,000 (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 \$6,556,000 at June 30, 2019, 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.

**STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2019

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, 2019 and June 30, 2018 as restated.

	<u>2019</u>	<u>2018</u>
Revenues:		
Program revenues:		
Leasing and management	\$ 1,780,000	\$ 1,967,000
Community redevelopment	640,000	764,000
General revenues:		
Investment earnings	800,000	175,000
State allotted appropriations, net of lapsed appropriations	(470,000)	3,058,000
Other	259,000	-
Total revenues	<u>\$ 3,009,000</u>	<u>\$ 5,964,000</u>
Expenses:		
General government	\$ 2,423,000	\$ 1,835,000
Leasing and management	2,473,000	1,848,000
Community redevelopment	1,780,000	1,961,000
Capital projects	1,790,000	1,107,000
Total expenses	<u>\$ 8,466,000</u>	<u>\$ 6,751,000</u>
Change in net position	\$ (5,457,000)	\$ (787,000)
Net position – beginning of year, as restated	<u>183,933,000</u>	<u>184,720,000</u>
Net position – end of year	<u>\$ 178,476,000</u>	<u>\$ 183,933,000</u>

Analysis of Changes in Net Position

The HCDA's net position decreased by \$5.5 million or 3.0% during the fiscal year ended June 30, 2019. For the fiscal year ended June 30, 2019, the HCDA experienced a reduction in legislative appropriations. For the fiscal year ended June 30, 2018, the HCDA received approximately \$3.1 million in legislative appropriations, whereas the HCDA received \$500,000 in appropriations but lapsed approximately \$970,000 in appropriations received in prior years during the fiscal year ended June 30, 2019.

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. The continued trend of expenses in excess of revenues in both fiscal years 2019 and 2018, demonstrates HCDA's sensitivity and reliance upon legislative funding.

**STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended June 30, 2019**

FINANCIAL ANALYSIS OF THE HCDA'S INDIVIDUAL FUNDS

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

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

At June 30, 2019, the HCDA's governmental funds reported combined ending fund balances of approximately \$46.3 million, a decrease of approximately \$6.8 million or 12.8% from the previous fiscal year.

General Fund

For the fiscal year ended June 30, 2019, the HCDA received no General Funding as it had in previous years. The only activity this fiscal year was lapsing of a remaining fiscal year 2018 appropriation. The absence of General Funds is consistent with Act 53 of the 2018 Session Laws of Hawaii.

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 use 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 reduction in fund balance of approximately \$1,860,000 is primarily attributable to the transfer of staff salaries, historically paid by a legislative appropriation to the Hawaii Community Development Revolving Fund during the fiscal year ended June 30, 2019. For the fiscal year ended June 30, 2018, these salaries were paid through a General Fund appropriation. The change in funding sources is consistent with Act 53 of the 2018 Session Laws of Hawaii.

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.

**STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended June 30, 2019**

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

Kalaeloa Community Development Revolving Fund (Continued)

The net decrease of approximately \$1,235,000 is primarily attributable to the recognition of a contingent liability related to remediation costs assumed by the HCDA after it terminated a lease for a parcel in Kalaeloa for failure of the lessee to take timely corrective action. The liability of approximately \$875,000 is the estimated cost to remove and dispose of stockpiled material on the site that was inappropriately authorized by the lessee. The HCDA authorized a transfer of funds from the Hawaii Community Development Revolving Fund to this fund to cover these costs in the fiscal year ending June 30, 2020. The authorized transfer will address the deficit fund balance for the fund of approximately \$159,000 as of June 30, 2019.

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, \$44,000 is attributable to the expenses for work done on the draft community development plan 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 decreased by approximately \$3.7 million, or 35.9%. The HCDA received no new appropriations for the fiscal year ended June 30, 2019, while making significant progress on the Enterprise Energy Corridor in Kalaeloa and Restoration of the Ala Moana Historic Pumping Station in Kakaako.

**STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY**

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended June 30, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The HCDA's investment in capital assets as of June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Capital assets not being depreciated		
Land	\$ 95,137,000	\$ 95,137,000
Land improvements	13,969,000	13,969,000
Construction in progress	<u>10,522,000</u>	<u>6,800,000</u>
Total capital assets not being depreciated	<u>\$ 119,628,000</u>	<u>\$ 115,906,000</u>
Capital assets being depreciated		
Buildings	\$ 21,880,000	\$ 21,861,000
Wharves	4,268,000	4,268,000
Land improvements	26,805,000	26,805,000
Infrastructure networks	44,314,000	44,314,000
Furniture and equipment	<u>428,000</u>	<u>428,000</u>
Total assets being depreciated	<u>\$ 97,695,000</u>	<u>\$ 97,676,000</u>
Less accumulated depreciation	<u>\$ 68,608,000</u>	<u>\$ 65,861,000</u>
Capital assets, net of depreciation	<u>\$ 148,715,000</u>	<u>\$ 147,721,000</u>

The HCDA's investments in capital assets as of June 30, 2019, amounted to approximately \$148.7 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, 2019, the HCDA has no outstanding bonds issued under either program.

**STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended June 30, 2019**

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Kaka'ako

Development continued at a robust pace with six projects under construction – 'A'ali'i, Nohona Hale, Ola Ka Ilima Artspace Lofts, The Block 803 Waimanu, Ko'ula and the restoration of the Universal Building. Three projects were completed during the fiscal year ended June 30, 2018 – Ke Kilohana, Ae'o and Hale Kewalo.

In the makai area, the HCDA has made significant progress on a number of projects – Entrepreneur's Sandbox, renovation of the Ala Moana Pump Station Screen House and 1940 Pump Station, Kupu Net Shed, and improvements to Kewalo Basin Harbor. All of these projects have or will be completed by the end of 2019.

In October of 2019, the HCDA also completed 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 addition to the park, the HCDA also transferred its interest of public roads in the makai area as well.

Kalaeloa

Construction of the first phase of electrical upgrades down Enterprise Avenue, the Kalaeloa Energy Corridor was completed during the fiscal year and work has started on phase II. Phase II is on schedule to be completed in the first quarter of 2020. The \$13.5 million energy corridor will bring reliable power to the district to tenants and landowners in the vicinity. In addition to reliable power, these improvements will also provide increased capacity to support redevelopment.

The Aloha Solar project permitted on HCDA land in 2018 is near completion with test energy sales anticipated to start before the end of 2019. The project also included HECO pole line for distribution down Coral Seas. This line is anticipated to be extended further down Coral Seas to the Coast Guard site and will also be available to provide reliable power and increased capacity to support development.

The HCDA has also started 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.

**STATE OF HAWAII,
HAWAII COMMUNITY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended June 30, 2019**

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS (Continued)

He'eia

The HCDA has made significant progress on its community development plan for the district and hopes to soon have a draft plan for public comment and consideration. Work has also started on the accompanying draft rules for implementation of the plan.

In 2019, the HCDA with the help of its partner and lessee Kāko'o 'Ō'iwi continued its efforts to remove the invasive mangrove in the area, as well as restore the historic farm roads that once serviced 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
STATEMENT OF NET POSITION
June 30, 2019**

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash in State Treasury and petty cash	\$ 26,062,890
Due from State	6,980,874
Accounts receivable, net	439,933
Interest receivable	605,058
Total current assets	<u>34,088,755</u>
Noncurrent assets	
Loan receivable - Halekauwila Partners, LLC	15,599,236
Investment in limited partnership	73,185
Water source allocation credits	249,642
Capital assets, net	148,715,162
Total noncurrent assets	<u>164,637,225</u>
Total assets	<u>198,725,980</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Related to pension	829,873
Related to other postemployment benefits	411,989
Total deferred outflows of resources	<u>1,241,862</u>
Total assets and deferred outflows of resources	<u>\$ 199,967,842</u>

**Hawaii Community Development Authority
State of Hawaii
STATEMENT OF NET POSITION (Continued)
June 30, 2019**

	<u>Governmental Activities</u>
LIABILITIES	
Current liabilities	
Accounts payable	\$ 986,384
Unearned revenue	150,480
Accrued payroll	188,221
Rental security deposits	71,882
Current portion of long-term obligations	123,492
Stockpile remediation liability	875,076
Due to State Treasury	<u>1,318,263</u>
Total current liabilities	3,713,798
Long-term liabilities	
Due in more than one year	11,102,043
Net pension liability	3,770,830
Net other postemployment benefits liability	<u>2,793,725</u>
Total long-term liabilities	<u>17,666,598</u>
Total liabilities	<u>21,380,396</u>
DEFERRED INFLOWS OF RESOURCES	
Related to pensions	92,048
Related to other postemployment benefits	<u>19,708</u>
Total deferred inflows of resources	<u>111,756</u>
Total liabilities and deferred inflows of resources	<u>21,492,152</u>
NET POSITION	
Investment in capital assets	148,715,162
Restricted for capital projects	6,556,227
Unrestricted	<u>23,204,301</u>
Total net position	<u>\$ 178,475,690</u>

See accompanying notes to the financial statements

Hawaii Community Development Authority
State of Hawaii
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2019

	<u>Expenses</u>	<u>Program revenues</u>	<u>Net revenues (expenses) and changes in net position</u>
Governmental activities			
General government	\$ 2,423,433	\$ --	\$ (2,423,433)
Leasing and management	2,472,456	1,779,349	(693,107)
Community redevelopment	1,779,682	640,049	(1,139,633)
Capital projects	<u>1,790,454</u>	<u>--</u>	<u>(1,790,454)</u>
Total governmental activities	\$ <u>8,466,025</u>	\$ <u>2,419,398</u>	(6,046,627)
General revenues			
State allotted appropriations, net of lapsed appropriations			(469,791)
Investment earnings			800,256
Other			<u>259,159</u>
Total general revenues			<u>589,624</u>
Change in net position			(5,457,003)
Net position, beginning of year, as previously reported			183,069,675
Prior period adjustment			<u>863,018</u>
Net position, beginning of year, as restated			<u>183,932,693</u>
Net position, end of year			\$ <u>178,475,690</u>

See accompanying notes to the financial statements

Hawaii Community Development Authority
State of Hawaii
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2019

	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	\$ 25,270,338	\$ 757,771	\$ 31,281	\$ -	\$ 26,062,890
Due from State	-	-	-	-	6,980,874	6,980,874
Accounts receivable - net	-	438,529	1,404	-	-	439,933
Interest receivable	-	588,137	16,357	564	-	605,058
Water source allocation credits	-	249,642	-	-	-	249,642
Loan receivable - Halekauwila Partners, LLC	-	15,599,236	-	-	-	15,599,236
Total assets	3,500	42,145,882	775,532	31,845	6,980,874	49,937,633
Liabilities						
Accounts payable	-	518,873	42,864	-	424,647	986,384
Unearned revenues	-	150,480	-	-	-	150,480
Accrued payroll	-	171,577	16,644	-	-	188,221
Rental security deposits	-	71,882	-	-	-	71,882
Stockpile remediation liability	-	-	875,076	-	-	875,076
Due to State Treasury	3,500	1,314,763	-	-	-	1,318,263
Total liabilities	3,500	2,227,575	934,584	-	424,647	3,590,306
Fund Balances						
Nonspendable						
Water source allocation credits	-	249,642	-	-	-	249,642
Loan receivable	-	15,599,236	-	-	-	15,599,236
Total nonspendable fund balances	-	15,848,878	-	-	-	15,848,878
Restricted	-	24,069,429	-	31,845	6,556,227	30,657,501
Unassigned	-	-	(159,052)	-	-	(159,052)
Total fund balances	-	39,918,307	(159,052)	31,845	6,556,227	46,347,327
Total liabilities and fund balances	\$ 3,500	\$ 42,145,882	\$ 775,532	\$ 31,845	\$ 6,980,874	\$ 49,937,633

**Hawaii Community Development Authority
State of Hawaii
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
June 30, 2019**

Total fund balances - governmental funds	\$ 46,347,327
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.	148,715,162
Investments in limited partnerships are not financial resources and therefore not reported in the governmental funds	73,185
Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.	(396,313)
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	737,825
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	392,281
Net pension liability is not reported in the governmental funds	(3,770,830)
Net other postemployment benefits liability is not reported in the governmental funds	<u>(2,793,725)</u>
Net position of governmental activities	\$ <u>178,475,690</u>

See accompanying notes to the financial statements

Hawaii Community Development Authority
State of Hawaii

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2019

	General Fund	Hawaii Community Development	Kalaheo Community Development	He'eia Community Development	Capital Projects	Total Governmental Funds
Revenues						
State allotted appropriations, net	\$ (1,117)	\$ --	\$ --	\$ --	\$ (468,674)	\$ (469,791)
Contributions from property owners	--	210,814	--	--	--	210,814
Dedication and reserve housing fees	--	351,894	--	--	--	351,894
Investment earnings	--	777,491	20,949	1,816	--	800,256
Leasing and management	--	1,773,269	6,080	--	--	1,779,349
Other	--	252,290	6,869	--	--	259,159
Total	(1,117)	3,365,758	33,898	1,816	(468,674)	2,931,681
Expenditures						
General government	--	2,450,704	263,319	--	--	2,714,023
Leasing and management	--	957,814	1,030,961	--	--	1,988,775
Community redevelopment	--	1,153,427	106,874	46,000	--	1,306,301
Capital outlays	--	238,050	293,941	--	3,209,553	3,741,544
Total	--	4,799,995	1,695,095	46,000	3,209,553	9,750,643
Excess of revenues over (under) expenditures	(1,117)	(1,434,237)	(1,661,197)	(44,184)	(3,678,227)	(6,818,962)
Other financing sources (uses)						
Transfers in	--	27,615,833	141,920	41,281	--	27,799,034
Transfers out	--	(27,189,820)	(567,933)	(41,281)	--	(27,799,034)
Total	--	426,013	(426,013)	--	--	--
Net change in fund balances	(1,117)	(1,860,250)	(1,235,184)	(44,184)	(3,678,227)	(6,818,962)
Fund balances, beginning of year	1,117	41,778,557	1,076,132	76,029	10,234,454	53,166,289
Fund balances, end of year	\$ --	\$ 39,918,307	\$ (159,052)	\$ 31,845	\$ 6,556,227	\$ 46,347,327

**Hawaii Community Development Authority
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, 2019**

Net change in fund balances - total government funds	\$ (6,818,962)
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.	
Capital outlays	3,741,544
Depreciation expense	(2,747,516)
Change in unearned housing and public facilities dedication credits reported in the statement of activities as they do not require the use of current financial resources, and therefore not reported as an expenditure in the governmental funds.	
	106,033
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.	
	(28,692)
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	26,930
Net pension activity	(63,041)
Net other post employment benefit obligation activity	<u>326,701</u>
Change in net position of governmental activities	\$ <u>(5,457,003)</u>

See accompanying notes to the financial statements

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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, 2019, 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 Comprehensive Annual Financial Report, 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, liabilities, 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.

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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.

(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 the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

Hawaii Community Development Authority
State of Hawaii
(A Component Unit of the State of Hawaii)
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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.

Hawaii Community Development Authority
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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.

Hawaii Community Development Authority
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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 outflow of resources related to pensions and 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 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. The deferred inflow of resources related to pension and OPEB resulted from differences between expected and actual experiences and changes in proportion of the pension and OPEB plans which will be amortized over five years.
- (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, 2019, accumulated sick leave was approximately \$789,700.

Hawaii Community Development Authority
State of Hawaii
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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 both revenue recognition criteria are met or when the HCDA has a legal claim to the resources, the liability is removed from the statement of net position and balance sheet - governmental funds, and recognized as revenue.

- (11) ***Encumbrances*** - Encumbrances are recorded obligations in the form of purchase orders or contracts. The HCDA records encumbrances at the time purchase orders or contracts are awarded and executed.

Encumbrances outstanding at fiscal year-end represent commitments related to unperformed contracts for goods or services and are included in restricted or committed fund balances.

- (12) ***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.
- (13) ***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.
- (14) ***Pensions*** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System of the State of Hawaii (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.
- (15) ***Other Postemployment Benefits (OPEB)*** - 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 Hawaii Employer-Union Health Benefits Trust Fund (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.

Hawaii Community Development Authority
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (16) **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.
- (17) **New Accounting Pronouncements** - The Government Accounting Standards Board (the "GASB") issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations ("AROs"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. HCDA has determined that this Statement does not have a material impact on the financial statements.

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, 2018. HCDA has not yet determined the effect this Statement will have 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 December 15, 2019. HCDA has not yet determined the effect this Statement will have on the financial statements.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings (for example, a government entering into a loan agreement with a lender) and direct placements (for example, a government issuing a debt security directly to an investor). Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. HCDA has determined that this Statement does not have a material impact on the financial statements.

Hawaii Community Development Authority
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Changes adopted to conform to the provisions of this Statement should be applied prospectively. 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, 2018. HCDA has not yet determined the effect this Statement will have on the financial statements.

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, 2020. HCDA has not yet determined the effect this Statement will have on the 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, 2019, the adoption of an annual budget for the Special Revenue Funds was not required.

Hawaii Community Development Authority
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

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 cash pool, the HCDA does not manage its own investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the organization level. The risk disclosures of the State's cash pool are included in the State's Comprehensive Annual Financial Report (CAFR) 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, 2019, accounts receivable for the governmental funds consisted of the following:

	Hawaii Community Development	Kalaeloa Community Development	Total Governmental Funds
Rent	\$ 580,210	\$ —	\$ 580,210
Assessment	18,964	1,404	20,368
Less: allowance for uncollectible accounts	(160,645)	—	(160,645)
	\$ <u>438,529</u>	\$ <u>1,404</u>	\$ <u>439,933</u>

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.

Hawaii Community Development Authority
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE F - LOAN RECEIVABLE (Continued)

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, 2019, HP repaid \$1,400,764. As of June 30, 2019, the HCDA has outstanding disbursements of \$15,599,236 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 two separate limited partnerships as follows:

Na Lei Hulu Kupuna Limited Partnership - The HCDA entered into this partnership in November 1991 for the purpose of constructing, maintaining, and operating an elderly, low-income rental housing project called Na Lei Hulu Kupuna. On March 30, 2015, the partnership consented to the sale of Na Lei Hulu Kupuna. With the sale of Na Lei Kupuna, the partnership has been dissolved and final distribution was made to the HCDA in fiscal year 2019.

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, 2019, the HCDA's investment, net of distributions and allocated income and losses, in the limited partnerships was approximately \$73,200.

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, 2019 was approximately \$52,500 and is included in leasing and management revenue.

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

Hawaii Community Development Authority
State of Hawaii
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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE H - CAPITAL ASSETS

For the fiscal year ended June 30, 2019, the changes in capital assets were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 95,136,918	\$ --	\$ --	\$ 95,136,918
Land improvements	13,968,842	--	--	13,968,842
Construction in progress	6,800,570	3,721,973	--	10,522,543
Total capital assets not being depreciated	<u>115,906,330</u>	<u>3,721,973</u>	<u>--</u>	<u>119,628,303</u>
Capital assets being depreciated				
Buildings	21,860,704	19,571	--	21,880,275
Wharves	4,267,956	--	--	4,267,956
Land improvements	26,805,024	--	--	26,805,024
Infrastructure networks	44,314,272	--	--	44,314,272
Furniture and equipment	427,644	--	--	427,644
Total capital assets being depreciated	<u>97,675,600</u>	<u>19,571</u>	<u>--</u>	<u>97,695,171</u>
Less accumulated depreciation for:				
Buildings	10,688,539	711,958	--	11,400,497
Wharves	4,138,857	17,928	--	4,156,785
Land improvements	23,424,897	553,808	--	23,978,705
Infrastructure networks	27,280,974	1,426,887	--	28,707,861
Furniture and equipment	327,529	36,935	--	364,464
Total accumulated depreciation	<u>65,860,796</u>	<u>2,747,516</u>	<u>--</u>	<u>68,608,312</u>
Capital assets, net of accumulated depreciation	\$ <u>147,721,134</u>	\$ <u>994,028</u>	\$ <u>--</u>	\$ <u>148,715,162</u>

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

For the fiscal year ended June 30, 2019, depreciation expense was charged to functions of the HCDA as follows:

Governmental Activity	Amount
Leasing and management	\$ 483,681
Community redevelopment	473,381
Capital projects	<u>1,790,454</u>
	<u>\$ 2,747,516</u>

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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 157.198 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 the 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 had not been 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, 2019, this balance due amounts to \$1,270,324 and is reflected as a balance due to State Treasury.

NOTE K - LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Unearned reserved housing credit	\$ 311,400	\$ —	\$ —	\$ 311,400	\$ —
Unearned public facility dedication credits	10,623,855		106,033	10,517,822	—
Accrued compensated absences	<u>423,243</u>	<u>221,343</u>	<u>248,273</u>	<u>396,313</u>	<u>123,492</u>
Total long-term liabilities	\$ <u>11,358,498</u>	\$ <u>221,343</u>	\$ <u>354,306</u>	\$ <u>11,225,535</u>	\$ <u>123,492</u>

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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, 2019.

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 State Employees' Retirement System (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 ERS' website: <http://www.ers.ehawaii.gov>.

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.

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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 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 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.

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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 any age, provided the last five years is service credited in these occupations.

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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 3% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of service for police 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 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.

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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 2019 were 31.00% for police officers and firefighters and 19.00% for all other employees. Contributions to the ERS from the HCDA was \$314,057 for the fiscal year ended June 30, 2019.

Per Act 17 (SLH 2017), employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for police and firefighters increased to 31% on July 1, 2018; and increases to 36% on July 1, 2019; and 41% on July 1, 2020, and the rate for all other employees' increased to 19% on July 1, 2018; and increases to 22% on July 1, 2019; and 24% on July 1, 2020.

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.

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NOTE M - RETIREMENT BENEFITS (Continued)

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

Measurement of the actuarial valuation is made for the State as a whole and is not separately computed for the individual state departments and agencies such as the HCDA. It is the State's policy to recognize the proportionate share of the pension liability, pension expense, deferred inflows related to pensions, and deferred outflows related to pension for only component units and proprietary funds that are reported separately in the CAFR. The State's CAFR includes the note disclosures and required supplementary information on the State's pension plans.

At June 30, 2019, the HCDA reported a net pension liability of \$3,770,830 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2019, the HCDA's proportionate share of the State's net pension liability was .04%, which was equal to its proportionate share as of June 30, 2018.

There was no change in actuarial assumptions from June 30, 2017 to June 30, 2018. There were no changes between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2019, the HCDA recognized pension expense of \$377,098. At June 30, 2019, 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	\$ 51,804	\$ (60,006)
Changes in assumptions	358,190	--
Net difference between projected and actual earnings on pension plan investments	97,106	--
Changes in proportion and differences between HCDA's contributions and proportionate share of contributions	8,716	(32,042)
Contributions subsequent to the measurement date	314,057	--
	<u>\$ 829,873</u>	<u>\$ (92,048)</u>

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NOTE M - RETIREMENT BENEFITS (Continued)

The \$314,057 reported as deferred outflows of resources related to pension at June 30, 2019 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension at June 30, 2019 will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 200,052
2021	167,181
2022	61,426
2023	(5,316)
2024	425
	<u>\$ 423,768</u>

Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on December 12, 2016, based on the 2015 Experience Study for the five-year period from July 1, 2010 through June 30, 2015:

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

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

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table, with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of the RP-2014 mortality table based on the occupation of the member.

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's 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 nominal rates of return (real returns and inflation) by the target asset allocation percentage and by adding expected inflation.

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NOTE M - RETIREMENT BENEFITS (Continued)

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

<u>Strategic Allocation (Risk-Based Classes)</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>	<u>Long-Term Expected Real Rate of Return *</u>
Broad growth	63.0%	7.10%	4.85%
Principal protection	7.0%	2.50%	0.25%
Real return	10.0%	4.10%	1.85%
Crisis risk offset	<u>20.0%</u>	4.60%	2.35%
Total investments	<u>100.0%</u>		

* Uses an expected inflation rate of 2.25%

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.

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:

	<u>1% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
HCDA's proportionate share of the net pension liability	\$ <u>4,904,928</u>	\$ <u>3,770,830</u>	\$ <u>2,835,941</u>

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NOTE M - RETIREMENT BENEFITS (Continued)

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 <http://www.ers.ehawaii.gov>.

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 Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 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.

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

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Employer contributions to the EUTF from the HCDA was \$402,503 for the fiscal year ended June 30, 2019. The employer is required to make all contributions for members, which is charged to personnel services expense.

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

Measurement of the actuarial valuation and the ARC are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the HCDA. The State allocates other postemployment benefit (OPEB) liability, OPEB expense, and deferred outflows of resources, and deferred inflows of resources related to OPEB to component units and proprietary funds that are reported separately in the State's Comprehensive Annual Financial Report (CAFR). The State's CAFR includes the note disclosures and required supplementary information on the State's OPEB plans.

At June 30, 2019, the HCDA reported a net OPEB liability of \$2,793,725. The net OPEB liability was measured as of July 1, 2018, 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, 2019, the HCDA's proportionate share of the State's net OPEB liability was 0.05%.

There were no changes between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the HCDA's proportionate share of the State's net OPEB liability.

For the year ended June 30, 2019, the HCDA recognized OPEB expense of \$75,802. At June 30, 2019, the HCDA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ —	\$ (15,673)
Changes in assumptions	9,486	—
Net difference between projected and actual earnings on OPEB plan investments	—	(4,035)
Contributions subsequent to the measurement date	402,503	—
	<u>\$ 411,989</u>	<u>\$ (19,708)</u>

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

The \$402,503 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ (2,255)
2021	(2,255)
2022	(2,255)
2023	(1,761)
2024	(1,635)
Thereafter	(61)
	<u>\$ (10,222)</u>

Actuarial Assumptions

The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Payroll growth rate	3.50% to 7.00%, including inflation
Investment rate of return	7.00%, net of investment expenses, including inflation
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 & Base Monthly Contribution (BMC)	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 three years, followed by 4.00%
Vision	Initial rate of 0.00% for first three years, followed by 2.50%
Life Insurance	0.00%

*Blended rates for medical and prescription drug.

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

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

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	17.00%	6.50%
U.S. equity	15.00%	5.05%
Private equity	10.00%	8.65%
Core real estate	10.00%	4.10%
Trend following	9.00%	3.00%
U.S. microcap	7.00%	7.00%
Global options	7.00%	4.50%
Private credit	6.00%	5.25%
Long treasuries	6.00%	1.90%
Alternative risk premia	5.00%	2.45%
TIPS	5.00%	0.75%
Core bonds	3.00%	1.30%
	<u>100.00%</u>	

Discount Rate

A single discount rate of 7% was used to measure the total OPEB liability. This discount rate was 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. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. 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.

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

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 <http://eutf.hawaii.gov>.

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, 2018.

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance at June 30, 2018	\$ <u>3,026,365</u>	\$ <u>241,133</u>	\$ <u>2,785,232</u>
Changes for the fiscal year:			
Service cost	20,516	—	20,516
Interest on the total OPEB liability	63,524	—	63,524
Employer contributions		61,114	(61,114)
Net investment income		7,040	(7,040)
Difference between expected and actual experience	(18,784)	—	(18,784)
Changes in assumptions	11,368	—	11,368
Benefit payments	(30,930)	(30,930)	—
Administrative expense	—	(23)	23
Net changes	<u>45,694</u>	<u>37,201</u>	<u>8,493</u>
Balance at June 30, 2019	\$ <u>3,072,059</u>	\$ <u>278,334</u>	\$ <u>2,793,725</u>

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

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 OPEB liability	\$ <u>3,302,854</u>	\$ <u>2,793,725</u>	\$ <u>2,393,675</u>

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 OPEB liability	\$ <u>2,371,872</u>	\$ <u>2,793,725</u>	\$ <u>3,341,197</u>

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, permits employees to defer a portion of their compensation until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the accompanying basic financial statements.

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NOTE P - 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, 2019. The HCDA also leases space from the Department of Hawaiian Homelands and the Department of Land and Natural Resources through January 2019 and February 2019, respectively. Total rent expense related to those leases amounted to \$86,085.

At June 30, 2019, future minimum lease rent payments approximate the following:

Fiscal Years Ending June, 30	Amount
2020	\$ 131,700
2021	122,400
2022	122,400
2023	122,400
2024	122,400
Thereafter	540,400
	<u>\$ 1,161,700</u>

Issuance of Revenue Bonds

The State Legislature has authorized the issuance of revenue bonds for the Kaka'ako Community Development District Project. As of June 30, 2019, the following amounts were authorized and unissued:

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

Encumbrances

Commitments for the HCDA include encumbrances outstanding as of June 30, 2019 for its major governmental funds. Encumbrances are included in each fund's respective fund balance as follows:

Fund	Amount
Kaka'ako	\$ 2,987,185
Kalaheo	383,265
He'eia	24,500
Capital Projects	5,330,444
	<u>\$ 8,725,394</u>

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June 30, 2019

NOTE P - 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 Q - 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 April 2083, various month-to-month and/or percentage rent leasing arrangements.

At June 30, 2019, future minimum lease rentals approximate the following:

<u>Fiscal Years</u> <u>Ending June 30,</u>	<u>Amount</u>
2020	\$ 823,200
2021	824,400
2022	815,600
2023	809,300
2024	789,700
Thereafter	<u>13,954,200</u>
	\$ <u><u>18,016,400</u></u>

NOTE R - RISK MANAGEMENT

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

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

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June 30, 2019

NOTE R - RISK MANAGEMENT (Continued)

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

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

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

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

NOTE S - STOCKPILE REMEDIATION LIABILITY

In 2013, the HCDA, as land owner of the Kalaeloa Heritage Park (KHP) site, received a notice of violation from the City Department of Planning and Permitting for stockpiling without a permit. At the time of the violation, the site was under a right of entry with a non-profit for stewardship and curation of the cultural sites. Subsequent to this violation, the HCDA later entered into a lease with the stewards of the site that acknowledged responsibility for the violation and further agreed to remedy the violation.

After failing to timely remediate the stockpile violation, in fiscal year 2019, the HCDA terminated its lease with the stewards of the site, effectively retaining the direct liability for remediation. Under the terms of the lease, the HCDA's ability to recover from the lessee the costs incurred by the HCDA to remediate the violation survives the termination of the lease and remains available for the HCDA to exercise.

In fiscal year 2019, the HCDA explored the various remediation alternatives. After consulting with and considering market conditions, HCDA opted for the direct disposal of the material at the landfill. In October 2019, the HCDA issued a bid for a contractor to load, haul, dispose, and restore the site and effectively close out the violation and is currently working to contract with the lowest bidder for approximately \$875,000. The HCDA has accrued this liability as of June 30, 2019.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE T - RESTATEMENT OF NET POSITION

The accompanying financial statements reflect a restatement of beginning net position as of June 30, 2019 due to an understatement of net deferred outflows related to pension of \$867,044 and an understatement of deferred inflows related to other postemployment benefits of \$4,026 as of June 30, 2018. The adjustment to correct these errors resulted in an increase in beginning net position of \$863,018 as of June 30, 2019.

NOTE U - SUBSEQUENT EVENTS

Effective November 1, 2019, 16 parcels, including 3 roadways and other public facilities were transferred from the HCDA to the City and County of Honolulu. The facilities include Kaka'ako Gateway Park, Kaka'ako Waterfront Park, Kewalo Basin Park, adjoining parking lots, and Ohe, Olomehani and Ahui streets. To assist with bringing these facilities up to standards, the HCDA has provided approximately \$2.25 million in funds to the City and County of Honolulu.

REQUIRED SUPPLEMENTARY INFORMATION

**Hawaii Community Development Authority
State of Hawaii
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Ten Fiscal Years**

<u>Measurement Period Ended</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a %age of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a %age of the Total Pension Liability</u>
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.

**Hawaii Community Development Authority
State of Hawaii
SCHEDULE OF PENSION CONTRIBUTIONS
Last Ten Fiscal Years**

<u>Year Ended</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a %age of Covered Payroll</u>
June 30, 2019	\$ 314,057	\$ 314,057	\$ —	\$ 1,714,676	18.32%
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.

**Hawaii Community Development Authority
State of Hawaii
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 68
Fiscal Year Ended June 30, 2019**

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 at June 30, 2018.

Amounts reported in the schedule of the proportionate share of the net pension liability as of the measurement period ended June 30, 2018 (fiscal year ended June 30, 2019) 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, 2018 (fiscal year ended June 30, 2019), 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
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
Last Ten Years

	<u>2019</u>	<u>2018</u>
Total OPEB liability		
Service cost	\$ 20,516	\$ 53,669
Interest on the total OPEB liability	63,524	162,962
Difference between expected and actual experience	(18,784)	--
Changes in assumptions	11,368	--
Benefit payments	<u>(30,930)</u>	<u>(80,571)</u>
Net change in total OPEB liability	45,694	136,060
 Total OPEB liability - Beginning	 <u>3,026,365</u>	 <u>2,890,305</u>
 Total OPEB liability - Ending	 <u>\$ 3,072,059</u>	 <u>\$ 3,026,365</u>
 Plan fiduciary net position		
Contributions - employer	\$ 61,114	\$ 160,226
Net investment income	7,040	16,042
Benefit payments	(30,930)	(80,571)
Administrative expense	(23)	(41)
Other	<u>--</u>	<u>1,288</u>
Net change in plan fiduciary net position	37,201	96,944
 Plan fiduciary net position - Beginning	 <u>241,133</u>	 <u>144,189</u>
 Plan fiduciary net position - Ending	 <u>\$ 278,334</u>	 <u>\$ 241,133</u>
 Net OPEB liability	 <u>\$ 2,793,725</u>	 <u>\$ 2,785,232</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 9.70%	 7.97%
 Covered-employee payroll	 \$ 1,714,676	 \$ 1,761,282
 Net OPEB Liability as a Percentage of Covered-employee Payroll	 162.93%	 158.14%

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.

**Hawaii Community Development Authority
State of Hawaii
SCHEDULE OF OPEB CONTRIBUTIONS
Last Ten Years**

<u>Year Ended</u>	<u>Actuarially Determined Contribution (ADC)</u>	<u>Contributions in Relation to the ADC</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a %age of Covered Payroll</u>
June 30, 2019	\$ 387,889	\$ 402,503	\$ (14,614)	\$ 1,714,676	23.47%
June 30, 2018	\$ 61,114	\$ 61,114	\$ —	\$ 1,761,282	3.47%

* The data is presented for the years for which information is available.

**Hawaii Community Development Authority
State of Hawaii
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 75
Fiscal Year Ended June 30, 2019**

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

The actuarially determined annual required contributions ("ARC") for the fiscal year ending June 30, 2019 was developed in the July 1, 2017 valuation. The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the fiscal year ended June 30, 2019:

Actuarial valuation date	July 1, 2017
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	26.0 as of June 30, 2019
Asset valuation method	Market
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 rates of 6.6%, 6.6%, and 9.0%, declining to a rate of 4.86% after 14 years
HMO	Initial rate of 9.0%, declining to a rate of 4.86% after 14 years
Part B	Initial rates of 2.0% and 5%; declining to a rate of 4.7% after 14 years
Dental	3.50%
Vision	2.50%
Life Insurance	0.00%

PART II

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

**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 State of Hawaii, Hawaii Community Development Authority (HCDA), a component unit of the State of Hawaii as of and for the fiscal year ended June 30, 2019, 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 12, 2019 .

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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 12, 2019