HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION

2018 ANNUAL REPORT

HHFDC
Hawaii Housing Finance & Development Corporation

The mission of the Hawaii Housing Finance and Development Corporation is to increase and preserve the supply of workforce and affordable housing statewide by providing leadership, tools, and resources to facilitate housing development.

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The Hawaii Housing Finance and Development Corporation (HHFDC) is administratively attached to the Department of Business, Economic Development and Tourism and is the primary agency charged with overseeing affordable housing finance and development in Hawaii by working with the State's residents, housing developers and financiers.

THE HONORABLE

DAVID Y. IGE, GOVERNOR, STATE OF HAWAII

Dear Governor Ige,

In Fiscal Year 2018, the HHFDC assisted in the delivery of 1,216 workforce/affordable units while managing assets of close to $1.5 billion. Since its inception in 2006, the HHFDC has facilitated the development of 9,333 workforce and affordable units statewide and currently has a production plan in place to add 6,971 more units over the next five years.

In the immediate future, the HHFDC is concentrating on increasing the production pipeline and accelerating the delivery of homes that people can afford while we continue to leverage additional state funding to attract more private investment to develop more housing.

In FY 2018, Act 39 provided historic funding to meet the state's long-term housing demands and move us closer to the state's goals:

- $200 million infusion into the Rental Housing Revolving Fund to generate approximately 1,600 affordable rentals

- $30 million in annual General Excise Tax Exemptions until 2030 to assist in the delivery of approximately 24,000 affordable rentals.

- $10 million infusion into the Dwelling Unit Revolving Fund.

As we move forward, the HHFDC remains committed to being good stewards of the resources entrusted to us, and being strategic about developing long-term sustainable solutions to benefit future generations in Hawaii.

CRAIG K. HIRAI

Executive Director, HHFDC

In 2018, Act 39 added $200 million to the Rental Housing Revolving Fund, and $10 million to the Dwelling Unit Revolving Fund along with an expansion of General Excise Tax exemptions for the construction of affordable units to $30 million, from $7 million.

Legislative History

The Hawaii Housing Finance and Development Corporation (HHFDC) was created to focus on the financing and development of affordable housing.

In 1997, the Legislature established the Housing and Community Development Corporation of Hawaii (HCDCH) by consolidating the Hawai`i Housing Authority, the Housing Finance and Development Corporation and Rental Housing Trust Fund Commission. The HCDCH administered the state's public housing, homeless assistance, housing finance and housing development programs.

In 2005, the Legislature found that "the burden of administering the public housing projects in the State has overshadowed the ability of the corporation to pay sufficient attention to the financing and development of affordable housing." Therefore, Act 196 of 2005, as amended by Act 180 of 2006, separated the housing financing and development functions from the HCDCH to create the HHFDC.

Organizational Structure

The HHFDC is administratively attached to the Department of Business, Economic Development and Tourism. It is governed by a nine-member Board of Directors which establishes policies and executive direction for the Corporation.

Six members are appointed by the Governor from each of the counties of Honolulu, Hawaii, Maui and Kauai. At least four members must have knowledge and expertise in public or private financing and development of affordable housing, and one member must represent community advocates for low-income housing. The three ex-officio members are the Director of Business, Economic Development and Tourism, the Director of Finance, and a representative of the Governor's office.

Five-Year Production Plan

The HHFDC has a production plan in place to assist in the finance and development of approximately 6,971 workforce/affordable units over the next five years.

Fiscal Years	Rental	For Sale	Total
2019	539	666	1,205
2020	1,593	353	1,946
2021	839	292	1,131
2022	1,235	384	1,619
2023	750	320	1,070
Total	**4,956**	**2,015**	**6,971**

EAH/BRONX PRO

NOHONA HALE

Nohona Hale is the first micro-unit building in the state. The $27 million project is being built on state land - a 9,660 square-foot parcel at 630 Cooke Street. It will include a 14-story tower, 110 rental units and 1 manager's unit, and will remain affordable for 65 years.

The Bronx Pro Group, Swinnerton Builders and EAH Housing and partnering to construct and manage the project.

Proposed rents for qualifying individuals range from $500 to $995 a month.

The estimated completion date is January 2020.

DEVELOPMENT RESOURCES

The HHFDC has a toolbox of resources to facilitate the development of affordable rental or for-sale housing including financing, expedited land use approvals under Chapter 201H, Hawaii Revised Statutes, exemptions from general excise taxes, and real property.

FINANCING TOOLS

Rental Housing Revolving Fund (aka Rental Housing Trust Fund))

The Rental Housing Revolving Fund (RHRF) provides equity gap low-interest loans or grants to qualified owners and developers for the development, pre-development, construction, acquisition or preservation of affordable rental housing. Preference is given to projects that meet certain statutory criteria. Included is a preference for projects that provide at least 5 percent of the total number of units for persons and families with incomes at or below 30 percent of the median family income. Another preference is projects that provide the maximum number of units for persons or families with incomes at or below 80 percent of the median family income.

Act 39, SLH 2018 appropriated $200 million to the RHRF. This appropriation will more than double its corpus to assist low income families and individuals, including the homeless and special needs groups, in obtaining affordable rental housing.

Low Income Housing Tax Credits (LIHTC)

The LIHTC program is a major financing tool for non-profit and for-profit developers to construct or rehabilitate affordable rental housing. Under the program, HHFDC is the designated state housing credit agency that may allocate LIHTC established under the Tax Reform Act of 1986. The State has a matching LIHTC program equal to 50% of the Federal LIHTC amount. Eligible taxpayers may claim LIHTC on their federal tax returns as a dollar-for-dollar offset on their tax liability for ten years. Act 129, SLH 2016 shortened the State LIHTC period from 10 years to 5 years. Generally, affordable housing project owners that qualify for LIHTC find investors for these tax credits through Syndicators to generate project equity financing for their projects.

There are two types of LIHTC:

Volume Cap (or 9%) LIHTC: Tax credits that the IRS allows the State to issue for affordable housing purposes based on an annual per capita factor and the State's population. The annual per capita limit for 2018 is $2.35, translating to $3,364,267 in LIHTC that the State can allocate.

Non-Volume Cap (or 4%) LIHTC: LIHTC exempt from the volume cap limitation. These credits must be accompanied by tax-exempt financing under the State's bond volume cap. The limit under the non-volume cap LIHTC is based on the amount of State bond volume cap used for affordable multi-family housing.

Hula Mae Multi-Family Revenue Bond Program

The Hula Mae Multi-Family program provides low interest rate financing through the issuance of tax-exempt revenue bonds for the construction and/or acquisition and rehabilitation of rental housing projects. Developers can secure 4% non-competitive low-income housing tax credits in conjunction with the Hula Mae multi-family financing. The HHFDC, with the approval of the Governor, is authorized to issue up to $1.5 billion in revenue bonds.

Dwelling Unit Revolving Fund (DURF)

DURF was established pursuant to Act 105, SLH 1970, which authorized the issuance of $125,000,000 of general obligation bonds to carry out the purposes of the Housing Development Program. Funds may be used for the acquisition of real property; development and construction of residential, commercial and industrial properties; interim and permanent loans to developers; and all things necessary to carry out the purposes of the Housing Development Program, including administrative expenses.

Act 132, SLH 2016 authorized the use of DURF finds to finance regional infrastructure projects in conjunction with the counties, private landowners and developers.

Act 39, SLH 2018 appropriated $10 million to DURF. This appropriation will increase its corpus by 10 percent.

STANFORD CARR DEVELOPMENT

HALE KEWALO

With 128 units in the making, Hale Kewalo will bring affordable rent to families earning up to 60% of Honolulu's median income.13 units will be made available for households earning up 30% of Honolulu's median income, 65 units for those earning up to 50% of the median income, and 49 units for those earning up to 60% of the median income. One unit will be dedicated for the manager. Rental units will range between $451 for a one bedroom to $1,358 for a 3 bedroom. Construction is expected to be completed in 2019.

FEDERAL FUNDS

HOME Investment Partnerships Program (HOME)

The HHFDC administers the federal HOME program which is intended to expand the supply of decent, safe, affordable and sanitary housing. HOME funds may be used for a variety of activities including tenant-based rental assistance, down payment loans for first-time homebuyers, rehabilitation loans for existing homeowners, property acquisition, new construction, reconstruction, moderate or substantial rehabilitation, site improvements, demolition, relocation expenses, loan guarantees, and other reasonable and necessary expenses related to development of affordable housing. The HHFDC receives approximately $3 million in HOME funds from the U.S. Department of Housing and Urban Development (HUD) each year. Funds are allocated on an annual rotating basis to the Counties of Hawaii, Kauai and Maui.

Neighborhood Stabilization Program (NSP)

The NSP was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment. Through the purchase and redevelopment of foreclosed and abandoned homes and residential properties, the goal of the program is being realized.

HHFDC received two awards of NSP funds. In 2009, the HHFDC received an award of $19.6 million from NSP Round 1, authorized under Division B, Title III of the Housing and Economic Recovery Act of 2008 (HERA). In 2011, HHFDC received a subsequent award of $5 million from NSP Round 3 authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. NSP funds were allocated to all four counties to create affordable rental and homeownership opportunities for households whose incomes do not exceed 120% of the area median income.

Housing Trust Fund (HTF)

The National Housing Trust Fund was established by HUD for the purpose of production or preservation of affordable housing through the acquisition, new construction, reconstruction, and/or rehabilitation of no-luxury housing with suitable amenities. All HTF–assisted units will be required to have a minimum affordability period of 30 years. HHFDC is the designated HTF agency for the State of Hawaii. HHFDC anticipates receiving $3 million in HTF each year. Funds are allocated as follows: 50 percent to the City and County of Honolulu; the other 50 percent to be allocated on an annual rotating basis to the Counties of Hawaii, Kauai, and Maui.

KEAHUMOA PLACE

Located in the heart of the rapidly developing East Kapolei region, Keahumoa Place will be built on 19.72 acres along Keahumoa Parkway, a short distance from the Kualaka'i Transit Station, the Salvation Army Kroc Community Center, and the University of Hawaii West Oahu.

The Keahumoa Place complex will have 37 two-story garden-style buildings with 320 rental apartments, 628 parking spaces, and open space. To serve as a gathering place for community residents, amenities will include a community center with computer lab, multipurpose room, covered-open gathering space, picnic area, tot lot, and a pet park.

Keahumoa Place will offer a mix of one-, two-, and three-bedroom units, and remain affordable for 65 years. More than 80 percent of the apartments will be offered at rents affordable to families earning 80 percent or less of the Area Median Income (AMI), as determined annually by the U.S. Department of Housing and Urban Development (HUD).

At the completion of Phase 4, the multi-family housing apartment community will provide Hawaii families with 320 new, affordable rental units by 2020.

DEVELOPMENT TOOLS

Land

A portfolio of real property acquired by negotiation, exchange, or purchase, is made available to developers through the Request for Proposals (RFP) process.

Chapter 201H Expedited Processing

Pursuant to Chapter 201H, Hawaii Revised Statutes, the HHFDC may develop, on behalf of the State or with an eligible developer, or may assist under a government assistance program in the development of housing projects which are exempt from all statutes, ordinances, charter provisions, and rules of any governmental agency relating to planning, zoning, construction standards for subdivisions, development and improvement of land, and the construction of units thereon. These Chapter 201H exemptions provide for greater flexibility in the design of housing projects. The appropriate county councils must approve, approve with modifications, or disapprove projects within 45 days. All 201H projects must comply with the County building permit process, HRS Chapter 104 (Wages and Hours of Employees on Public Works), and HRS Chapter 343 (Environmental Impact Statements).

Developers are encouraged to begin the 201H process by first contacting the appropriate county. If the county government does not accept the developer's 201H application, the HHFDC will consider the developer's application. The HHFDC requires that the developer conduct at least one public meeting to solicit community input on the proposed project.

Exemptions from General Excise Taxes

The HHFDC may approve and certify for exemption from GET any qualified person or firm involved with a newly constructed or moderately or substantially rehabilitated project meeting specific income limit and eligibility criteria.

Act 54, SLH 2017 broadened the types of affordable rental housing projects that HHFDC can exempt from general excise taxes. It allows §201H-36(a)(5) prevailing wages for the construction of affordable projects to be deemed the prevailing wages for purposes of compliance with Chapter 104, HRS. Act 39, SLH 2018 extends the exemption from general excise tax for development costs of affordable rental housing certified by HHFDC to June 30, 2030, increases limits on costs eligible for exemption from $7,000,000 to $30,000,000 per fiscal year, and clarifies eligibility to qualify for the exemption and prohibits discrimination against tenants based solely on receipt of Section 8 housing assistance. This exemption is expected to result in the construction of approximately 24,000 affordable rental units.

HIGHRIDGE COSTA DEVELOPMENT COMPANY/COASTAL RIM PROPERTIES

KULANA HALE AT KAPOLEI

Kulana Hale at Kapolei is a 154-unit, new construction affordable project targeting seniors earning 30-60 percent of area medium income. The 11-story residential tower will be built over a two-story structure housing commercial space, community areas, and parking.

The project is the first of three phases. Phase two will add 143 more family units, with Phase three adding commercial and retail space. All phases will connect via the two-story structure.

FINANCING RESOURCES FOR FIRST-TIME HOMEBUYERS

The HHFDC's single-family programs are consumer oriented, providing below-market rate mortgage financing, tax credits, and down payment loans to assist eligible first-time homebuyers.

Hula Mae Single Family Program

The Hula Mae Single Family program offers eligible first-time homebuyers with mortgage financing at very competitive interest rates. Borrowers apply directly with participating lending institutions and must meet federal eligibility requirements including income and purchase price limitations, as well as the three year no prior ownership interest in a principal residence requirement.

On December 1, 2011, the HHFDC issued $50 million in tax-exempt revenue bonds, which provided approximately $44 million for eligible first-time homebuyers for its current Hula Mae Single Family program. The HHFDC participated in the New Issue Bond (NIB) Program, established by the Housing and Economic Recovery Act of 2008, providing for the federal government to purchase up to 60% of a housing finance agency bond issue at below market rates through its Government Sponsored Entities, Fannie Mae and Freddie Mac. The 2011 Hula Mae Single Family program featured an optional downpayment assistance program providing up to 3% of the principal amount of their Hula Mae loan at closing. Borrowers also had the option of using federal mortgage insurance programs provided through FHA, USDA or VA with their Hula Mae loan.

Mortgage Credit Certificate (MCC) Program

The MCC program provides eligible first-time homebuyers with a direct tax credit against their federal income tax liability to make more income available to qualify for a mortgage loan and make monthly payments. The amount of credit is equivalent to 20% of the annual interest paid on a mortgage loan. MCCs are offered through participating lenders.

ANCILLARY RESPONSIBILITIES

Maintaining Waiahole Valley Subdivision

The HHFDC owns approximately 750 acres in Waiahole Valley and a potable water system with a 1.0 million gallon storage capacity that services residents, famers, and Waiahole Elementary School. There are 159 total lots for residential, agricultural and commercial use; open space; water system infrastructure; stream floodway; and roadways. Design of a new 0.2 million gallon capacity water tank is ongoing, and a contract for the design of a new source well system is in process. A strategic plan is being developed to provide a roadmap to realize the community's vision of the valley as a self-sustaining, thriving, rural agricultural community.

Maintaining Infrastructure in the Villages of Kapolei

The Villages of Kapolei was developed pursuant to Act 15, SLH 1988. The Act provided the Housing Finance and Development Corporation (HFDC) (predecessor to the HCDCH and HHFDC) with temporary powers to expedite the development of affordable housing. It authorized the HFDC to develop housing projects that were exempt from all statutes, ordinances, charter provisions, and rules of any governmental agency relating to planning, zoning, construction standards for subdivisions, development and improvement of land, and the construction of units thereon; provided that the project met minimum requirements of health and safety; did not contravene any safety standards or tariffs approved by the Public Utilities Commission for public utilities; and the HFDC first conducted a public hearing after reasonable notice in the county in which project was situated.

Accordingly, The City and County of Honolulu has not yet accepted dedication of infrastructure in the Villages of Kapolei. Therefore, the HHFDC maintains the infrastructure and has engaged a consultant to assist with the dedication. The time frame for dedication cannot be readily estimated as the dedication process involves many different agencies, entities, consultants and contractors.

Land Programs – Chapters 516 and 519, HRS

The purpose of the Land Reform Act of 1967 was to encourage widespread ownership of fee simple lands among Hawaii's people. Pursuant to Chapter 516, HRS, the HHFDC assists lessees of single family homes to purchase the leased fee interest in their houselots by petitioning the state to facilitate a lease-to-fee conversion through its use of eminent domain powers. Since inception of the Land Reform Program, over 14,600 lessees have been assisted. The HHFDC continues to provide assistance and information on the lease to fee conversion process, as well as promote negotiated settlements to reduce conversion costs.

Chapter 519, HRS provides the framework for the fair arbitration of renegotiated ground lease rents for one- or two-family residential leasehold lots and cooperative housing corporations. The Lease Rent Renegotiation Program is used when lessees and lessors are unable to agree on the amount of the new lease rent upon expiration of the fixed term of the lease.

IN CONSTRUCTION/PIPELINE PROJECTS

690 Pohukaina Phase I & II – 590-unit rental with at least 60 percent of 390 units in Phase I for households at 140 percent AMI. Phase II component to serve families at 60 percent and below AMI. *Developer - Alakai Development, LLC*

Alder Street – Proposed mixed-use affordable rental and juvenile services/shelter facility located near the HART Ala Moana Station. Redevelopment of underutilized state-owned site will address both affordable rental housing and juvenile justice needs. *Developer - HHFDC/Judiciary*

Eight Zero Three Waimanu – 153-unit for-sale project in Kakaako, near the HART Civic Center Station. The project consists of 153 studio, 29 one-bedroom and 1 two-bedroom units targeted toward buyers earning 80 to 140 percent of AMI. *Developer - Coastal Rim Properties, Inc.*

Hale Kewalo – 128-unit rental project in Kakaako, near the HART Ala Moana Station. The one, two and three -bedroom units are targeted toward families earning 30 to 60 percent of AMI. *Developer - Stanford Carr Development*

Hale Makana O Maili – 52-unit family rental project in Waianae, Oahu. The one, two and three -bedroom units are targeted toward families earning 30 to 60 percent of AMI. Developer - Hawaii Community Development

Hale Mahaolu Ewalu Senior Phase I – 39-unit senior rental project in Pukalani, Maui. The one, two and three -bedroom units are targeted toward seniors earning 30 to 60 percent of AMI. *Developer - Hale Mahaolu Ewalu LP*

Hausten Gardens Apartments – 50-unit senior rental project in Honolulu. All one-bedroom units are targeted toward seniors earning 60 percent of AMI. *Developer - Ahe Group LLC*

Kahului Lani Phase I – 82-unit senior rentals for seniors earning 30 - 60 percent of AMI in Kahului, Maui. *Developer -Catholic Charities Hawaii*

Kaiaulu O Waikoloa – 60-units for families earning 30 - 60 percent of AMI in Waikoloa, Hawaii. *Developer - Ikaika Ohana*

Kaiwahine Village Phases I-II – 120 rental units in Kihei, Maui serving families earning 30 to 60 percent of AMI. *Developer - Ikaika Ohana*

Kaloko Heights – 81-unit family rental in Kailua-Kona, Hawaii. Koloko Heights will serve households earning 30 to 60 percent of AMI. *Developer - Hawaii Island Community Development Corporation*

Keahumoa Place I-IV – 320 rental units in East Kapolei, near the HART Kapolei Station, serving families earning 30 to 100 percent of AMI. *Developer - Michaels Development Company*

Kenolio Apartments – 186 family rental units in Kihei, Maui serving households earning 30 to 60 percent of AMI. *Developer - Pacific West Communities*

**Koa`e Workforce Housing Development** – 134-unit family rental located in Koloa, Kauai. The one-, two- and three-bedroom units will serve households earning 30 to 60 percent of AMI. *Developer - Koa`e Workforce Housing, LP*

Kukui Tower – 378-unit acquisition/rehabilitation of a 32-story high-rise in Downtown Honolulu for families earning 60 percent and below of AMI. *Developer – EAH Inc.*

Kulana Hale at Kapolei Phase I – 154-unit elderly rental project serving seniors earning 30 to 60 AMI. The first of three phases, Kulana Hale at Kapolei will remain affordable for 61 years. *Developer - Coastal Rim Properties, Inc.*

Lima Ola Workforce Development - Proposed affordable multi-family housing project located on approximately 75 acres of land owned by the County of Kauai. Located in 'Ele'ele, the project will include approximately 550 residential units, a community park, community center and bike and pedestrian paths. All units to be affordable and offered for sale or rent to households earning no more than 140 percent of AMI. *Developer - County of Kauai*

Meheula Vista Senior I-IV – 301-unit master planned community for seniors located in Mililani, Oahu. Meheula Vista will provide low-income seniors an affordable permanent living option where residents can age in place. *Developer - Catholic Charities Hawaii*

Mohouli Heights Seniors Phase 2 – 30-unit senior rental located in Hilo. The second of three planned phases, Mohouli Heights Seniors. Phase 2 will serve seniors earning 30 to 60 percent of AMI and adds to the 60 units in Phase 1. *Developer - Hawaii Island Community Development Corporation*

Mohouli Heights Seniors Phase 3 – 93-unit senior rental located in Hilo. The last of three planned phases, Mohouli Heights Seniors Phase 3 will serve seniors earning 30 to 60 percent of AMI. *Developer - Hawaii Island Community Development Corporation*

Nohona Hale – 105 smaller, efficient rentals to serve families earning 30 to 60 percent of AMI in Kakaako. *Developers – EAH Inc./ Bronx Pro*

Ohana Hale – 180-unit for-sale project in McCully. The project consists of 78 studio, 87 one-bedroom and 15 two-bedroom units targeted at buyers earning 80 to 120 percent of AMI. *Developer - MJF Development Corporation*

Ola Ka `Ilima Artspace Lofts – 84-unit mixed use affordable rentals and commercial space for arts-oriented businesses. Units are targeted to families earning 30 to 60 percent of AMI. *Developers - Artspace/Ford Foundation/EAH Inc.*

Pokai Bay Self Help – HHFDC provided interim DURF loans, for predevelopment and infrastructure costs for 70 vacant lots located on the Waianae Coast of Oahu. *Developer - Self Help Housing Corporation of Hawaii*

Queen Emma Tower – 71-unit acquisition/rehabilitation of an abandoned office building in Downtown Honolulu for families earning 30-60 percent of AMI. *Developer - Ahe Group LLC*

The Central – 513-unit mixed use residential project in Ala Moana near the HART Ala Moana Station. The Central is a 43-story residential and commercial project with approximately 10,500 sq. ft. of retail space. 60 percent of the units (310) will be affordable with the remaining 40 percent at market rate. *Developer - SamKoo Pacific, LLC*

Villages at Moa`e Ku III – 52 rental units in Ewa Beach. The one, two and three- bedroom units will serve families earning 30 to 60 percent of AMI. *Developer - EAH Inc.*

Waimea Huakai – 35-unit rental located in Waimea, Kauai targeted to families earning 30-60 percent of AMI. *Developer - Ahe Group LLC*

Report to the 2019 Hawaii State Legislature

Pursuant to Section 201H-202(f), Hawaii Revised Statutes, Relating to Rental Housing Revolving Fund Project Awards for Calendar Year 2018.

Section 201H-202, Hawaii Revised Statutes (HRS), requires the Hawaii Housing Finance and Development Corporation (HHFDC) to "describ[e] the projects funded and, with respect to rental housing projects targeted for persons and families with incomes at or below thirty per cent of the median family income, its efforts to develop those rental housing projects, a description of proposals submitted for this target group and action taken on the proposals, and any barriers to developing housing for this target group" (§201H-202(f)). All projects receiving RHRF awards must set aside a minimum of 5% of total units for households at or below 30% of the median family income (MFI), and the remaining units have income restrictions that do not exceed 60% MFI.

During Calendar Year 2018, HHFDC received 12 project applications for 10 unique rental projects on February 15, 2018 for the 2018 competitive funding round. These project applications requested loans for a total of up to $202,874,962 in RHRF funding.

The following table lists all applicants and their RHRF requests. Two projects, Hale Makana O Maili and Queen Emma Tower, submitted both 9% Volume Cap Low-Income Housing Tax Credit (LIHTC) and 4% Non-Volume Cap LIHTC applications.The successful application for each project is the one reported below.

HHFDC made Rental Housing Revolving Fund (RHRF) awards totaling $81,508,466 to five projects, indicated below in boldface. These awards will result in 396 units of rental housing being added to the statewide inventory of affordable housing. **The totals below for "RHRF Award," "Unit Count," and "30% MFI Units" columns are for awarded units only.**

PROJECT	LOCATION	RHRF REQUEST	RHRF AWARD	TOTAL UNIT COUNT	30% MFI UNITS
Hale Makana O Maili (9% LIHTC)	**Waianae, Oahu**	$4,700,000	**$4,700,000**	**52**	**5**
Hale Uhiwai Nalu Phase II	Kapolei, Oahu	$3,378,101	0	50	
Halewai'olu Senior Residences	Honolulu, Oahu	$41,111,270	0	156	
Keahumoa Place Phase 4	**Ewa Beach, Oahu**	$15,564,110	**$15,564,110**	**81**	**5**
Kokua Special Needs	Honolulu, Oahu	$35,852,811	0	223	
Kulia @ Ho'opili	**Ewa Beach, Oahu**	$21,540,165	**$21,540,165**	**120**	**6**
Lihue Senior Housing	Lihue, Kauai	$17,579,385	0	71	
Queen Emma Tower (4% LIHTC/HMMF)	Honolulu, Oahu	$16,464,191	**$16,464,191**	**71**	**4**
Waikoloa Family Affordable Rental	Waikoloa, Hawaii	$23,240,000	**$23,240,000**	**72**	**46**
	TOTAL	$179,430,033	**$81,508,466**	**396**	**66**

The following project, Kahului Lani I, received an additional RHRF award in Calendar Year 2018, bringing the RHRF Calendar Year 2018 total to $83,453,586.

PROJECT	LOCATION	RHRF REQUEST	RHRF AWARD	TOTAL UNIT COUNT	30% MFI UNITS
Kahului Lani I	**Kahului, Maui**	$1,945,120	**$1,945,120**	**82**	**8**

Pursuant to Section 201H-95(g), Hawaii Revised Statutes, Relating to Rental Housing Revolving Fund Project Awards for Calendar Year 2018.

Section 201H-95(g), Hawaii Revised Statutes, requires the Hawaii Housing Finance and Development Corporation (HHFDC) to submit an annual report to the Legislature describing the multifamily revenue bond activity under the Housing Loan and Mortgage Program, popularly known as the Hula Mae Multifamily Program 9HMMF). Specifically, it requires annual reporting of the following information:

1. The amount of multifamily revenue bond authority utilized and remaining balance;
2. A description of multifamily project activity including dates, project names and descriptions, and bond amounts for the following activities:
    a. Application;
    b. Approval of inducement resolution;
    c. Approval to issue bonds; and
    d. Issuance of bonds; and
3. A summary of the activity of the fund by quarter.

The required information, as of June 30, 2018, is provided below.

Multifamily Revenue Bond Authority as of June 30, 2018

Total number of HMMF Bonds issued to date	34
Total amount of HMMF Bonds issued to date	$640,453,699
HMMF Bonds approved by HHFDC Board and pending issuance	11
Total amount of HMMF Bonds pending issuance	$912,126,377
Total Bond Authority	$1,500,000,000
Net Bond Authority available	$487,873,623

Multifamily Project Activity During Fiscal Year 2017-2018

Project Applications Received (4):

Project Name	Location	Project Type	Unit Count	HMMF Request
Halewai'olu Senior Residences	Honolulu, Oahu	Senior	156	$43,550,000
Kokua Special Needs	Honolulu, Oahu	Senior	223	$45,928,783
Kulia @Ho'opili	Ewa Beach, Oahu	Family	120	$22,900,000
Queen Emma Tower	Honolulu, Oahu	Family	70	$17,000,000

Approval of Inducement Resolutions (4):

Project	Location	Project Type	Unit Count	HMMF approved
Keahumoa Place Ph. 1 (increase amendment)	Ewa Beach, Oahu	Family	128	$4,000,000
Kapolei Mixed Use Development Ph 2	Kapolei, Oahu	Family	143	$34,120,000
Kaloko Heights Affordable Housing	Kailua-Kona, Hawaii	Family	81	$23,130,000
Kaiwahine Villages Ph II	Kihei, Maui	Family	56	$14,395,000

Approval to Issue Bonds & Issuance of Bonds (4):

Project	Location	Project Type	Unit Count	HMMF Issued
Ola Ka 'Ilima Artspace Lofts	Honolulu, Oahu	Family	84	$26,000,000
Hale Kewalo	Honolulu, Oahu	Family	128	$28,035,000
Hausten Gardens	Honolulu, Oahu	Senior	50	$14,000,000
Nohona Hale	Honolulu, Oahu	Family	107	
Series 2018A				
Series 2018B				$19,300,000
				$ 6,200,000

Quarterly Summary of Fund Activity for Fiscal Year 2017-2018

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total Bond Authority	$1,500,000,000	$1,500,000,000	$1,500,000,000	$1,500,000,000
Total Bonds Issued to Date	$572,918,699	$614,953,699	$614,953,699	$640,453,699
Total Bonds Pending Issuance	$325,777,678	$298,672,678	$29,672,678	$271,672,678
Total Uncommitted Bond Authority	$601,303,623	$586,373,623	$586,373,623	$687,873,623*
Total Applications Under Review	$47,529,061	$34,344,061	$198,722,844	$218,381,269

**Note: In the 4th Quarter, HMMF Bonds issued for Nohona Hale (Series 2018A and 2018B) totaled $25,500,000. This amount was $1,500,000 less than approved originally by the HHFDC Board.*

HOUSING LEGISLATION PASSED IN 2018

Act 39, Session Laws of Hawaii (SLH) 2018 (House Bill 2748 H.D. 2, S.D. 2, C.D. 1) Relating to Housing. This omnibus Act:

1. Directs the Hawaii Housing Finance and Development Corporation (HHFDC) to study and report on housing for populations with access and functional needs and appropriates $50,000 in General Funds to fund the study;
2. Extends the exemption from general excise tax for development costs of affordable rental housing certified by HHFDC to June 30, 2030, increases limits on costs eligible for exemption from $7,000,000 to $30,000,000 per fiscal year, and clarifies eligibility to qualify for the exemption and prohibits discrimination against tenants based solely on receipt of Section 8 housing assistance.
3. Appropriates General Funds in Fiscal Year 2017-2018 to HHFDC as follows:
   a. Rental Housing Revolving Fund: $200,000,000 in General Funds; and
   b. Dwelling Unit Revolving Fund: $10,000,000 in General Funds.

Act 53, SLH 2018 (House Bill 1900, H.D. 1, S.D. 1, C.D. 1) Relating to State Budget.
HHFDC received the following Capital Improvement Program funds in the budget bill:

- **Kahului Civic Center Mixed Use Project, Maui**
  Plans, Land Acquisition, Design, Construction, and Equipment for the Development, Refurbishment, Establishment, Creation, Demolition, and Renovation for the Kahului Civic Center Mixed Use Project; Project to Include New Maui Bus Hub; Equipment and Appurtenances.
  FY 2019: $2,500,000
- **Kuliouou Valley, Oahu**
  Design, Construction, and Equipment to be Expended by HHFDC: Design and Paving of Papahehi Place.
  FY 2018: $150,000

Act 65, SLH 2018 (House Bill 2328, H.D. 1, S.D. 2, C.D. 1) Relating to Housing. This bill makes technical and housekeeping amendments to Act 159, Session Laws of Hawaii 2017, to clarify the terms and applicability of HHFDC's first option to purchase or transfer to a qualified nonprofit housing trust the first option to purchase affordable housing units developed with the HHFDC's financing or assistance, and that Act 159 does not apply to any rights, duties, or obligations that were extended through contract or preliminary offering statement prior to Act 159's effective date.

Act 150, SLH 2018 (Senate Bill 2293 S.D. 2, H.D. 3, C.D. 1) Relating to Affordable Housing. This bill requires HHFDC to institute proceedings to condemn the ground lease for the Front Street Apartments affordable housing project, appropriates $250,000 for the appraisal and other preparations for the condemnation; provided that the County of Maui provides matching funds. The measure also authorizes the use of $30,000,000 from the Rental Housing Revolving Fund for the expedited construction of the Leiali'i affordable housing project to replace the Act affordable rental units in the inventory at Lahaina, Maui.

The following resolutions approving the fee simple sale of HHFDC units or lands were adopted:

- **Senate Concurrent Resolution (S.C.R.) 14, S.D. 1** Approving the Sale of the Leased Fee Interest in 2949 Ala Ilima Street, No. 204, Honolulu, Hawaii.
- **S.C.R. 15, S.D. 1** Approving the Sale of the Leased Fee Interest in 41-1373 Haunaukoi Street, Waimanalo, Hawaii.
- **S.C.R. 16** Approving the Dedication of Leali'i Parkway, Lahaina, Hawaii, to the County of Maui.

BOARD OF DIRECTORS

Milo Spindt
Chairman (Kauai)

Leilani Pulmano
Vice-Chair (Maui)

Rona Fukumoto
Secretary

Donn Mende
Director (Hawaii)

Melvin Kahele
Director (At Large)

George Atta
Director (Oahu)

Laurel Johnston
Director (Ex-Officio)

Luis Salaveria
Director (Ex-Officio)

Sara Lin
Director (Ex-Officio)

Audrey Abe
Director (Oahu) to 9/17

Denise Iseri-Matsubara
Director (Ex-Officio) to 6/18

Wesley Machida
Director (Ex-Officio) to 12/17

Additional information is provided in the Audited Financial Statements available online at: www.dbedt.hawaii.gov/hhfdc/

HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
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Website
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CERTIFIED PUBLIC ACCOUNTANTS

State of Hawai‘i
Hawaii Housing Finance and Development Corporation

(A Component Unit of the State of Hawai‘i)

Financial and Compliance Audit

June 30, 2018

Submitted by
The Auditor
State of Hawai‘i

Quality *Integrity* *Insight*

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
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PART I
Financial Statements

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

The Auditor
State of Hawai'i

The Board of Directors
State of Hawai'i, Hawaii Housing Finance and Development Corporation

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Hawaii Housing Finance and Development Corporation (the "Corporation"), a component unit of the of the State of Hawai'i, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the index.

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Corporation as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1, the financial statements of the Corporation include only the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Corporation, and are not intended to present fairly the financial position of the State of Hawaiʻi as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle
As discussed in Note 1 to the financial statements, effective July 1, 2017, the Corporation adopted new accounting guidance under Governmental Accounting Standards Board Statement ("GASB") No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an amendment of GASB Statements No. 45 and 57.* Our opinion is not modified with respect to this matter.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 13 and budgetary comparison statements for the general fund and HOME investment partnership program on pages 66 through 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, 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 Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The combining non-major fund financial statements and reconciliation of cash and short-term investments are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining non-major fund financial statements, reconciliation of cash and short-term investments, and schedule of expenditures of federal awards are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements, reconciliation of cash and short-term investments, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawai'i
December 12, 2018

The management of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the "Corporation") offers readers of the Corporation's financial statements this narrative overview and analysis of its financial activities for the fiscal year ended June 30, 2018. This document should be read in conjunction with the audited financial statements. All amounts presented in tables, unless otherwise indicated, are expressed in thousands of dollars.

Introduction

The Corporation was established by the State Legislature effective July 1, 2006 in accordance with Act 196, SLH 2005, as amended by Act 180, SLH 2006.

The Corporation's mission is to increase the supply of workforce and affordable homes by providing tools and resources to facilitate housing development. Tools and resources include housing tax credits, low interest construction loans, equity gap loans, developable land, and expedited land use approvals.

The Corporation is administratively attached to the State Department of Business, Economic Development and Tourism. The Corporation's Board of Directors consists of nine members, six of whom are public members appointed by the Governor and confirmed by the State Senate. Public members are appointed from each of the counties of Honolulu, Hawai'i, Maui and Kaua'i. At least four of the public members must have knowledge and expertise in public or private financing and development of affordable housing. At least one public member represents community advocates for low-income housing affiliated with private nonprofit organizations that serve the residents of low-income housing. The Director of Business, Economic Development and Tourism; the Director of Finance; and a representative of the Governor's Office are ex-officio voting members. All Corporation action is taken by the affirmative vote of at least five members.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements of the Corporation for the period ended June 30, 2018. The financial statements consist of the basic financial statements, related notes to the financial statements and other required supplementary information. These components are described below:

Basic Financial Statements
The basic financial statements include two kinds of statements that present different views of the Corporation:

- The first two statements are Corporation-wide financial statements that provide information about the Corporation's overall financial position and results of operations. These statements are presented on an accrual basis of accounting and consist of the Statement of Net Position and the Statement of Activities.

- The remaining statements are the fund financial statements of the Corporation's governmental funds, for which activities are funded primarily from appropriations from the State, and the Corporation's major and non-major proprietary funds, which operate similarly to business-type activities. The governmental funds are presented on a modified accrual basis of accounting while the proprietary funds are presented on an accrual basis of accounting.

- The basic financial statements also include a “Notes to Financial Statements” section that explains some of the information in the government-wide and fund financial statements and provides more detailed data.

- The “Notes to Financial Statements” are followed by a “Required Supplementary Information Other than Management’s Discussion and Analysis” section, which presents budgetary comparison statements, which are required for major governmental funds with legally adopted budgets.

- The “Required Supplementary Information Other than Management’s Discussion and Analysis” are also followed by a “Supplementary Information” section, which presents combining information on non-major funds, which is not required.

Government-wide Financial Statements

The government-wide financial statements report information about the Corporation as a whole 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 Corporation’s financial position, which assists in assessing the Corporation’s economic condition at the end of the fiscal year. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Most of the Corporation’s activities are business-type activities and are reported in its proprietary funds. The government-wide financial statements include two statements:

- The *Statement of Net Position* presents all of the Corporation’s assets and deferred outflows of resources less liabilities and deferred inflows of resources, with the difference reported as “net position.” Over time, increases and decreases in the Corporation’s net position may serve as a useful indicator of the health of the financial position of the Corporation.

- The *Statement of Activities* presents information indicating how the Corporation’s net position changed during the most recent fiscal year.

The government-wide financial statements of the Corporation are divided into two categories:

- *Governmental activities* – The activities in this section are primarily supported by State or Federal appropriations or by Federal contributions.

- *Business-type activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users.

Fund Financial Statements

The fund financial statements provide more detailed information about the Corporation’s most significant funds and not the Corporation as a whole. The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as a major fund or a non-major fund. The Governmental Accounting Standards Board (“GASB”) issued Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements and are detailed in the supplementary information.

The Corporation has two types of funds:

- *Governmental Funds*

  - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.

  - Governmental fund financial statements help determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs.

  - The focus of the governmental funds is narrower than that of the government-wide financial statements; therefore, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision.

  - Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

- *Proprietary Funds* – The Corporation's only type of proprietary funds are its enterprise funds, which are used to account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing services to customers.

Notes to Financial Statements
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Required Supplementary Information
In addition to the basic financial statements and accompanying notes, this report presents a section of required supplementary information ("RSI") other than management's discussion and analysis which contain budget-to-actual schedules for the Corporation's General Fund and HOME Investment Partnership Program as well as accompanying notes.

Supplementary Information
The combining financial statements of the non-major funds and reconciliation of cash and short term investments are presented as supplementary information following the RSI other than management's discussion and analysis section.

Supplementary information also includes the Schedule of Expenditures of Federal Awards ("SEFA"). The SEFA reports federal awards expended by the Corporation on the accrual basis of accounting for the year ended June 30, 2018.

Implementation of GASB Statement No. 75

During fiscal year 2018, the Corporation implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("OPEB") – an amendment of GASB Statements No. 45 and 57. The adoption of Statement No. 75 has resulted in a prior period adjustment of the Corporation's beginning net position as of July 1, 2017 to reflect the reporting of net OPEB liability in accordance with the provisions of Statement No. 75.

Net position for business-type activities as of July 1, 2017 decreased by $4,717,000 to $698,978,000, reflecting the retrospective effect of adoption.

As of June 30, 2018, the Corporation reported a net OPEB liability of approximately $10,207,000, deferred outflows on net OPEB liability of approximately $782,000, and deferred inflows on net OPEB liability of approximately $14,000. For the fiscal year ended June 30, 2018, the Corporation recognized OPEB expense of approximately $717,000. Refer to Note 14 for more information on the Corporation's OPEB.

Government-wide Financial Analysis

As noted earlier, the *Statement of Net Position* presents all of the Corporation's assets and deferred outflows of resources less liabilities and deferred inflows of resources, with the difference reported as net position. Over time, changes in net position may serve as a useful indicator of the Corporation's financial statements. As indicated below, as of June 30, 2018, the Corporation's total net position was approximately $1,068,000,000, an increase of $238,000,000 (or 28.7%) from the previous year.

Government-Wide Condensed Statements of Net Position
June 30, 2018 and 2017
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent
	2018	2017	2018	2017	2018	2017	Change
Current assets	$ 9,669	$ 116,573	$ 624,850	$ 330,288	$ 634,519	$ 446,861	42.0%
Restricted assets held by trustee	-	-	132,238	120,792	132,238	120,792	9.5%
Capital assets	-	-	82,163	86,368	82,163	86,368	-4.9%
Other assets	9,862	9,861	598,056	564,943	607,918	574,804	5.8%
Total assets	19,531	126,434	1,437,307	1,102,391	1,456,838	1,228,825	18.6%
Deferred outflows of resources	-	-	4,077	4,037	4,077	4,037	1.0%
Total deferred outflows of resources	-	-	4,077	4,037	4,077	4,037	1.0%
Total assets and deferred outflows of resources	$ 19,531	$ 126,434	$ 1,441,384	$ 1,106,428	$ 1,460,915	$ 1,232,862	18.5%
Current liabilities	$ 18	$ 27	$ 20,138	$ 44,888	$ 20,156	$ 44,915	-55.1%
Noncurrent liabilities	-	-	371,380	357,263	371,380	357,263	4.0%
Total liabilities	18	27	391,518	402,151	391,536	402,178	-2.6%
Deferred inflows of resources	-	-	972	582	972	582	67.0%
Total deferred inflows of resources	-	-	972	582	972	582	67.0%
Net position							
Net investment in capital assets	-	-	51,088	48,268	51,088	48,268	5.8%
Restricted	11,139	80,319	90,946	82,373	102,085	162,692	-37.3%
Unrestricted	8,374	46,088	906,860	573,054	915,234	619,142	47.8%
Total net position	19,513	126,407	1,048,894	703,695	1,068,407	830,102	28.7%
Total liabilities, deferred inflows of resources and net position	$ 19,531	$ 126,434	$ 1,441,384	$ 1,106,428	$ 1,460,915	$ 1,232,862	18.5%

Current assets increased by approximately $187,658,000 (42.0%) during fiscal year 2018 primarily related to increases in cash and cash equivalents and investments in the State Treasury of $309,869,000, offset by decrease in Due from State of approximately $107,300,000 and current portion of mortgage loan and other receivables of $15,669,000.

Restricted assets held by trustee result from the trust indentures of the revenue bond funds requiring cash and investments to be held by a trustee. These assets increased by approximately $11,446,000 (9.5%) during fiscal year 2018 due to approximately $31,994,000 in cash received in lieu of a mortgage receivable for a conduit bond and increases in investments offset by approximately $22,474,000 in repayments of issued bonds and decreases in the fair value of investments.

Capital assets decreased by approximately $4,205,000 (4.9%) during fiscal year 2018 primarily due to depreciation expense; and other assets increased by approximately $33,114,000 (5.8%) during fiscal year 2018 primarily due to an increase of inventory of development in progress and dwellings purchased for re-sale of approximately $23,896,000, and net increase in the long-term portion of mortgage and construction loans of approximately $14,383,000, offset by a decrease in investments of approximately $4,472,000 due to maturity.

Current liabilities decreased by approximately $24,759,000 (55.1%) during fiscal year 2018 primarily due to a decrease in the current portion of revenue bonds payable of approximately $25,400,000.

Noncurrent liabilities increased by approximately $14,117,000 (4.0%) primarily due to an increase in the estimated future cost of development of approximately $5,944,000, increase in the net OPEB liability of $5,420,000, and net increase in long-term portion of revenue bonds of approximately $3,404,000.

Net investment in capital assets consists of all capital assets, reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restrictions on net position, which represent resources that are subject to external restrictions on how funds may be used, primarily include the assets held by trustee and decreased by approximately $60,607,000 (37.3%) during fiscal year 2018.

Unrestricted net position consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The statement of activities below presents information indicating how the Corporation's net position changed during the most recent fiscal year:

Government-Wide Statements of Activities
Years Ended June 30, 2018 and 2017
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**Change**
Revenues							
Program revenues							
Charges for services	$ -	$ -	$ 77,036	$ 75,808	$ 77,036	$ 75,808	1.6%
Operating grants and contributions	3,352	6,959	7,347	5,008	10,699	11,967	-10.6%
General revenues							
State allotted appropriations, net of lapses	205,249	69,600	-	-	205,249	69,600	194.9%
Total revenues	208,601	76,559	84,383	80,816	292,984	157,375	86.2%
Expenses							
Governmental activities							
Expenditures	2,946	6,094	-	-	2,946	6,094	-51.7%
Business-type activities							
Rental assistance program	-	-	1,801	1,819	1,801	1,819	-1.0%
Housing development program	-	-	12,814	6,801	12,814	6,801	88.4%
Multi-family mortgage loan programs	-	-	8,369	7,810	8,369	7,810	7.2%
Single-family mortgage loan program	-	-	3,206	4,285	3,206	4,285	-25.2%
Rental housing program	-	-	18,629	17,581	18,629	17,581	6.0%
Others	-	-	2,197	2,850	2,197	2,850	-22.9%
Total expenses	2,946	6,094	47,016	41,146	49,962	47,240	5.8%
Net change before transfers	205,655	70,465	37,367	39,670	243,022	110,135	120.7%
Transfers	(312,549)	(22)	312,549	22	-	-	100.0%
Change in net position	(106,894)	70,443	349,916	39,692	243,022	110,135	120.7%
Net position							
Beginning of year	126,407	55,964	703,695	664,003	830,102	719,967	15.3%
Prior period adjustment for change in accounting principle	-	-	(4,717)	-	(4,717)	-	-100.0%
End of year	$ 19,513	$ 126,407	$ 1,048,894	$ 703,695	$ 1,068,407	$ 830,102	28.7%

Governmental Activities

For the fiscal year ended June 30, 2018, governmental activities decreased the Corporation's net position by approximately $106,894,000 (84.6%). The decrease is primarily due to transfers out of approximately $312,549,000 offset by State allotted appropriations net of lapses of $205,249,000.

Business-type Activities

Revenues of the Corporation's business-type activities were primarily from charges for services, program investment income, and federal assistance program funds. Charges for services consist primarily of rental income and interest income of loans related to the Corporation's lending programs. The majority of the program investment income is from income earned within the Corporation's bond funds and is restricted to those funds.

For the fiscal year ended June 30, 2018, business-type activities increased the Corporation's net position by approximately $349,916,000 after transfers of $312,549,000. Revenues primarily consisted of $38,000,000 in conveyance taxes, $22,484,000 in rental income, and $14,250,000 in interest income on loans, while $47,016,000 in expenses primarily consisted of operating expenses for the Corporation's various business-type functions.

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 Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

As of June 30, 2018, the Corporation’s governmental funds reported total fund balance of approximately $19,513,000.

The governmental funds consist of three major funds and several non-major funds. The major funds are the (1) General Fund, (2) HOME Investment Partnership Program, and (3) General Obligation Bond Fund.

- The *General Fund* accounts for the State’s general fund revenues appropriated by the State Legislature to the Corporation and transfers for subsequent use by the Corporation’s other funds. The fund had a fund balance of approximately $514,000 as of June 30, 2018.

- The *HOME Investment Partnership Program* was established for the purpose of enhancing the State and local government’s ability to provide affordable housing for low- and very low-income families through funding strategies designed to increase the supply of decent affordable housing by offering financial and technical assistance to participating jurisdictions. The fund had a fund balance of approximately $1,277,000 as of June 30, 2018.

- The *General Obligation Bond Fund* is used to transfer proceeds from the State’s issuance of general obligation bonds to the Corporation for subsequent use by the Corporation’s other funds. The fund had a fund balance of approximately $7,866,000 as of June 30, 2018.

Proprietary Funds

As of June 30, 2018, the Corporation’s proprietary funds reported total net position of approximately $1,048,894,000.

The proprietary funds consist of five major and several non-major funds. The major funds are the (1) Rental Housing Revolving Fund, (2) Dwelling Unit Revolving Fund, (3) Hawaii Rental Housing System Revenue Bond Fund, (4) Single Family Mortgage Purchase Revenue Bond Fund, and (5) Multifamily Housing Revenue Bond Fund.

- The *Rental Housing Revolving Fund* provides developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units. The fund recognized increases in net position of approximately of $318,892,000 and $50,342,000 in fiscal year 2018 and fiscal year 2017, respectively. The increase in net position in fiscal year 2018 was a result of conveyance tax collections of $38,000,000, loan interest income of $2,160,000, investment interest income of $2,376,000, and transfers in of $276,600,000, less operating expenses of approximately $427,000. The primary year-over-year increase was due to an increase in the transfers from the General Fund and General Obligation Bond Fund of approximately $267,100,000, while operating revenues and expenses remained fairly consistent.

- The *Dwelling Unit Revolving Fund* accounts for State funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing mortgage and interim financing, rental income, sales proceeds, and interest earnings from the financing and investment of such funds. The fund recognized an increase in net position of approximately $30,914,000 in fiscal year 2018 in comparison to a decrease of $698,000 in 2017. The increase in net position in fiscal year 2018 was a result of transfers in of approximately $35,202,000, less operating loss of approximately $5,889,000. The primary year-over-year increase was due to an increase in the transfers from the General Fund and General Obligation Bond Fund of approximately $35,180,000 offset by provision for losses of approximately $4,238,000.

- The *Hawaii Rental Housing System Revenue Bond Fund* accounts for special funds for housing projects or systems of housing projects financed from proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State. The fund recognized increases in net position of approximately $2,960,000 and $2,999,000 in fiscal year 2018 and fiscal year 2017, respectively. The increase in net position remained consistent with rental income outpacing operating expenses in fiscal year 2018 and fiscal year 2017.

- The *Single Family Mortgage Purchase Revenue Bond Fund* accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest and earnings from such loans and investment of such funds. The fund recognized decreases in net position of approximately $1,139,000 and $1,869,000 in fiscal year 2018 and fiscal year 2017, respectively. The decreases in net position was primarily due to decreases in the fair value of mortgage-backed securities in fiscal year 2018 and fiscal year 2017.

- The *Multifamily Housing Revenue Bond Fund* accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing at below market interest rates to facilitate the construction or rehabilitation of affordable housing projects. The fund recognized a decrease in net position of approximately $207,000 in fiscal year 2018 in comparison to an increase of $147,000 in fiscal year 2017, primarily due to interest expense exceeding interest income on a conduit bond issuance whereby the Corporation recorded cash as collateral in lieu of establishing a mortgage receivable.

General Fund Budgetary Highlights

For the fiscal year ended June 30, 2018, the General Fund revenues consisted of State allotted appropriations of approximately $210,757,000 which is equal to the final budget. The Legislature appropriated these funds to address the State’s shortage of workforce and affordable housing.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2018, the Corporation's capital assets amounted to $82,163,000 (net of accumulated depreciation of $127,583,000), a decrease of $4,205,000 primarily due to depreciation expense.

Corporation's Capital Assets
June 30, 2018 and 2017
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent
	2018	2017	2018	2017	2018	2017	Change
Land	$ -	$ -	$ 49,903	$ 49,955	$ 49,903	$ 49,955	-0.1%
Buildings and improvements	-	-	157,022	156,754	157,022	156,754	0.2%
Equipment	198	204	2,623	2,608	2,821	2,812	0.3%
Total	198	204	209,548	209,317	209,746	209,521	0.1%
Accumulated depreciation	(198)	(204)	(127,385)	(122,949)	(127,583)	(123,153)	3.6%
Total capital assets, net	$ -	$ -	$ 82,163	$ 86,368	$ 82,163	$ 86,368	-4.9%

Debt Administration

Through June 30, 2018, approximately $2.9 billion of revenue bonds have been issued. The revenue bonds are payable solely from the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the various bond indentures. Revenue bonds payable, net of premiums, decreased by approximately $21,996,000 to approximately $299,356,000 as of June 30, 2018. During the fiscal year ended June 30, 2018, the Corporation's bond drawdowns amounted to $55,687,000 for the Multifamily Housing Revenue Bond Fund. Bond redemptions were approximately $19,329,000, $3,145,000 and $55,178,000 for the Single Family Mortgage Purchase, Hawaii Rental Housing System and Multifamily Housing Revenue Bond Funds, respectively.

As of June 30, 2018, the Corporation's bond ratings for the revenue bond programs were as follows:

	Hawaii Rental Housing System Revenue Bonds	Single Family Mortgage Purchase Revenue Bonds
Standard & Poor's Rating Services	N/A	AA+
Moody's Investor Service	A1	Aaa
Fitch Ratings	A	AAA

Currently Known Facts, Decisions or Conditions

In June 2018, the Corporation entered into a Purchase and Sales Agreement to convey its leasehold interests in several of its affordable rental housing projects in the Hawaii Rental Housing System Revenue Bond Fund to an experienced, private-sector operator. Such private-sector partnership is intended to preserve the long-term affordability of the projects while relieving the Corporation of the burden of active management. The Corporation believes that the private sector can more efficiently operate the projects and undertake necessary capital-intensive improvements.

Requests for Information

This report is designed to provide an overview of the Corporation’s finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Chief Financial Officer, Hawaii Housing Finance and Development Corporation, 677 Queen Street, Suite 300, Honolulu, Hawai‘i 96813.

State of Hawai'i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai'i)
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets and Deferred Outflows of Resources			
Current assets			
Equity in cash and cash equivalents			
and investments in State Treasury	$ -	$ 572,011,628	$ 572,011,628
Cash in banks	18,407	3,153,493	3,171,900
Receivables			
Mortgage loans	-	6,717,722	6,717,722
Notes and loans	-	6,747,890	6,747,890
Accrued interest	-	31,985,546	31,985,546
Tenant receivables, less allowance for			
doubtful accounts of $2,944,074	-	214,443	214,443
Other receivables, less allowance for			
doubtful accounts of $135,591	-	2,030,433	2,030,433
Total receivables	-	47,696,034	47,696,034
Cash held by third parties	1,267,379	264,778	1,532,157
Due from State	8,379,190	-	8,379,190
Due from other governments	17,838	-	17,838
Internal balances	(13,466)	13,466	-
Due from other State departments, net	-	1,521,318	1,521,318
Prepaid expenses and other assets	-	164,235	164,235
Deposits held in trust	-	25,130	25,130
Total current assets	9,669,348	624,850,082	634,519,430
Restricted assets held by trustees under			
revenue bond programs			
Cash and cash equivalents	-	54,553,360	54,553,360
Investments	-	77,684,595	77,684,595
	-	132,237,955	132,237,955
Due from other State departments	-	3,000,000	3,000,000
Inventories – development in progress and dwelling units	-	33,946,604	33,946,604
Restricted deposits held in escrow	-	1,007,061	1,007,061
Investments	-	897,229	897,229
Mortgage loans, net of allowance for loan losses of $137,218	-	464,699,198	464,699,198
Notes and loans	9,861,610	94,505,504	104,367,114
Capital assets, net	-	82,162,729	82,162,729
Total assets	19,530,958	1,437,306,362	1,456,837,320
Deferred outflows of resources			
Deferred loss on refunding	-	341,843	341,843
Deferred outflows on net pension liability	-	2,953,335	2,953,335
Deferred outflows on net OPEB liability	-	782,017	782,017
Total deferred outflows of resources	-	4,077,195	4,077,195
Total assets and deferred outflows of resources	$ 19,530,958	$ 1,441,383,557	$ 1,460,914,515

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Liabilities, Deferred Inflows of Resources and Net Position			
Current liabilities			
Accounts payable	$ 17,838	$ 241,743	$ 259,581
Accrued expenses			
Interest	-	3,552,037	3,552,037
Other	-	1,324,399	1,324,399
Security deposits	-	3,271,417	3,271,417
Note payable	-	14,147	14,147
Unearned income	-	384,615	384,615
Revenue bonds payable, net	-	11,350,045	11,350,045
Total current liabilities	17,838	20,138,403	20,156,241
Noncurrent liabilities			
Note payable	-	114,642	114,642
Revenue bonds payable, net	-	288,006,147	288,006,147
Estimated future costs of development	-	40,721,461	40,721,461
Unearned income	-	20,616,367	20,616,367
Unrealized gain on sale of units and land	-	1,796,980	1,796,980
Net OPEB liability	-	10,207,041	10,207,041
Net pension liability	-	9,916,692	9,916,692
Total liabilities	17,838	391,517,733	391,535,571
Deferred inflows of resources			
Deferred inflows on net pension liability	-	958,033	958,033
Deferred inflows on net OPEB liability	-	14,202	14,202
Total deferred inflows of resources	-	972,235	972,235
Commitments and contingencies			
Net position			
Net investment in capital assets	-	51,088,093	51,088,093
Restricted by legislation and contractual agreements	11,138,738	90,945,666	102,084,404
Unrestricted	8,374,382	906,859,830	915,234,212
Total net position	19,513,120	1,048,893,589	1,068,406,709
Total liabilities, deferred inflows of resources and net position	$ 19,530,958	$ 1,441,383,557	$ 1,460,914,515

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Statement of Activities
Year Ended June 30, 2018

		Program Revenues		Net (Expense) Revenue and Changes in Net Position		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**
Functions/Programs						
Governmental activities						
Low-income housing service and assistance programs	$ 2,945,764	$ -	$ 3,351,869	$ 406,105	$ -	$ 406,105
Total governmental activities	2,945,764	-	3,351,869	406,105	-	406,105
Business-type activities						
Rental assistance program	1,800,769	68,437	178,142	-	(1,554,190)	(1,554,190)
Housing development program	12,814,589	4,129,715	4,396,674	-	(4,288,200)	(4,288,200)
Multifamily mortgage loan program	8,368,717	48,077,313	2,376,436	-	42,085,032	42,085,032
Single family mortgage loan program	3,205,804	2,067,288	-	-	(1,138,516)	(1,138,516)
Rental housing program	18,629,151	21,292,761	296,250	-	2,959,860	2,959,860
Others	2,196,804	1,400,917	99,345	-	(696,542)	(696,542)
Total business-type activities	47,015,834	77,036,431	7,346,847	-	37,367,444	37,367,444
Total	$ 49,961,598	$ 77,036,431	$ 10,698,716	406,105	37,367,444	37,773,549
General revenues and transfers						
State allotted appropriations, net of lapses of $5,508,560				205,248,609	-	205,248,609
Net transfers				(312,548,536)	312,548,536	-
Total general revenues and transfers				(107,299,927)	312,548,536	205,248,609
Change in net position				(106,893,822)	349,915,980	243,022,158
Net position						
Beginning of year				126,406,942	703,694,994	830,101,936
Adjustment for change in accounting principle				-	(4,717,385)	(4,717,385)
Beginning of year, as restated				126,406,942	698,977,609	825,384,551
End of year				$ 19,513,120	$ 1,048,893,589	$ 1,068,406,709

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Governmental Funds
Balance Sheet
June 30, 2018

	General Fund	HOME Investment Partnership Program	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash in banks	$ -	$ 17,919	$ -	$ 488	$ 18,407
Cash held by third parties	-	1,267,379	-	-	1,267,379
Notes and loans receivable	-	-	-	9,861,610	9,861,610
Due from State	513,553	-	7,865,637	-	8,379,190
Due from other governments	-	17,838	-	-	17,838
Total assets	$ 513,553	$ 1,303,136	$ 7,865,637	$ 9,862,098	$ 19,544,424
Liabilities and Fund Balances					
Liabilities					
Accounts payable	$ -	$ 17,838	$ -	$ -	$ 17,838
Due to other funds	-	8,170	-	5,296	13,466
Total liabilities	-	26,008	-	5,296	31,304
Fund balances					
Restricted	-	1,277,128	-	9,861,610	11,138,738
Committed	513,553	-	7,865,637	-	8,379,190
Unrestricted	-	-	-	(4,808)	(4,808)
Total fund balances	513,553	1,277,128	7,865,637	9,856,802	19,513,120
Total liabilities and fund balances	$ 513,553	$ 1,303,136	$ 7,865,637	$ 9,862,098	$ 19,544,424

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018

Total fund balances – governmental funds		$ 19,513,120
Amounts reported for governmental activities in the statement of net position are different because		
Capital assets used in governmental activities are not current financial resources and therefore not reported in the funds. These assets consist of the following		
Equipment	$ 197,617	
Accumulated depreciation	(197,617)	
Capital assets, net		-
Net position of governmental activities		$ 19,513,120

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Governmental Funds
Statement of Revenues, Expenditures and Change in Fund Balances
Year Ended June 30, 2018

	General Fund	HOME Investment Partnership Program	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
State allotted appropriations	$ 210,757,169	$ -	$ -	$ -	$ 210,757,169
Intergovernmental revenue	-	3,235,297	-	6,747	3,242,044
Other income	-	-	-	109,825	109,825
Total revenue	210,757,169	3,235,297	-	116,572	214,109,038
Expenditures					
Programs	-	2,684,304	-	-	2,684,304
Personnel services	-	107,126	-	98,047	205,173
Administration	-	19,914	-	10,582	30,496
Professional services	-	25,791	-	-	25,791
Total expenditures	-	2,837,135	-	108,629	2,945,764
Excess of revenues over expenditures	210,757,169	398,162	-	7,943	211,163,274
Other financing uses					
Transfers out	(210,243,616)	-	(102,304,920)	-	(312,548,536)
Excess of revenues over expenditures and other financing uses	513,553	398,162	(102,304,920)	7,943	(101,385,262)
Lapsed appropriations	-	-	(5,508,560)	-	(5,508,560)
Net change in fund balances	513,553	398,162	(107,813,480)	7,943	(106,893,822)
Fund balances					
Beginning of year	-	878,966	115,679,117	9,848,859	126,406,942
End of year	$ 513,553	$ 1,277,128	$ 7,865,637	$ 9,856,802	$ 19,513,120

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

State of Hawai'i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai'i)
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Change in Fund Balances to the Statement of Activities
Year Ended June 30, 2018

Net change in fund balances – total governmental funds		$ (106,893,822)
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays during the year.		
Depreciation expense	$ -	
		-
Change in fund balances – governmental activities		$ (106,893,822)

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Proprietary Funds
Statement of Net Position
June 30, 2018

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Assets and Deferred Outflows of Resources							
Current assets							
Equity in cash and cash equivalents and investments in State Treasury	$ 430,734,980	$ 122,486,253	$ -	$ -	$ -	$ 18,790,395	$ 572,011,628
Cash in banks	-	371,649	2,771,844	-	-	10,000	3,153,493
Receivables							
Mortgage loans	490,906	-	-	68,310	6,158,506	-	6,717,722
Notes and loans	-	6,747,890	-	-	-	-	6,747,890
Accrued interest	11,846,267	17,971,576	-	149,305	1,137,846	880,552	31,985,546
Tenant receivables, less allowance for doubtful accounts of $2,944,074	-	78,488	135,955	-	-	-	214,443
Other receivables, less allowance for doubtful accounts of $135,591	-	1,839,824	-	-	190,609	-	2,030,433
Total receivables	12,337,173	26,637,778	135,955	217,615	7,486,961	880,552	47,696,034
Cash held by third parties	-	-	264,778	-	-	-	264,778
Due from other funds	-	734,984	-	-	2,399,811	1,267,208	4,402,003
Due from other State departments	-	1,700,000	-	-	-	-	1,700,000
Prepaid expenses and other assets	-	-	45,223	2,685	-	116,327	164,235
Deposits held in trust	-	25,130	-	-	-	-	25,130
Total current assets	443,072,153	151,955,794	3,217,800	220,300	9,886,772	21,064,482	629,417,301
Restricted assets held by Trustees under revenue bond programs							
Cash and cash equivalents	-	-	42,299,350	12,254,010	-	-	54,553,360
Investments	-	-	-	49,472,563	28,212,032	-	77,684,595
	-	-	42,299,350	61,726,573	28,212,032	-	132,237,955
Due from other State departments	-	3,000,000	-	-	-	-	3,000,000
Inventories – development in progress and dwelling units	-	33,946,604	-	-	-	-	33,946,604
Restricted deposits held in escrow	-	1,007,061	-	-	-	-	1,007,061
Investments	-	-	-	-	-	897,229	897,229
Mortgage loans, net of allowance for loan losses of $137,218	292,199,944	333,763	-	110,465	164,588,081	7,466,945	464,699,198
Notes and loans	-	94,505,504	-	-	-	-	94,505,504
Capital assets, net	-	44,552,109	37,583,087	-	-	27,533	82,162,729
Total assets	735,272,097	329,300,835	83,100,237	62,057,338	202,686,885	29,456,189	1,441,873,581
Deferred outflows of resources							
Deferred loss on refunding	-	-	341,843	-	-	-	341,843
Deferred outflows on net pension liability	181,265	1,671,468	250,629	164,364	156,444	529,165	2,953,335
Deferred outflows on net OPEB liability	45,216	450,597	60,219	40,658	41,632	143,695	782,017
Total deferred outflows of resources	226,481	2,122,065	652,691	205,022	198,076	672,860	4,077,195
Total assets and deferred outflows of resources	$ 735,498,578	$ 331,422,900	$ 83,752,928	$ 62,262,360	$ 202,884,961	$ 30,129,049	$ 1,445,950,776

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Proprietary Funds
Statement of Net Position
June 30, 2018

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Liabilities, Deferred Inflows of Resources and Net Position							
Current liabilities							
Accounts payable	$ -	$ 128,494	$ 18,813	$ 8,250	41,084	$ 45,102	$ 241,743
Accrued expenses							
Interest	-	-	1,778,833	285,120	1,488,084	-	3,552,037
Other	66,797	632,744	304,191	107,703	58,099	154,865	1,324,399
Due to other funds	-	133,313	644,283	170,729	-	3,440,212	4,388,537
Due to other State departments	-	168,682	-	-	-	10,000	178,682
Security deposits	-	113,515	1,426,653	-	-	1,731,249	3,271,417
Note payable	-	14,147	-	-	-	-	14,147
Unearned income	-	384,615	-	-	-	-	384,615
Revenue bonds payable	-	-	3,314,539	1,877,000	6,158,506	-	11,350,045
Total current liabilities	66,797	1,575,510	7,487,312	2,448,802	7,745,773	5,381,428	24,705,622
Noncurrent liabilities							
Note payable	-	114,642	-	-	-	-	114,642
Revenue bonds payable	-	-	70,272,501	25,002,452	192,731,194	-	288,006,147
Estimated future costs of development	-	40,721,461	-	-	-	-	40,721,461
Unearned income	-	20,616,367	-	-	-	-	20,616,367
Unrealized gain on sale of units and land	-	1,796,980	-	-	-	-	1,796,980
Net OPEB liability	590,171	5,881,273	785,993	530,673	543,391	1,875,540	10,207,041
Net pension liability	575,602	5,711,158	766,448	509,609	530,206	1,823,669	9,916,692
Total liabilities	1,232,570	76,417,391	79,312,254	28,491,536	201,550,564	9,080,637	396,084,952
Deferred inflows of resources							
Deferred inflows on net pension liability	43,170	558,363	82,809	73,745	47,746	152,200	958,033
Deferred inflows on net OPEB liability	821	8,183	1,094	738	756	2,610	14,202
Total deferred inflows of resources	43,991	566,546	83,903	74,483	48,502	154,810	972,235
Commitments and contingencies							
Net position							
Net investment in capital assets	-	44,423,320	6,637,240	-	-	27,533	51,088,093
Restricted by legislation and contractual agreements	-	1,007,061	-	61,726,573	28,212,032	-	90,945,666
Unrestricted	734,222,017	209,008,582	(2,280,469)	(28,030,232)	(26,926,137)	20,866,069	906,859,830
Total net position	734,222,017	254,438,963	4,356,771	33,696,341	1,285,895	20,893,602	1,048,893,589
Total liabilities, deferred inflows of resources and net position	$ 735,498,578	$ 331,422,900	$ 83,752,928	$ 62,262,360	$ 202,884,961	$ 30,129,049	$ 1,445,950,776

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Proprietary Funds
Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2018

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating revenues							
Conveyance tax	$ 38,000,000	$ -	$ -	$ -	$ -	$ -	$ 38,000,000
Rental	-	2,072,439	20,411,924	-	-	-	22,484,363
Interest on mortgages, notes, loans and mortgage-backed securities	2,160,435	2,796,184	-	2,021,641	7,187,652	84,073	14,249,985
Sale of land and units, net	-	1,544,508	-	-	-	-	1,544,508
Other	181,980	512,768	880,837	45,647	547,246	1,385,281	3,553,759
Total operating revenues	40,342,415	6,925,899	21,292,761	2,067,288	7,734,898	1,469,354	79,832,615
Operating expenses							
Programs	-	2,937,330	9,596,454	-	-	652,987	13,186,771
Interest expense	-	-	3,584,441	918,063	7,495,363	-	11,997,867
Personnel services	320,461	3,807,346	451,008	329,278	355,588	1,259,722	6,523,403
Depreciation	-	74,472	4,362,079	-	-	-	4,436,551
Administration	81,137	1,130,272	107,577	269,778	25,278	417,928	2,031,970
Housing assistance payments	-	-	-	-	-	1,580,547	1,580,547
Professional services	23,153	340,893	24,765	38,470	61,937	40,056	529,274
Capital expenses	2,475	141,342	160,258	6,150	3,245	8,009	321,479
Insurance	40	10,217	151,159	120	40	148	161,724
Provision for losses	-	4,372,717	33,292	-	-	22,813	4,428,822
Other	-	-	77,982	15,911	-	15,069	108,962
Total operating expenses	427,266	12,814,589	18,549,015	1,577,770	7,941,451	3,997,279	45,307,370
Operating income (loss) carried forward	39,915,149	(5,888,690)	2,743,746	489,518	(206,553)	(2,527,925)	34,525,245

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

State of Hawai'i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai'i)
Proprietary Funds
Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2018

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating income (loss) brought forward	39,915,149	(5,888,690)	2,743,746	489,518	(206,553)	(2,527,925)	34,525,245
Nonoperating revenues (expenses)							
Interest income	2,376,436	1,600,490	296,250	-	-	539,054	4,812,230
Net decrease in fair value of mortgage-backed securities	-	-	-	(1,628,034)	-	-	(1,628,034)
Net decrease in fair value of other investments	-	-	-	-	-	(261,567)	(261,567)
Amortization of deferred loss on refunding	-	-	(41,116)	-	-	-	(41,116)
Other expenses	-	-	(39,020)	-	-	(294)	(39,314)
Total nonoperating revenues (expenses)	2,376,436	1,600,490	216,114	(1,628,034)	-	277,193	2,842,199
Income (loss) before transfers	42,291,585	(4,288,200)	2,959,860	(1,138,516)	(206,553)	(2,250,732)	37,367,444
Net transfers	276,600,000	35,201,933	-	-	-	746,603	312,548,536
Change in net position	318,891,585	30,913,733	2,959,860	(1,138,516)	(206,553)	(1,504,129)	349,915,980
Net position							
Beginning of year	415,572,408	226,296,650	1,731,094	35,072,018	1,745,482	23,277,342	703,694,994
Adjustment for change in accounting principle	(241,976)	(2,771,420)	(334,183)	(237,161)	(253,034)	(879,611)	(4,717,385)
Beginning of year, as restated	415,330,432	223,525,230	1,396,911	34,834,857	1,492,448	22,397,731	698,977,609
End of year	$ 734,222,017	$ 254,438,963	$ 4,356,771	$ 33,696,341	$ 1,285,895	$ 20,893,602	$ 1,048,893,589

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2018

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash flows from operating activities							
Cash received from tenants	$ -	$ 1,682,773	$ 20,583,577	$ -	$ -	$ 215,513	$ 22,481,863
Cash received from borrowers							
Principal repayments	2,976,412	1,936,425	-	124,851	72,203,832	50,398	77,291,918
Interest income	794,881	3,717,048	-	2,044,343	7,263,764	180,276	14,000,312
Cash received from sale of units and land	-	5,484,250	-	-	-	-	5,484,250
Cash received from conveyance taxes	38,000,000	-	-	-	-	-	38,000,000
Cash received for payments on mortgage-backed securities, net	-	-	-	6,537,637	-	4,210,001	10,747,638
Cash payments for issuance of loans receivable	(44,840,833)	(5,634,401)	-	-	(44,636,457)	-	(95,111,691)
Interest payments	-	-	(3,650,458)	(1,150,298)	(7,268,137)	-	(12,068,893)
Payments to employees	(341,238)	(3,230,366)	(447,034)	(308,144)	(315,099)	(1,099,500)	(5,741,381)
Payments to suppliers	(106,805)	(10,053,390)	(10,044,017)	(282,357)	(49,416)	(2,650,646)	(23,186,631)
Cash receipts from (payments to) other funds	-	1,356,663	40,460	(19,204)	(93,514)	275,005	1,559,410
Other cash receipts	181,980	1,744,319	827,571	-	499,113	1,383,241	4,636,224
Net cash provided by (used in) operating activities	(3,335,603)	(2,996,679)	7,310,099	6,946,828	27,604,086	2,564,288	38,093,019
Cash flows from noncapital financing activities							
Principal paid on revenue bond maturities and redemptions	-	-	-	(19,329,181)	-	-	(19,329,181)
Transfers in	276,600,000	35,201,933	-	-	-	746,603	312,548,536
Net cash provided by (used in) noncapital financing activities	276,600,000	35,201,933	-	(19,329,181)	-	746,603	293,219,355
Cash flows from capital and related financing activities							
Principal paid on revenue bond maturities and redemptions	-	-	(3,145,000)	-	(55,177,927)	-	(58,322,927)
Proceeds from new bond issuance	-	-	-	-	55,687,250	-	55,687,250
Purchases of capital assets	-	(24,322)	(537,300)	-	-	-	(561,622)
Reimbursement of purchase of capital assets	-	-	188,082	-	-	-	188,082
Sales of capital assets	-	62,101	-	-	-	8,567	70,668
Net cash provided by (used in) capital and related financing activities	-	37,779	(3,494,218)	-	509,323	8,567	(2,938,549)
Subtotal carried forward	273,264,397	32,243,033	3,815,881	(12,382,353)	28,113,409	3,319,458	328,373,825

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2018

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Subtotal brought forward	273,264,397	32,243,033	3,815,881	(12,382,353)	28,113,409	3,319,458	328,373,825
Cash flows from investing activities							
Purchase of investments	-	-	-	-	(28,113,409)	-	(28,113,409)
Interest received	963,792	713,399	265,428	-	-	409,892	2,352,511
Net cash provided by (used in) investing activities	963,792	713,399	265,428	-	(28,113,409)	409,892	(25,760,898)
Net increase (decrease) in cash and cash equivalents	274,228,189	32,956,432	4,081,309	(12,382,353)	-	3,729,350	302,612,927
Cash and cash equivalents							
Beginning of year	156,506,791	90,933,661	41,254,663	24,636,363	-	15,071,045	328,402,523
End of year	$ 430,734,980	$ 123,890,093	$ 45,335,972	$ 12,254,010	$ -	$ 18,800,395	$ 631,015,450
Components of cash and cash equivalents							
Equity in cash and cash equivalents and investments in State Treasury	$ 430,734,980	$ 122,486,253	$ -	$ -	$ -	$ 18,790,395	$ 572,011,628
Cash in banks	-	371,649	2,771,844	-	-	10,000	3,153,493
Cash held by third parties	-	-	264,778	-	-	-	264,778
Restricted cash and cash equivalents held by trustee	-	-	42,299,350	12,254,010	-	-	54,553,360
Deposits held in trust	-	25,130	-	-	-	-	25,130
Restricted deposits held in escrow	-	1,007,061	-	-	-	-	1,007,061
Cash and cash equivalents	$ 430,734,980	$ 123,890,093	$ 45,335,972	$ 12,254,010	$ -	$ 18,800,395	$ 631,015,450

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2018

	Rental Housing Revolving Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash flows from operating activities							
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities							
Operating income (loss)	$ 39,915,149	$ (5,888,690)	$ 2,743,746	$ 489,518	$ (206,553)	$ (2,527,925)	$ 34,525,245
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities							
Depreciation	-	74,472	4,362,079	-	-	-	4,436,551
Provision for losses	-	4,372,717	33,292	-	-	22,813	4,428,822
Rent subsidies applied to note payable	-	(15,371)	-	-	-	-	(15,371)
Interest expense settled through reduction of rental subsidies	-	4,315	-	-	-	-	4,315
Other income	-	-	32,898	-	-	-	32,898
Net pension expense	(16,437)	558,551	2,024	24,504	45,538	169,698	783,878
Net OPEB benefit	(3,747)	(37,352)	(4,990)	(3,370)	(3,449)	(11,914)	(64,822)
Changes in assets and liabilities							
Mortgage loans receivable	(41,864,421)	21,736	-	124,851	27,567,375	50,398	(14,100,061)
Notes and loans receivable	-	21,061,416	-	-	-	-	21,061,416
Accrued interest receivable	(1,365,554)	(1,941,880)	-	22,702	76,112	96,203	(3,112,417)
Tenant receivables	-	(40,585)	(133,272)	-	-	-	(173,857)
Other receivables	-	30,567	-	-	(48,133)	-	(17,566)
Due to (from) other funds	-	(201,294)	40,460	(19,204)	(93,514)	275,005	1,453
Due to other State departments	-	1,557,957	-	-	-	-	1,557,957
Inventories – development in progress and dwelling units	-	(23,895,621)	-	-	-	-	(23,895,621)
Prepaid expenses and other assets	-	-	2,033	200	-	15,459	17,692
Investments	-	-	-	6,537,637	-	4,210,001	10,747,638
Accounts payable	-	69,566	(14,019)	-	41,084	46,599	143,230
Accrued interest payable	-	-	(66,017)	(232,235)	227,226	-	(71,026)
Other accrued expenses	(593)	55,781	239,220	2,225	(1,600)	2,438	297,471
Security deposits	-	(5,658)	72,645	-	-	215,513	282,500
Unearned income	-	(328,052)	-	-	-	-	(328,052)
Unrealized gain on sale of units and land	-	(21,021)	-	-	-	-	(21,021)
Estimated future costs of development	-	1,571,767	-	-	-	-	1,571,767
Net cash provided by (used in) operating activities	$ (3,335,603)	$ (2,996,679)	$ 7,310,099	$ 6,946,828	$ 27,604,086	$ 2,564,288	$ 38,093,019
Supplemental information							
Non-cash capital and related financing activities							
Principal payments on note payable settled through reduction of rental subsidies	$ -	$ 11,056	$ -	$ -	$ -	$ -	$ 11,056

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

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity
Chapter 201E, Hawaii Revised Statutes and Act 337, Session Laws of Hawaii (“SLH”) 1987, created the Housing Finance and Development Corporation (“HFDC”). The HFDC was created to perform housing finance, housing development and residential leasehold functions. The Hawaii Housing Authority, State of Hawai‘i (“Authority”) was organized pursuant to the provisions of Chapter 356, Hawaii Revised Statutes. The Authority was created to provide safe and sanitary dwelling accommodations for low and moderate-income residents of Hawai‘i.

In accordance with Act 350, SLH 1997, effective July 1, 1998, the functions and employees of HFDC as well as those of the Authority and the Rental Housing Trust Fund Commission, were transferred to the newly created Housing and Community Development Corporation of Hawaii (“HCDCH”). The purpose of Act 350, SLH 1997, was to consolidate all state housing functions previously administered by the Authority, HFDC and the Rental Housing Trust Fund Commission. HCDCH was a public body, both corporate and politic, and was for administrative purposes considered to be a part of the State Department of Business, Economic Development and Tourism. In accordance with Act 92, SLH 2003, effective July 1, 2003, the functions and employees of HCDCH were transferred to the State Department of Human Services for administrative purposes.

In accordance with Act 196, SLH 2005, as amended by Act 180, SLH 2006, HCDCH was split into two organizations to more effectively concentrate on the development of affordable housing. Effective July 1, 2006, HCDCH was bifurcated into (1) the Hawaii Public Housing Authority (“HPHA”) and (2) the Hawaii Housing Finance and Development Corporation (the “Corporation”).

For financial reporting purposes, the Corporation includes all funds that are controlled by or dependent on the Corporation’s Board of Directors. Control by or dependence on the Corporation was determined on the basis of statutory authority and monies flowing through the Corporation to each fund.

The financial statements of the Corporation include only the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Corporation, and are not intended to present fairly the financial position of the State of Hawai‘i (the “State”) as of June 30, 2018, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation’s financial activities.

Government-Wide and Fund Financial Statements
The government-wide financial statements, the statement of net position, and the statement of activities report information on the activities of the Corporation. Governmental activities, which normally are supported by State allotments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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. State allotments and other items not included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues. The Corporation employs an indirect cost allocation system. The Corporation provides certain administrative services to its various funds. The cost of these services is allocated to the funds based on estimates of benefits provided to the funds.

Net position is restricted when constraints placed on it are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restrictions of net position. When both restricted and unrestricted resources are available for use, generally it is the Corporation’s policy to use restricted resources first, then unrestricted resources as they are needed.

The fund financial statements are provided for governmental and proprietary funds. Major individual governmental fund and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column.

Measurement Focus and Basis of Accounting

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 the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. In applying the susceptible to accrual concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when applicable requirements, including timing requirements, are met.

Principal revenue sources considered susceptible to accrual include federal grants and interest on investments. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State’s present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles (“GAAP”) since they have been earned and are expected to be collected within 60 days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Corporation.

Expenditures generally are recorded when a liability is incurred.

Proprietary Funds
The financial statements of proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund’s principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Corporation’s enterprise funds are conveyance tax revenues, rental income, and interest income earned on mortgages, notes, loans and mortgage-backed securities. Interest income from investments in State Treasury is reported as nonoperating income.

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

Governmental Accounting Standards Board (“GASB”) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements and detailed in the combining section.

Governmental Funds

- **General Fund** – The General fund accounts for all financial resources of the State’s general fund revenues appropriated by the State Legislature to the Corporation, except those required to be accounted for in another fund.

- **HOME Investment Partnership Program** – The HOME Investment Partnership Program is used to account for all financial activities that are funded by the related federal grants. Substantially all of the fund’s activity relates to providing affordable housing to residents of the State of Hawai‘i.

- **National Foreclosure Mitigation Counseling Program Fund** – The National Foreclosure Mitigation Counseling Program Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund’s activity relates to providing foreclosure intervention counseling and legal assistance.

- **General Obligation Bond Fund** – The General Obligation Bond Fund is used to account for the transfers of the proceeds of the State’s general obligation bonds allotted to the Corporation for subsequent use by the Corporation’s other funds.

- **Tax Credit Assistance Program Fund** – The Tax Credit Assistance Program (“TCAP”) Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund’s activities relate to providing funds directly to designated state housing credit agencies for award to affordable rental housing developments that have been allocated low-income housing tax credits and are in need of additional gap equity funding.

- **Housing Trust Program Fund** – The Housing Trust Program Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund’s activity is related to providing affordable housing, with primary attention to rental housing for extremely low-income households.

Proprietary Funds

- **Enterprise Funds** – These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers, or where sound financial management dictates that periodic determinations of results of operations are appropriate. Enterprise funds include the Rental Housing Revolving Fund, Dwelling Unit Revolving Fund, revenue bond funds, and other funds.

  Under the revenue bond funds, proceeds from bond issues are used to make below-market interest rate mortgage loans to persons and families of low to moderate income for the purchase of owner-occupied single-family and condominium dwellings, provide interim construction loans and permanent financing of affordable rental housing projects, and to finance multifamily housing projects. These funds include the Hawaii Rental Housing System Revenue Bond Fund, Single Family Mortgage Purchase Revenue Bond Fund, and Multifamily Housing Revenue Bond Fund.

  The other funds include the Rental Assistance Revolving Fund, Housing Finance Revolving Fund, Disbursing Fund, and Grants in Aid Fund.

  The Corporation reports the following as major proprietary funds:

  - Rental Housing Revolving Fund provides developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units.

  - Dwelling Unit Revolving Fund accounts for State funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing mortgage and interim financing, rental income, sales proceeds, and interest earnings from the financing and investment of such funds.

  - Hawaii Rental Housing System Revenue Bond Fund accounts for housing projects or systems of housing projects financed from the proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily affordable rental housing projects located throughout the State of Hawai‘i.

  - Single Family Mortgage Purchase Revenue Bond Fund accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment of such loans, and investment income earned.

- Multifamily Housing Revenue Bond Fund accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing to facilitate the construction or rehabilitation of affordable rental housing projects.

In June 2018, the Corporation entered into a Purchase and Sales Agreement for the Hawaii Rental Housing System’s Revenue Bond Fund’s rental housing portfolio. As of the issuance date of the Corporation’s financial statements, the potential buyer is performing its due diligence and the sale has not closed.

Equity in Cash and Cash Equivalents and Investments in State Treasury
The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance 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 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, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GAAP requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Corporation. However, as these funds are held in the State cash pool, the Corporation does not manage these investments and the types of investments, and related interest rate, credit and custodial risks are not determinable at the Corporation’s level. The risk disclosures and fair value leveling table of the State’s cash pool are included in the State’s Comprehensive Annual Financial Report (“CAFR”) which may be obtained from the Department of Accounting and General Services’ (“DAGS”) website: *http://ags.hawaii.gov/reports/financial-reports/.*

Cash and short-term investments held outside of the State Treasury are primarily held in a financial institution outside of the State of Hawai‘i. The Corporation considers all cash and investments with original maturities of three months or less to be cash equivalents.

Cash and cash equivalents for the purpose of the statement of cash flows include all cash and highly liquid investments with original purchased maturities of three months or less. Cash and cash equivalents also include the Corporation’s equity in cash and cash equivalents and investments held in the State Treasury.

The State’s investments are reported at fair value within the fair value hierarchy established by GAAP. Investments in mutual funds are reported at fair value based on quoted market prices. Investments in U.S. government obligations are reported at fair value based on quoted prices or other observable inputs, including pricing matrices.

Investments
Investments in U.S. government securities with maturities of one year or less when purchased are stated at cost, which approximate fair value. Certificates of deposits are stated at amortized cost. All other investments are reported at fair value as described below.

Fair Value Measurements
For financial assets reported at fair value, the Corporation defines fair value as the price that would be received to sell an asset in the principal or most advantageous market in an orderly transaction between market participants. The Corporation measures fair value using assumptions developed based on market data obtained from independent external sources and the reporting entity's own assumptions. The hierarchy is broken down into levels based on the reliability of the inputs as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

- **Level 2** – Inputs other than quoted market prices included in Level 1 that are observable for an asset or liability, either directly or indirectly.

- **Level 3** – Unobservable inputs for an asset or liability reflecting the reporting entity's own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

Inventories
Inventories consist of developments in progress and units available for sale. Developments in progress include construction in progress and land held for future development related to the remaining portions of three master planned community projects – Kapolei (Oahu), Kamakana Villages of Keahuolu (West Hawai‘i), and Leiali‘i (Maui). Costs included in developments in progress relate to the infrastructure construction for these master planned communities. Units available for sale include constructed units, developed lots, and repurchased units available for sale.

Inventories are stated at the lower of cost or estimated net realizable value. All estimated development, holding and disposition costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Estimated net realizable value represents management's estimates, based on management's plans and intentions, of sales price less development, holding and disposition costs, assuming that the development and disposition occurs in the normal course of business. Write-downs for estimated losses on inventories are recorded to the extent total estimated costs exceed total estimated revenues for a project.

The recognition of gain from the sale of units is dependent on a number of factors relating to the nature of the property sold, the terms of the sale, and the future involvement of the Corporation in the property sold. If a real estate transaction does not meet established financial criteria, profit recognition is deferred and recognized under the installment or cost recovery method until such time as the criteria are met.

Receivables
Receivable balances are composed of mortgage loans receivable and tenant receivables from the various projects and funds within the Corporation. Mortgage loans receivable are primarily second mortgages from nonprofit organizations and for-profit developers for the development, pre-development, construction, acquisition, preservation and substantial rehabilitation of rental housing units. Receivable amounts from tenants are related to rental arrangements. Allowance for doubtful accounts on receivables are typically established for any accounts over 90 days outstanding. For the year ended June 30, 2018, there were allowances for mortgage loan receivables and tenant receivables of $137,000 and $2,944,000, respectively.

Interfund Receivables and Payables
During the course of operations, transactions occur between funds that may result in amounts owed between funds. Those related to transactions for goods and services are classified as "due to and from other funds." See Note 17 for details of interfund transactions, including receivables and payables at fiscal year-end.

Capital Assets
Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and proprietary funds financial statements. The capitalization thresholds are $5,000 for equipment, and $100,000 for land improvements, building and building improvements.

Purchased and constructed capital assets are valued at cost. Donated assets are recorded at their fair value at the date of donation.

Depreciation expense is recorded in the government-wide and proprietary funds financial statements utilizing the straight-line method over the assets' estimated useful lives. No depreciation is recorded for land and land improvements. Generally, the useful lives are as follows:

	Governmental Activities	Proprietary Funds and Business-Type Activities
Building and building improvements	25 years	10–40 years
Equipment	7 years	5–10 years

Deferred Outflows of Resources and Deferred Inflows of Resources
Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that apply to a future period. The Corporation defers recognition of the loss on debt refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the effective interest rate method.

The deferred outflow of resources related to pensions and other postemployment benefits ("OPEB") resulted from differences between expected and actual experiences which will be amortized over five years and the Corporation'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 and OPEB liability in the subsequent fiscal year. The deferred inflow of resources related to pensions and OPEB resulted from differences between expected and actual experiences and changes in proportion to the pension and OPEB plans which will be amortized over five years.

Unearned Revenues
Unearned revenues at the fund level and government-wide level arise when the Corporation receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met or when the Corporation has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and revenue is recognized.

Accrued Vacation
Vacation leave accumulates at a rate of one and three-quarters working day for each month of service. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as other accrued expenses in the government-wide and the proprietary funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately $225,000. Accrued vacation, which is included in other accrued expenses in the statement of net position, changed during fiscal year 2018 as follows:

Balance at July 1, 2017	$ 636,000
Additions	349,000
Reductions	(321,000)
Balance at June 30, 2018	$ 664,000

Accumulated Sick Leave Pay
Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. Generally, sick leave 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 Employees’ Retirement System of the State of Hawai‘i (“ERS”). Accumulated unpaid sick leave at June 30, 2018 amounted to approximately $2,497,000.

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

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

Pension Benefits
The actuarial valuation of the ERS does not provide pension benefits information by department or agency. Accordingly, the State’s policy on the accounting and reporting for pension benefits is to allocate a portion of the State’s net pension liability, and any adjustment to the net pension liability, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State’s CAFR. The State allocates annual pension expense to component units and proprietary funds based on their proportionate percentage of the State’s total covered payroll.

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

Risk Management
Liabilities related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters, and injuries to employees) are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

Governmental Fund Balances
The Corporation accounts for governmental fund balances through a hierarchical fund balance classification structure based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State legislature and the Corporation's Board of Directors.

- **Assigned** – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.

- **Unassigned** – Residual balances that are not contained in the other classifications.

The fund balance of the TCAP fund was restricted for use in the construction of qualified low-income buildings for which a housing credit agency has made an allocation of low-income housing credits under Section 42 of the Internal Revenue Code.

The fund balance of the General Obligation Bond fund was committed to purchase land for or finance the development or rehabilitation of affordable housing.

The fund balance of the HOME Investment Partnership Program was restricted to provide affordable housing to residents of the State of Hawai‘i.

Use of Estimates
In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates.

New Accounting Pronouncements

During fiscal year 2018, the Corporation implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions – an amendment of GASB Statements No. 45 and 57*. Statement No. 75 establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to the employees of state and local governmental employers through OPEB plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

Statement No. 75 replaces GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.

The adoption of Statement No. 75 has no impact on the Corporation’s governmental fund financial statements, which continue to report expenditures in the amount of statutorily required payments. However, adoption has resulted in the restatement of the Corporation’s fiscal year 2017 government-wide and proprietary funds financial statements to reflect the reporting of a net OPEB liability in accordance with the provisions of Statement No. 75. Net OPEB liability for business-type activities of approximately $10,069,000 and deferred outflows of resources related to OPEB for business-type activities of approximately $565,000 were reported as of July 1, 2017. Refer to Note 14 for more information regarding the Corporation’s OPEB.

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. The Corporation has determined that this Statement is not applicable to the financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This Statement did not have a material effect on the Corporation’s financial statements.

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources — resources other than the proceeds of refunding debt — are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. This Statement did not have a material effect on the Corporation's financial statements.

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Corporation has not yet determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements*. The objective of this Statement is to include additional information related to debt in the notes to financial statements, including unused lines of credit, assets pledged as collateral for debt, and terms specified in debt agreements related to significant events of default with finance-related consequences and significant subjective acceleration clauses. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The Corporation has not yet determined the effect this Statement will have on its financial statements.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement replaces Paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Corporation has not yet determined the effect this Statement will have on its financial statements.

Reclassifications
Certain balances in the 2017 financial statements have been reclassified to conform to the 2018 presentation. These reclassifications had no impact on the change in net position as previously reported.

2. Deposits

At June 30, 2018, total cash and cash equivalents reported in the statement of net position consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Equity in cash and cash equivalents and investments in State Treasury	$ -	$ 572,011,628	$ 572,011,628
Cash in banks (book balance)	18,407	3,153,493	3,171,900
Cash held by third parties	1,267,379	264,778	1,532,157
Restricted cash and cash equivalents held by trustee	-	54,553,360	54,553,360
Deposits held in trust	-	25,130	25,130
Restricted deposits held in escrow	-	1,007,061	1,007,061
Total cash	$ 1,285,786	$ 631,015,450	$ 632,301,236

The bank balance of cash in bank was approximately $3,689,000, of which $533,000 was covered by federal deposit insurance and $3,156,000 was not covered. As of June 30, 2018, Level 1 inputs were used to determine the fair value of the money market funds that are included in cash and cash equivalents. The fair value of equity in investments in State Treasury are described in Note 1.

3. Investments

Investments at June 30, 2018 are summarized by maturity (in years) as follows:

	Less than 1	Greater than 1 and up to 5	Greater than 5 and up to 10	Greater than 10 and up to 20	Greater than 20	Reported Value
Mortgage-backed securities	$ -	$ 1,024,890	$ 5,061,028	$ 15,759,717	$ 28,524,157	$ 50,369,792
Certificates of deposits	149,618	28,062,414	-	-	-	28,212,032
Total investments	$ 149,618	$ 29,087,304	$ 5,061,028	$ 15,759,717	$ 28,524,157	$ 78,581,824

Investments summarized in the table above are reflected in the statement of net position as follows:

Investments held by trustees under revenue bond programs	$ 77,684,595
Investments – noncurrent	897,229
Total investments	$ 78,581,824

As of June 30, 2018, Level 2 inputs were used to determine the fair value of mortgage-backed securities.

The risks related to the Corporation's investments are as follows:

- **Interest Rate Risk** – The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

- **Credit Risk** – The revenue bond funds' trust indentures authorize the trustees to invest in certificates of deposit, money market funds, U.S. government or agency obligations, and repurchase agreements. The Corporation has no investment policy that would further limit its investment decisions. As of June 30, 2018, Federal National Mortgage Association ("FNMA") mortgage-backed securities were rated Aaa, AAA, and AA+ by Moody's, Fitch, and Standard & Poor's, respectively. Money market funds are not rated. Certificates of deposit and securities of the Government National Mortgage Association are not considered to have credit risk exposure.

- **Concentration of Credit Risk** – The Corporation has no limit on the amount the Corporation may invest in any one issuer. As of June 30, 2018, the Corporation's investments were primarily with the Federal National Mortgage Association. These investments are 62% of the Corporation's total investments.

- **Custodial Risk** – For an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation's investments that are uninsured and unregistered are held by the Corporation's trust agent in the Corporation's name. The Corporation monitors the market value of these securities and obtains additional collateral when appropriate.

4. Mortgage Loans and Notes and Loans Receivable

Mortgage loans and notes and loans receivable at June 30, 2018 comprised the following:

	Mortgage Loans	Notes and Loans
Mortgage loans bearing interest up to 8.75%, maturing at various dates through 2075	$ 471,554,138	$ -
Promissory notes bearing interest up to 5%, maturing at various dates through 2072	-	101,253,394
Non-interest bearing promissory notes, maturing at various dates through 2066	-	9,861,610
Allowance for loan losses	(137,218)	-
	471,416,920	111,115,004
Less: Current portion	(6,717,722)	(6,747,890)
Noncurrent portion	$ 464,699,198	$ 104,367,114

The collection of the Kamakana Villages at Keahuolu note receivable of approximately $5,300,000 is contingent upon the completion of certain construction and conditional terms as set forth in the amended development agreement.

Mortgage and development loans are collateralized by real property. The mortgage loans of the revenue bond funds are also subject to primary mortgage and mortgage pool insurance coverage that, subject to aggregate loss limitations, reimburses the Corporation for all losses incurred, if any, from the disposition of real property acquired through foreclosure.

The promissory notes are collateralized by a second mortgage on the improvements of Kukui Gardens (see Note 12). The non-interest bearing notes are collateralized by real property.

5. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	Balance at July 1, 2017	Additions	Disposals	Balance at June 30, 2018
Governmental activities				
Depreciable assets				
Equipment	$ 203,960	$ -	$ (6,343)	$ 197,617
Accumulated depreciation				
Equipment	(203,960)	-	6,343	(197,617)
Governmental activities capital assets, net	$ -	$ -	$ -	$ -
Business-type activities				
Depreciable assets				
Building and improvements	$ 156,753,726	$ 527,835	$ (260,000)	$ 157,021,561
Equipment	2,608,080	14,629	-	2,622,709
	159,361,806	542,464	(260,000)	159,644,270
Accumulated depreciation				
Building and improvements	(120,778,152)	(4,338,654)	-	(125,116,806)
Equipment	(2,170,053)	(97,897)	-	(2,267,950)
	(122,948,205)	(4,436,551)	-	(127,384,756)
	36,413,601	(3,894,087)	(260,000)	32,259,514
Land	49,954,725	-	(51,510)	49,903,215
Business-type activities capital assets, net	$ 86,368,326	$ (3,894,087)	$ (311,510)	$ 82,162,729

Depreciation expense for the year ended June 30, 2018 was charged to functions as follows:

Governmental activities	
Low-income housing service and assistance	$ -
Business-type activities	
Housing development program	$ 74,472
Rental housing program	4,362,079
Total depreciation expense – business-type activities	$ 4,436,551

At June 30, 2018, capital assets for the proprietary funds consisted of the following:

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Total
Buildings and improvements	$ 142,916,156	$ 14,105,405	$ -	$ 157,021,561
Equipment	2,419,930	63,843	138,936	2,622,709
	145,336,086	14,169,248	138,936	159,644,270
Less: Accumulated depreciation	(123,939,849)	(3,333,504)	(111,403)	(127,384,756)
	21,396,237	10,835,744	27,533	32,259,514
Land	16,186,850	33,716,365	-	49,903,215
Net capital assets	$ 37,583,087	$ 44,552,109	$ 27,533	$ 82,162,729

6. Revenue Bond Funds – Reserve Requirements

Under the trust indentures between the Corporation and the trustees for the Single Family Mortgage Purchase Revenue Bonds, investment assets and cash are required to be held by the trustees in various accounts and funds, including debt service reserve accounts, loan funds, and mortgage loan reserve funds. The uses of these assets are restricted by the terms of the trust indentures.

At June 30, 2018, the following debt service reserves and mortgage loan reserves were required by the trust indentures in the Single Family Mortgage Purchase Revenue Bond Fund.

Debt service reserve requirements	$ 2,688,000
Mortgage loan reserve requirements	628,000
	$ 3,316,000

At June 30, 2018, approximately $3,589,000 and $12,184,000 of investment securities were being held in the debt service reserve funds and mortgage loan reserve funds, respectively, and are included in assets held by trustees in the statement of net position.

Under the trust indenture agreement between the Corporation and the trustee for the Hawaii Rental Housing System Revenue Bond Fund, the Corporation is required to provide net revenues (as defined in the trust indenture agreement) together with lawfully available funds of at least 1.25 times the aggregate debt service on outstanding bonds during the bond year. Additionally, the Corporation is to provide net revenues (as defined in the trust indenture agreement) of at least 1.10 times the aggregate debt service on outstanding bonds during the bond year. At June 30, 2018, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 7.11 times the aggregate debt service on outstanding bonds during the year and net revenues (as defined in the trust indenture agreement) of 1.61 times the aggregate debt service on outstanding bonds during the year.

The trust indenture agreement also requires that the mortgage loan reserves for these Revenue Bond Funds be funded from other than bond proceeds and, accordingly, the reserves have been funded by commitment fees at June 30, 2018.

7. Note Payable

The Dwelling Unit Revolving Fund has a mortgage note payable to the U.S. Department of Agriculture Office of Rural Development. The note was originated in October 1994, and is payable in monthly installments of approximately $1,300, including annual interest at 1%, due in April 2027. The note is collateralized by property and rental receipts. At June 30, 2018, the balance outstanding on the mortgage note was approximately $129,000.

Note payable activity during the year was as follows:

	Balance at July 1, 2017	Addition	Reductions	Balance at June 30, 2018	Current Portion
Note payable	$ 139,845	$ -	$ (11,056)	$ 128,789	$ 14,147

The approximate debt service requirement of the mortgage and note payable is as follows:

	Principal	Interest	Total
Year ending June 30,			
2019	$ 14,000	$ 1,000	$ 15,000
2020	14,000	1,000	15,000
2021	14,000	1,000	15,000
2022	15,000	1,000	16,000
2023	15,000	1,000	16,000
2024 – 2027	57,000	1,000	58,000
	$ 129,000	$ 6,000	$ 135,000

8. Revenue Bonds Payable

Through June 30, 2018, approximately $2.2 billion of revenue bonds have been issued. The revenue bonds are payable from and collateralized by the revenues and other monies and assets of the revenue bond funds and other assets of the Corporation pledged under the indentures.

Revenue bonds payable at June 30, 2018 consisted of the following issuances:

Hawaii Rental Housing System revenue bonds	
2004 Series A	
Term bonds maturing in 2021 through 2034 (4.25% to 4.75%)	$ 56,980,000
2004 Series B	
Serial bonds maturing annually through 2030 (4.375% to 6.00%)	10,750,000
Term bond maturing in 2031 through 2034 (6.50%)	5,590,000
	16,340,000
Total Hawaii Rental Housing System revenue bonds	$ 73,320,000

Single Family Mortgage Purchase revenue bonds		
2009 Series A-1		
Term bonds maturing in 2026 through 2042 (2.40%)	$	9,330,000
2011 Series A		
Serial bonds maturing in 2019 (2.70% to 2.90%)		905,000
2011 Series B		
Serial bonds maturing in 2020 through 2023 (2.95% to 3.45%)		3,370,000
Term bonds maturing in 2023 through 2026 (3.875%)		3,235,000
Planned Amortization Class bonds maturing in 2019 through 2026 (4.50%)		1,045,000
		7,650,000
2013 Series A		
Term bonds maturing in 2019 through 2038 (2.60%)		8,994,452
Total Single Family Mortgage Purchase revenue bonds	$	26,879,452

Interest on the Hawaii Rental Housing System and Single Family Mortgage Purchase revenue bonds is payable in monthly or semi-annual payments.

The Hawaii Rental Housing System and Single Family Mortgage Purchase revenue bonds with designated maturity dates may be redeemed at the option of the Corporation. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from undisbursed bond proceeds, principal payments, and prepayments of mortgages, excess amounts in the debt service reserve account, or excess revenues (as defined in the bond indentures). During the year ended June 30, 2018, deferred loss on refunding approximated $342,000 and was recognized as deferred outflows of resources in the statement of net position.

During the year ended June 30, 2018, early redemptions totaled $16,720,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2017	Additions	Reductions	Balance at June 30, 2018
Single Family Mortgage Purchase	$ 46,208,633	$ -	$ (19,329,181)	$ 26,879,452
Hawaii Rental Housing System	76,465,000	-	(3,145,000)	73,320,000
	122,673,633	-	(22,474,181)	100,199,452
Add: Unamortized premium	297,862	-	(30,822)	267,040
Total	$ 122,971,495	$ -	$ (22,505,003)	100,466,492
Less: Current portion				(5,191,539)
Total				$ 95,274,953

The approximate annual debt service requirements through 2023 and in five-year increments thereafter to maturity for revenue bonds are as follows:

	Principal	Interest	Total
Year ending June 30,			
2019	$ 5,162,000	$ 4,247,000	$ 9,409,000
2020	5,371,000	4,050,000	9,421,000
2021	5,575,000	3,842,000	9,417,000
2022	5,806,000	3,616,000	9,422,000
2023	6,026,000	3,375,000	9,401,000
2024 – 2028	31,404,000	12,900,000	44,304,000
2029 – 2033	31,475,000	5,981,000	37,456,000
2034 – 2038	7,060,000	553,000	7,613,000
2039 – 2043	2,320,000	84,000	2,404,000
	$ 100,199,000	$ 38,648,000	$ 138,847,000

In order to ensure the exclusion of interest on the Corporation’s Hawaii Rental Housing System and Single Family Mortgage Purchase revenue bonds from gross income for federal income tax purposes, the Corporation calculates rebates due to the U.S. Treasury annually. The rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. At June 30, 2018, the Corporation determined that no rebate amounts were due to the U.S. Treasury.

Interest expense of approximately $4,503,000 was included as direct function expenses in the government-wide financial statement of activities during the year ended June 30, 2018.

9. Conduit Debt Obligations

From time to time, the Corporation has issued revenue bonds to provide financial assistance to private sector entities for the acquisition and rehabilitation of multifamily rental housing developments. These bonds are special limited obligations of the Corporation, payable solely from and collateralized by a pledge of payments on the mortgage-backed securities. Neither the Corporation, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. The bonds and related assets are reported in the accompanying financial statements.

Through June 30, 2018, approximately $640.5 million of conduit revenue bonds were issued for multifamily rental housing developments. As of June 30, 2018, there were twenty-two series of conduit revenue bonds outstanding.

Conduit revenue bonds payable issued for multifamily rental housing developments at June 30, 2018 consist of the following issuances:

Multifamily Housing revenue bonds		
2002 Series (Hale Hoaloha Project)		
Mortgage installment bonds maturing annually through 2028 (3.125%)	$	965,348
2005 Series (Kauhale Olu Project)		
Mortgage installment bonds maturing annually through 2026 (6.375%)		4,559,517
2007 Series A (Kukui Gardens Project)		
Mortgage installment bonds maturing annually through 2042 (2.41%, 6.25%)		12,857,729
2008 Series (Kahului Town Terrace Project)		
Mortgage installment bonds maturing annually through 2026 (4.25%)		1,664,724
2008 Series (Lokahi Kau Project)		
Term bonds maturing in 2042 (1.5%)		19,830,000
2011 Series A (Kuhio Park Terrace Project)		
Mortgage installment bonds maturing through 2023 (1.25% to 3.95%)		1,670,000
Term bonds maturing in 2028 through 2029 (4.75%, 4.95%)		29,170,000
2011 Series A (Ewa Villages Apartments)		
Term bonds maturing in 2029 (3.95%, 5.10%)		3,495,000
2012 Series A (Ko‘oloa‘ula Apartments)		
Serial bonds maturing in 2023 and 2034 (3.125%, 4.00%)		5,765,000
2012 Series A (Wilikina Apartments)		
Serial bonds maturing in 2022, 2034, and 2047 (4.25%, 5.00%, 6.75%)		8,780,000
2012 Series A (Iwilei Apartments)		
Term bonds maturing in 2026 and 2031 (3.30%, 3.75%)		10,185,000
2015 Series A (Ko‘oloa‘ula Apartments)		
Mortgage installment bonds maturing annually through 2033 (4.00% to 2028, 6% 2028 to 2033)		8,417,756
Series 2015 (Ewa III)		
Term bonds maturing in 2048 (4.76%)		3,634,442
2016 Series A (Kaneohe Elderly)		
Term bonds maturing in 2032 (3.625%)		6,924,700
2016 Series (Kekuilani Gardens)		
Term bonds maturing in 2034 (3.85%)		2,883,511
2016 Series (Waipahu Hall)		
Term bonds maturing in 2033 (3.625%)		11,374,091
2017 Series (Kamana Elderly)		
Term bonds maturing in 2032 (3.84%)		2,836,000
2017 Series A (River Pauahi)		
Term bonds maturing in 2033 (3.625%)		6,951,277
2017 Series A (Waipahu Tower)		
Term bonds maturing in 2033 (4.67%)		10,750,000
Subtotal		152,714,095

Subtotal carried forward	152,714,095
2017 Series (Ola Ka Ilima Lofts)	
Term bonds maturing in 2036 (4.48%)	786,799
2017 Series (Hale Kewalo)	
Term bonds maturing in 2021 (1.90%)	28,035,000
2017 Series A (Hausten Gardens)	
Term bonds maturing in 2033 (3.63%)	14,000,000
2018 Series (Nohana Hale)	
Term bonds maturing in 2021 (3.81%)	3,353,806
Total Multifamily Housing revenue bonds	$ 198,889,700

Conduit revenue bonds activity during the year was as follows:

Balance at July 1, 2017	$ 198,380,377
Additions	55,687,250
Reductions	(55,177,927)
Balance at June 30, 2018	198,889,700
Less: Current portion	(6,158,506)
Total	$ 192,731,194

The approximate annual debt service requirements through 2023 and in five-year increments thereafter to maturity for conduit revenue bonds are as follows:

	Principal	Interest	Total
Year ending June 30,			
2019	$ 6,159,000	$ 7,163,000	$ 13,322,000
2020	2,134,000	7,100,000	9,234,000
2021	33,738,000	6,917,000	40,655,000
2022	2,347,000	6,269,000	8,616,000
2023	2,543,000	6,198,000	8,741,000
2024 – 2028	18,408,000	28,626,000	47,034,000
2029 – 2033	89,544,000	18,655,000	108,199,000
2034 – 2038	13,488,000	4,418,000	17,906,000
2039 – 2043	28,224,000	2,986,000	31,210,000
2044 – 2048	2,305,000	363,000	2,668,000
	$ 198,890,000	$ 88,695,000	$ 287,585,000

Interest expense of approximately $7,495,000 was included as direct function expenses in the government-wide financial statement of activities during the year ended June 30, 2018.

Subsequent to June 30, 2018, approximately $168,338,000 of conduit revenue bonds were issued.

10. Leases

Lessee
The Corporation leases land, buildings and improvements under various noncancelable operating leases expiring at various dates through 2057. The leases have scheduled rent increases at various times throughout their terms.

The minimum rental commitments under operating leases are as follows:

Year ending June 30,	
2019	$ 590,000
2020	608,000
2021	626,000
2022	635,000
2023	635,000
2024 – 2028	3,366,000
2029 – 2033	3,810,000
2034 – 2038	4,039,000
2039 – 2043	4,572,000
2044 – 2048	4,847,000
2049 – 2053	5,487,000
2054 – 2057	3,841,000
	$ 33,056,000

Rent expense for the year ended June 30, 2018 totaled approximately $574,000.

Lessor
The Corporation leases land with a carrying value of approximately $32,452,000 to various developers and home buyers. The leases expire at various dates through 2050. Lease rental income for the year ended June 30, 2018 was approximately $1,014,000.

As discussed in Note 12, the Corporation’s lease related to Kukui Gardens was prepaid with a promissory note. The promissory note does not have fixed repayment terms. Accordingly, the minimum amounts to be received are excluded from the following table.

The future minimum lease rent from these operating leases at June 30, 2018 is as follows:

Year ending June 30,	
2019	$ 594,000
2020	574,000
2021	583,000
2022	585,000
2023	586,000
2024 – 2028	2,662,000
2029 – 2033	1,588,000
2034 – 2038	295,000
2039 – 2043	217,000
2044 – 2048	109,000
2049 – 2050	39,000
	$ 7,832,000

11. Commitments and Contingencies

Construction Contracts
At June 30, 2018, the Dwelling Unit Revolving Fund ("DURF") had outstanding commitments to expend approximately $33,893,000 for land development and the construction and renovation of housing projects.

Loan Commitments
At June 30, 2018, the Rental Housing Revolving Fund had aggregate outstanding loan commitments of approximately $32,352,000.

Development Costs
The Kapolei development project primarily consists of eight residential villages, a golf course, and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2018, all but 35 acres of remnant residential and business mixed-use parcels have been developed and sold. The estimated future cost of development is recorded as a liability in the accompanying statement of net position, and relates primarily to the completion of certain infrastructure improvements at this project. This liability represents estimated amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands. The Villages of Leiali‘i is in West Maui and is located on public trust (ceded) land owned by the State of Hawai‘i. As of June 30, 2018, the Corporation still has development rights for most of the Leiali‘i project and development costs related to Leiali‘i were approximately $8,423,000 at June 30, 2018.

In 2008, the Corporation embarked on the development of another master planned community on non-ceded land in West Hawai‘i, named the Kamakana Villages at Keahuolu. On March 31, 2009, the Corporation entered into a development agreement and a related loan agreement to finance necessary predevelopment, planning and infrastructure costs with a master plan developer. Over the past several years, the master plan developer has worked on the project and was successful in obtaining numerous development entitlements and rights under related agreements (collectively, the “entitlements”). In fiscal year 2018, the Corporation and the master plan developer agreed to terminate all of its rights, duties and obligations to each other under the development agreement with certain entitlements assigned and assumed by the Corporation with consideration of certain outstanding loan balances deemed repaid in full, which amounted to approximately $21,918,000. Additionally, a portion of the development agreement and outstanding loan balance was transferred to another plan developer for completion. As of June 30, 2018, development costs related to Kamakana Villages of Keahuolu were approximately $22,303,000.

Also, the Corporation has other development costs and dwelling units of approximately $3,221,000 at June 30, 2018.

Torts and Litigation
The Corporation is involved in various actions, the outcome of which, in the opinion of management, will not have a material adverse effect on the Corporation’s financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State of Hawai‘i’s general fund.

Insurance
The State maintains certain insurance coverage to satisfy the bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers’ compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, 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. At June 30, 2018, the State recorded an estimated loss for workers’ compensation, automobile and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State’s General Fund. The Corporation’s portion of the State’s workers’ compensation liability was not material at June 30, 2018.

12. Kukui Gardens

On December 18, 2007, the Corporation purchased a portion of Kukui Gardens (the “Project”), an affordable housing project in Honolulu, Hawai‘i, for approximately $59,569,000. Concurrent with DURF’s purchase of the Project, DURF sold the Project’s improvements (including apartment units) and operating cash of approximately $38,527,000 to Kukui EAH/DGI Associates, L.P. (“EAH”), an unrelated third party, for no gain or loss, and leased the underlying land of approximately $21,042,000 to EAH pursuant to the terms of a 65-year land lease that expires on December 18, 2072.

To assist in financing the acquisition and redevelopment of the Project, the State contributed $25,000,000 to DURF during December 2007. Additionally, the Multifamily Housing Revenue Bond Fund issued $45,000,000 of revenue bonds to provide conduit financing to EAH for their acquisition of the Project’s improvements and operating cash, as well as to provide capital for rental operations and the planned renovation of the apartment units. Upon completion of the renovations, $34,605,000 of the bonds was scheduled to be redeemed, leaving $10,395,000 of bonds outstanding to their stated maturity. In 2010, due to unfavorable global economic conditions, EAH requested and Citicorp Municipal Mortgage Inc., bondholder, agreed to increase the unredeemed bond balance by $3,270,000 to $13,665,000, which decreased the redemption at conversion to $31,335,000 from $34,605,000. In May 2012, the Project was completed and a payment of $31,335,000 was received. Accordingly, the Multifamily Housing Revenue Bond Fund has notes receivable of approximately $12,750,000 and revenue bonds payable of approximately $12,858,000 related to the Project on the accompanying statement of net position as of June 30, 2018. Currently, $3,158,000 of the bond bears interest at a fixed rate of 6.25% and matures through January 2042, while the remaining $9,700,000 bears interest at a rate of 2.25% and matures annually through January 2042. The bond includes monthly payments of principal and interest with principal payments that range from approximately $2,000 to $54,000. Any unpaid principal and accrued interest, together with any other expenses, are due upon maturity.

Additionally, EAH executed three promissory notes to DURF in an aggregate amount of $29,055,000, including approximately $4,055,000 related to cash advanced from DURF to EAH and $25,000,000 related to the terms of the land lease. Additionally, DURF recorded $25,000,000 of unearned income on the accompanying statement of net position related to this transaction. The unearned income will be amortized to rental income on a straight-line basis and the notes receivable will be reduced as cash is collected. Unearned income at June 30, 2018 related to the Project was approximately $20,943,000. The notes bear interest at 4.72% and are for a term of 58 years, with a final maturity date of December 17, 2065. Repayment of the notes is distributed into three periods as follows: (1) December 18, 2007 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

EAH also executed a promissory note to DURF for $26,000,000 in September 2009 to assist EAH in rehabilitating the property. The note bears no interest and is for a term of 56 years, with a final maturity date of December 17, 2065. Repayment of the note is distributed into three periods as follows: (1) September 1, 2009 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

During the year ended June 30, 2018, DURF recognized approximately $2,100,000 of interest income related to the outstanding promissory notes. As of June 30, 2018, DURF has recorded approximately $15,100,000 of interest income receivable related to the outstanding promissory notes.

13. Pension Plan

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

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.

<u>Noncontributory Class</u>

- *<u>Retirement Benefits</u>* – 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.

- *<u>Disability Benefits</u>* – 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/reentry 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.

- *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.

- *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.

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

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 2018 were 28% for police officers and firefighters and 18% for all other employees. Contributions to the pension plan from the Corporation were approximately $693,000 for the year ended June 30, 2018.

On May 18, 2017, the Governor signed into law Act 17, SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for all employees other than police officers and firefighters, increases to 18% on July 1, 2017; 19% on July 1, 2018; 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.

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

At June 30, 2018, the Corporation reported a net pension liability of approximately $9,917,000 for its proportionate share of the State's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Corporation's proportion of the net pension liability was based on a projection of the Corporation's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At

June 30, 2017, the Corporation's proportion was 0.15% which was an increase of 0.02% from its proportion measured as of June 30, 2016.

There was no change in actuarial assumptions as of June 30, 2016 to June 30, 2017. There were no changes between the measurement date, June 30, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2018, the Corporation recognized pension expense of approximately $1,477,000. At June 30, 2018, the Corporation reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 158,102	$ (95,361)
Net difference between projected and actual earnings on pension plan investments, net of $661,531 of deferred outflows of resources	-	(180,075)
Changes in assumptions	1,397,433	-
Changes in proportion and differences between Corporation contributions and proportional share of contributions	43,625	(21,066)
Corporation contributions subsequent to the measurement date	692,644	-
Total	$ 2,291,804	$ (296,502)

At June 30, 2018, the approximate $693,000 reported as deferred outflows of resources related to pensions resulting from Corporation contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2019	$ 309,839
2020	460,005
2021	412,974
2022	116,010
2023	3,830
	$ 1,302,658

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on December 12, 2016, based on the most recent experience study dated July 5, 2016:

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

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

Post-retirement mortality rates are based on the 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 Bespoke 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 real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Strategic Allocation (risk based classes)		
Broad growth	63.0%	5.80%
Principal protection	7.0%	0.20%
Real return	10.0%	3.60%
Crisis risk offset	20.0%	3.10%
Total investments	100.0%	

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

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Corporation's proportionate share of the net pension liability	$ 12,855,075	$ 9,916,692	$ 7,493,850

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's 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. The ERS's complete financial statements are available at *http://ers.ehawaii.gov.*

Payables to the Pension Plan

At June 30, 2018, the Corporation prepaid expense to the ERS was $13,000.

Required Supplementary Information and Disclosures

The State's CAFR includes the required disclosures and required supplementary information on the State's pension plan.

14. Post-retirement Health Care and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees and their dependents. The EUTF issues a publicly available annual financial report that can be obtained at *https://eutf.hawaii.gov.*

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 ten 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 ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Employees Covered by Benefit Terms
At July 1, 2017, the following number of plan members of the State were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	35,374
Inactive plan members entitled to but not yet receiving benefits	8,124
Active plan members	50,101
Total plan members	93,599

Contributions
Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the OPEB plan from the Corporation was approximately $782,000 for the fiscal year ended June 30, 2018. The employer is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB
At June 30, 2018, the Corporation reported a net OPEB liability of approximately $10.2 million. The net OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

There were no changes between the measurement date, July 1, 2017, and the reporting date, June 30, 2018, that are expected to have a significant effect on the net OPEB liability.

For the year ended June 30, 2018, the Corporation recognized OPEB expense of approximately $717,000. At June 30, 2018, the Corporation reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual earnings on OPEB plan investments	$ -	$ (14,202)
Corporation contributions subsequent to the measurement date	782,017	-
Total	$ 782,017	$ (14,202)

At June 30, 2018, the approximate $782,000 reported as deferred outflows of resources related to OPEB resulting from State contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30,	
2019	$ (3,551)
2020	(3,551)
2021	(3,551)
2022	(3,549)
	$ (14,202)

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 8, 2018, based on the experience study covering the five year period ended June 30, 2015:

Inflation	2.50%
Salary increases	3.50% to 7.00% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates	
PPO*	Initial rates of 6.60%, 6.60% and 9.00%; declining to a rate of 4.86% after 14 years
HMO*	Initial rates of 9.00%; declining to a rate of 4.86% after 14 years
Part B & Base Monthly Contribution	Initial rates of 2.00% and 5.00%; declining to a rate of 4.70% after 14 years
Dental	3.50%
Vision	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.

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 asset class are summarized in the following table:

	Target Allocation	Long-Term Expected Real Rate of Return
Asset Class		
U.S. equity	19.0%	5.50%
International equity	19.0%	7.00%
U.S. microcap	7.0%	7.00%
Private equity	10.0%	9.25%
REITs	6.0%	5.85%
Core real estate	10.0%	3.80%
Global options	7.0%	5.50%
Core bonds	3.0%	0.55%
Long treasuries	7.0%	1.90%
Trend following	7.0%	1.75%
TIPS	5.0%	0.50%
Total investments	100.0%	

Single Discount Rate
The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00% and the municipal bond rate of 3.56% (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-year Municipal GO AA Index”). 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.

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. The EUTF's complete financial statements are available at *https://eutf.hawaii.gov.*

Changes in Net OPEB Liability

The following table represents a schedule of changes in the Corporation's net OPEB liability. The ending balances are as of the measurement date, July 1, 2017.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at July 1, 2017	$ 10,597,785	$ 528,691	$ 10,069,094
Service cost	189,267	-	189,267
Interest on total net OPEB liability	574,697	-	574,697
Corporation contributions	-	565,047	(565,047)
Net investment income	-	56,573	(56,573)
Benefit payments	(284,140)	(284,140)	-
Administrative expenses	-	(145)	145
Other	-	4,542	(4,542)
Net change	479,824	341,877	137,947
Balance at June 30, 2018	$ 11,077,609	$ 870,568	$ 10,207,041

Sensitivity to the Net OPEB Liability to Changes in Discount Rate and Healthcare Cost Trend Rates

The following table presents the Corporation's net OPEB liability calculated using the discount rate of 7.00%, as well as what the Corporation'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%)
Corporation's proportionate share of the net OPEB liability	$ 11,979,823	$ 10,207,041	$ 8,772,488

The following table presents the Corporation's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what the Corporation'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	Healthcare Cost Trend Rate	1% Increase
Corporation's proportionate share of the net OPEB liability	$ 8,689,888	$ 10,207,041	$ 12,121,854

Payables to the OPEB Plan

At June 30, 2018, the amount payable to the EUTF was $34,000, consisting of the Corporation's employer contributions.

Required Supplementary Information and Disclosures

The State's CAFR includes the required disclosures and required supplementary information on the State's OPEB plan.

15. 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 salary 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.

16. Related Party Transactions

Amounts due from the Department of Hawaiian Home Lands ("DHHL") related to a previous agreement to transfer certain land development rights to DHHL include approximately $9,098,000. Pursuant to this agreement, DHHL was required to commence 15 annual $1,700,000 payments to the Corporation in December 2004. Effective at that time, the Corporation recorded the sale of the land and development rights at the net present value of the estimated future cash flow from DHHL using an imputed interest rate of approximately 2.6%. In September 2013, the agreement was amended to extend the term by three years and reduce annual payments from $2,200,000 to $1,700,000. As of June 30, 2018, amounts due from DHHL include approximately $4,532,000 of principal, net of approximately $168,000 of imputed interest, and approximately $69,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately $138,000 during the year ended June 30, 2018.

The Rental Assistance Revolving Fund provides rent subsidies to certain lessees of the Corporation's various projects. Total rent subsidies provided to lessees of the Corporation's various projects approximated $1,360,000 during the year ended June 30, 2018. These amounts have been recorded by the Corporation as rental income in the Hawaii Rental Housing System Revenue Bond Fund. In addition, the Corporation leases office space in the Pohulani building. During the year ended June 30, 2018, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately $1,310,000, which was allocated as office rental expense to various funds of the Corporation. In addition, DAGS incurred approximately $1,089,000 in rent to the Hawaii Rental Housing System Revenue Bond Fund for leased space in the Pohulani building. The lease term with the Corporation and DAGS expires in August 2022. Minimum annual rent is renegotiated every five years, with the rent for the first year of each five-year period being no less than 97% and no more than 103% of the preceding year's minimum rent. Minimum rent for the subsequent four years of each five-year period increases by 3% annually.

17. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
Multifamily Housing Revenue Bond Fund	Non-major Enterprise Funds	$ 2,399,811
Dwelling Unit Revolving Fund	Non-major Enterprise Funds	734,984
Non-major Enterprise Funds	Non-major Enterprise Funds	452,196
Non-major Enterprise Funds	Hawaii Rental Housing System Revenue Bond Fund	644,283
Non-major Enterprise Funds	Single Family Mortgage Purchase Revenue Bond Fund	170,729
	Total Proprietary interfund balances	4,402,003
Non-major Enterprise Funds	Non-major Governmental Funds	13,466
	Total Governmental interfund balances	$ 13,466

These balances are due to interfund goods or services provided or reimbursable expenditures and payments between funds.

Required Supplementary Information Other than Management's Discussion and Analysis (unaudited)

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Budgetary Comparison Statement – General Fund (unaudited)
Year Ended June 30, 2018

	Original Budget	Final Budget	Budgetary Actual	Variance With Final Budget Positive (Negative)
Revenues				
Intergovernmental revenue	$ -	$ 210,757,169	$ 210,757,169	$ -
Expenditures				
Programs	-	-	-	-
Total expenditures	-	-	-	-
Other financing uses				
Transfers out	-	210,243,616	210,243,616	-
Excess of revenues over expenditures	$ -	$ 513,553	$ 513,553	$ -

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Budgetary Comparison Statement – HOME Investment Partnership Program (unaudited)
Year Ended June 30, 2018

	Original and Final Budgets	Budgetary Actual	Variance With Final Budget Positive (Negative)
Revenues			
Intergovernmental revenue	$ 2,241,000	$ 2,600,496	$ 359,496
Expenditures			
Low-income housing service and assistance programs	2,241,000	2,600,496	(359,496)
Total expenditures	2,241,000	2,600,496	(359,496)
Excess of revenues over expenditures	$ -	$ -	$ -

1. 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. Amounts reflected as budgeted revenues in the budgetary comparison statement are those estimates as compiled and reviewed by the State of Hawai‘i, Department of Budget and Finance.

Budgeted expenditures are derived primarily from the General Appropriations Act of 2005 (Act 178, Session Laws of Hawaii (“SLH”) 2005), and from other authorizations contained in the State Constitution, Hawaii Revised Statutes, and other specific appropriation acts in various SLH.

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2017 – 2018 biennial budget. The General Fund and HOME Investment Partnership Program have legally appropriated annual budgets.

The final legally adopted budget in the accompanying budgetary comparison statements represents the original appropriation, transfers, and other legally authorized legislative and executive changes.

The legal level of budgetary control is maintained at the appropriation line item level by department, program and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Corporation. During the year ended June 30, 2018, there were no expenditures in excess of available appropriations at the legal level of budgetary control.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations are made. The State Legislature specifies the lapse date and any other contingencies which may terminate the authorizations for other appropriations.

The Corporation’s annual budget is prepared on the budgetary basis of accounting with several differences from the preparation of the statement of revenues, expenditures and change in fund balances under GAAP, principally related to (1) encumbrance of purchase orders and contract obligations, (2) accrued revenues and expenditures, and (3) unbudgeted programs (federal award programs). A reconciliation of the budgetary to GAAP basis operating results for the year ended June 30, 2018 was as follows:

	General Fund	**HOME Investment Partnership Program**
Excess of revenues over expenditures – actual (budgetary basis)	$ 513,553	$ -
Revenues for unbudgeted programs	-	398,162
Excess of revenues over expenditures – GAAP basis	$ 513,553	$ 398,162

Supplementary Information

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2018

	Tax Credit Assistance Program Fund	National Foreclosure Mitigation Counseling Program Fund	Housing Trust Program Fund	Total Non-major Governmental Funds
Assets				
Cash in banks	$ -	$ -	$ 488	$ 488
Notes and loans receivable	9,861,610	-	-	9,861,610
Total assets	$ 9,861,610	$ -	$ 488	$ 9,862,098
Liabilities and Fund Balances (Deficit)				
Liabilities				
Due to other funds	$ -	$ -	$ 5,296	$ 5,296
Total liabilities	-	-	5,296	5,296
Fund balances – restricted	9,861,610	-	-	9,861,610
Fund deficit – unrestricted	-	-	(4,808)	(4,808)
Total fund balances (deficit)	9,861,610	-	(4,808)	9,856,802
Total liabilities and fund balances (deficit)	$ 9,861,610	$ -	$ 488	$ 9,862,098

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Change in Fund Balances
Year Ended June 30, 2018

	Tax Credit Assistance Program Fund	National Foreclosure Mitigation Counseling Program Fund	Housing Trust Program Fund	Total Non-major Governmental Funds
Revenues				
Intergovernmental	$ -	$ 6,747	$ -	$ 6,747
Other income	-	306	109,519	109,825
Total revenues	-	7,053	109,519	116,572
Expenditures				
Personnel services	-	7,953	90,094	98,047
Administration	-	-	10,582	10,582
Total expenditures	-	7,953	100,676	108,629
Change in fund balances	-	(900)	8,843	7,943
Fund balances				
Beginning of year	9,861,610	900	(13,651)	9,848,859
End of year	$ 9,861,610	$ -	$ (4,808)	$ 9,856,802

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Non-major Enterprise Funds
Combining Statement of Net Position
June 30, 2018

	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Disbursing Fund	Grants in Aid Fund	Total
Assets and Deferred Outflows of Resources					
Current assets					
Equity in cash and cash equivalents and investments in State Treasury	$ 10,463,325	$ 7,618,353	$ 708,717	$ -	$ 18,790,395
Cash in banks	-	-	10,000	-	10,000
Receivables					
Accrued interest	801,370	79,182	-	-	880,552
	801,370	79,182	-	-	880,552
Due from other funds	-	1,267,208	-	-	1,267,208
Prepaid expenses and other assets	116,327	-	-	-	116,327
Total current assets	11,381,022	8,964,743	718,717	-	21,064,482
Investments	897,229	-	-	-	897,229
Mortgage loans, net of allowance for loan losses of $49,728	2,249,985	5,216,960	-	-	7,466,945
Capital assets, net	-	-	27,533	-	27,533
Total assets	14,528,236	14,181,703	746,250	-	29,456,189
Deferred outflows of resources					
Deferred outflows on net pension liability	52,259	476,906	-	-	529,165
Deferred outflows on net OPEB liability	15,959	127,736	-	-	143,695
Total deferred outflows of resources	68,218	604,642	-	-	672,860
Total assets and deferred outflows of resources	$ 14,596,454	$ 14,786,345	$ 746,250	$ -	$ 30,129,049
Liabilities, Deferred Inflows of Resources and Net Position					
Current liabilities					
Accounts payable	$ -	$ 8,852	$ 36,250	$ -	$ 45,102
Other accrued expenses	20,634	134,231	-	-	154,865
Due to other funds, net	-	2,740,212	700,000	-	3,440,212
Due to other State departments	-	-	10,000	-	10,000
Security deposits	-	1,731,249	-	-	1,731,249
Total current liabilities	20,634	4,614,544	746,250	-	5,381,428
Net OPEB liability	208,305	1,667,235	-	-	1,875,540
Net pension liability	202,694	1,620,975	-	-	1,823,669
Total liabilities	431,633	7,902,754	746,250	-	9,080,637
Deferred inflows of resources					
Deferred inflows on net pension liability	18,328	133,872	-	-	152,200
Deferred inflows on net OPEB liability	290	2,320	-	-	2,610
Total deferred inflows of resources	18,618	136,192	-	-	154,810
Commitments and contingencies					
Net position					
Net investment in capital assets	-	-	27,533	-	27,533
Unrestricted	14,146,203	6,747,399	(27,533)	-	20,866,069
Total net position	14,146,203	6,747,399	-	-	20,893,602
Total liabilities, deferred inflows of resources and net position	$ 14,596,454	$ 14,786,345	$ 746,250	$ -	$ 30,129,049

See accompanying independent auditors’ report.

State of Hawai'i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai'i)
Non-major Enterprise Funds
Combining Statement of Revenues, Expenses and Change in Net Position
Year Ended June 30, 2018

	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Disbursing Fund	Grants in Aid Fund	Total
Operating revenues					
Interest on mortgages, notes, loans and mortgage-backed securities	$ 68,437	$ 15,636	$ -	$ -	$ 84,073
Other	-	1,385,281	-	-	1,385,281
Total operating revenues	68,437	1,400,917	-	-	1,469,354
Operating expenses					
Personnel services	159,033	1,100,689	-	-	1,259,722
Housing assistance payments	1,580,547	-	-	-	1,580,547
Administration	56,844	267,468	-	93,616	417,928
Programs	-	-	-	652,987	652,987
Professional services	3,548	36,508	-	-	40,056
Insurance	-	148	-	-	148
Provision for losses	-	22,813	-	-	22,813
Capital expenses	770	7,239	-	-	8,009
Other	27	15,042	-	-	15,069
Total operating expenses	1,800,769	1,449,907	-	746,603	3,997,279
Operating loss	(1,732,332)	(48,990)	-	(746,603)	(2,527,925)
Nonoperating revenues (expenses)					
Interest income	439,709	99,345	-	-	539,054
Net decrease in fair value of other investments	(261,567)	-	-	-	(261,567)
Other expenses	-	(294)	-	-	(294)
Total nonoperating revenues	178,142	99,051	-	-	277,193
Income (loss) before transfers	(1,554,190)	50,061	-	(746,603)	(2,250,732)
Net transfers	-	-	-	746,603	746,603
Change in net position	(1,554,190)	50,061	-	-	(1,504,129)
Net position					
Beginning of year	15,809,360	7,467,982	-	-	23,277,342
Adjustment for change in accounting principle	(108,967)	(770,644)	-	-	(879,611)
Beginning of year, as restated	15,700,393	6,697,338	-	-	22,397,731
End of year	$ 14,146,203	$ 6,747,399	$ -	$ -	$ 20,893,602

See accompanying independent auditors' report.

State of Hawai'i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai'i)
Non-major Enterprise Funds
Combining Statement of Cash Flows
Year Ended June 30, 2018

	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Disbursing Fund	Grants in Aid Fund	Total
Cash flows from operating activities					
Cash received from tenants	$ -	$ 215,513	$ -	$ -	$ 215,513
Cash received from borrowers					
Principal repayments	-	50,398	-	-	50,398
Interest income	162,344	17,932	-	-	180,276
Cash received for payments on mortgage-backed securities, net	4,210,001	-	-	-	4,210,001
Payments to employees	(120,526)	(978,974)	-	-	(1,099,500)
Payments to suppliers	(1,626,277)	(315,574)	37,808	(746,603)	(2,650,646)
Cash receipts from other funds	-	75,005	200,000	-	275,005
Other cash receipts	-	1,383,241	-	-	1,383,241
Net cash provided by (used in) operating activities	2,625,542	447,541	237,808	(746,603)	2,564,288
Cash flows from noncapital financing activities					
Transfers in	-	-	-	746,603	746,603
Net cash provided by noncapital financing activities	-	-	-	746,603	746,603
Cash flows from capital and related financing activities					
Sale of capital assets	-	-	8,567	-	8,567
Net cash provided by capital and related financing activities	-	-	8,567	-	8,567
Cash flows from investing activities					
Interest received	368,538	41,354	-	-	409,892
Net cash provided by investing activities	368,538	41,354	-	-	409,892
Net increase in cash and cash equivalents	2,994,080	488,895	246,375	-	3,729,350
Cash and cash equivalents					
Beginning of year	7,469,245	7,129,458	472,342	-	15,071,045
End of year	$ 10,463,325	$ 7,618,353	$ 718,717	$ -	$ 18,800,395
Components of cash and cash equivalents					
Equity in cash and cash equivalents and investments in State Treasury	$ 10,463,325	$ 7,618,353	$ 708,717	$ -	$ 18,790,395
Cash in banks	-	-	10,000	-	10,000
Cash and cash equivalents	$ 10,463,325	$ 7,618,353	$ 718,717	$ -	$ 18,800,395
Cash flows from operating activities					
Reconciliation of operating loss to net cash provided by (used in) operating activities					
Operating loss	$ (1,732,332)	$ (48,990)	$ -	$ (746,603)	$ (2,527,925)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities					
Provision for recovery of losses	-	22,813	-	-	22,813
Net pension expense	41,465	128,233	-	-	169,698
Net OPEB benefit	(1,323)	(10,591)	-	-	(11,914)
Changes in assets and liabilities					
Mortgage loans receivable	-	50,398	-	-	50,398
Accrued interest receivable	93,907	2,296	-	-	96,203
Due from other funds	-	(15,035)	-	-	(15,035)
Prepaid expenses and other assets	15,459	-	-	-	15,459
Investments	4,210,001	-	-	-	4,210,001
Accounts payable	-	8,791	37,808	-	46,599
Other accrued expenses	(1,635)	4,073	-	-	2,438
Due to other funds	-	90,040	200,000	-	290,040
Security deposits	-	215,513	-	-	215,513
Net cash provided by (used in) operating activities	$ 2,625,542	$ 447,541	$ 237,808	$ (746,603)	$ 2,564,288

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Reconciliation of Cash and Short-Term Investments
June 30, 2018

The Corporation’s cash and short-term investments consist of the following as of June 30, 2018:

Equity in State Treasury investment pool – Government-wide	$ 572,011,628
Cash in banks	3,171,900
Cash held by third parties	1,532,157
Restricted cash and cash equivalents held by trustees	54,553,360
Deposits held in trust	25,130
Restricted deposits held in escrow	1,007,061
	$ 632,301,236

Total cash and short-term investments are in agreement with the State Comptroller’s central accounting records as of June 30, 2018, as reconciled below:

	Appropriation Symbol	Balance at June 30, 2018
Cash in State Treasury		
Special Funds	S-13-375-B	$ 18,274
	S-14-375-B	103,168
	S-15-375-B	328,436
	S-16-375-B	70,019
	S-17-314-B	3,126
	S-17-375-B	1,468,370
	S-17-376-B	192,303
	S-18-314-B	667,812
	S-18-320-B	14,810
	S-18-321-B	243,880
	S-18-375-B	120,368,701
	S-18-376-B	7,178,253
	S-18-378-B	10,464,274
	S-18-380-B	430,753,177
Total cash held in State Treasury, as reported by State Comptroller’s accounting records		571,874,603

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Reconciliation of Cash and Short-Term Investments
June 30, 2018

	Balance at June 30, 2018
Balance carried forward	571,874,603
Reconciling items	
Journal vouchers not recorded by DAGS	137,025
Cash and short-term investments held outside State Treasury	
Cash in bank	3,171,900
Cash held by third parties	1,532,157
Restricted cash held by trustees	54,553,360
Deposits held in trust	25,130
Restricted deposits held in escrow	1,007,061
	60,289,608
Cash and short-term investments on Statement of Net Position	$ 632,301,236

See accompanying independent auditors’ report.

State of Hawai'i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai'i)
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development			
HOME Investment Partnerships Program	14.239	$ 2,837,135	$ 2,684,304
Housing Trust Fund	14.275	100,676	-
U.S. Department of Treasury			
Passed through The Neighborhood Reinvestment Corporation – National Foreclosure Mitigation Counseling	21.000	7,953	-
Total federal expenditures		$ 2,945,764	$ 2,684,304

See accompanying independent auditors' report and notes to the schedule of expenditures of federal awards.

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Indirect Costs

The Corporation has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

PART II
Compliance and Internal Control

Accuity LLP
CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors 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 Hawai‘i

The Board of Directors
Hawaii Housing Finance and Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Hawai‘i, Hawaii Housing Finance and Development Corporation (the “Corporation”) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Corporation’s basic financial statements, and have issued our report thereon dated December 12, 2018.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Corporation’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation’s internal control.

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

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

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

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawai‘i
December 12, 2018

Report of Independent Auditors on Compliance for Each Major Federal Program and on Internal Control Over Compliance Required by the Uniform Guidance

The Auditor
State of Hawai‘i

The Board of Directors
Hawaii Housing Finance and Development Corporation

Report on Compliance for Each Major Federal Program
We have audited the State of Hawai‘i, Hawaii Housing Finance and Development Corporation's (the "Corporation") compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the Corporation's major federal program for the year ended June 30, 2018. The Corporation's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility
Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility
Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program
In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

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Report on Internal Control over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, 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 over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Accuity LLP

Honolulu, Hawai'i
December 12, 2018

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	Unmodified	
Internal control over financial reporting		
• Material weakness(es) identified?	__ Yes	√ No
• Significant deficiency(ies) identified?	__ Yes	√ None reported
Noncompliance material to financial statements noted?	__ Yes	√ No

Federal Awards

Internal control over major programs		
• Material weakness(es) identified?	__ Yes	√ No
• Significant deficiency(ies) identified?	__ Yes	√ None reported
Type of auditors' report issued on compliance for major programs	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance	__ Yes	√ No

Identification of major programs

CFDA Number	Name of Federal Program
14.239	Home Investment Partnerships Program

Dollar threshold used to distinguish between Type A and Type B programs	$750,000	
Auditee qualified as low-risk auditee?	√ Yes	__ No

Section II – Financial Statement Findings

No current year financial statement findings.

Section III – Federal Award Findings and Questioned Costs

No current year federal award findings and questioned costs.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
(A Component Unit of the State of Hawai‘i)
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

There were no prior audit findings or questioned costs.