Financial Audit of the Housing and Community Development Corporation of Hawaii

A Report to the
Governor
and the
Legislature of
the State of
Hawaii

Report No. 01-14
September 2001

THE AUDITOR
STATE OF HAWAII

Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawaii State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. *Financial audits* attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.

2. *Management audits*, which are also referred to as *performance audits*, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called *program audits*, when they focus on whether programs are attaining the objectives and results expected of them, and *operations audits*, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.

3. *Sunset evaluations* evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.

4. *Sunrise analyses* are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.

5. *Health insurance analyses* examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.

6. *Analyses of proposed special funds* and existing *trust and revolving funds* determine if proposals to establish these funds are existing funds meet legislative criteria.

7. *Procurement compliance audits* and other *procurement-related monitoring* assist the Legislature in overseeing government procurement practices.

8. *Fiscal accountability reports* analyze expenditures by the state Department of Education in various areas.

9. *Special studies* respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawaii's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.

THE AUDITOR
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OVERVIEW

Financial Audit of the Housing and Community Development Corporation of Hawaii

Report No. 01-14, September 2001

Summary

The Office of the Auditor and the certified public accounting firm of KPMG LLP conducted a financial audit of the Housing and Community Development Corporation of Hawaii, State of Hawaii for the fiscal year July 1, 1999 to June 30, 2000. The audit examined the financial records and transactions of the corporation; reviewed the related systems of accounting and internal controls; and tested transactions, systems, and procedures for compliance with laws and regulations.

We found deficiencies in the financial accounting and internal control practices of the corporation. These deficiencies included the corporation's inadequate planning for the implementation of its new information system that resulted in numerous delays and additional costs to the corporation. The corporation still does not have an adequate understanding of the problems and has not formulated a strategic plan to expedite completion of the system implementation. As a result, the corporation is unable to estimate the expected completion date of the project.

The corporation is not timely in its execution of some contracts resulting in the execution of a design consultant contract 23 months after the funds became available. Also, corporation management has failed to implement internal control procedures to ensure the accuracy of the calculation of the final operating subsidy from the federal government and the reconciliation of the final calculation to the estimated operating subsidy.

An extremely large number of applicants are on the waiting list for low-income housing and tenant rental assistance programs. At the rate at which the corporation is currently placing applicants in housing, a waiting period of two to seven years is likely. We also found that a required report was not submitted to the U.S. Department of Housing and Urban Development within the prescribed deadline, which could have resulted in a "freeze" of federal financial assistance. In addition, we found that there is an inadequate segregation of duties over the corporation's petty cash fund.

Recommendations and Response

We recommend that the corporation assess the status of the implementation of the new information system, identify the causes of the problems associated with the implementation, and develop a strategic plan to meet the objectives of the implementation. The corporation should meet with Memory Lanes Systems Inc. and develop a work plan for completion of the information system implementation and should assign a project manager to oversee and monitor the project. The corporation should assess liquidating damages of $100/day against Memory Lanes Systems Inc. The corporation should also develop a contingency plan should problems arise and deadlines be missed.

The corporation should complete capital improvement projects in a timely manner and communication with the Board of Directors should be improved. The corporation should implement sufficient internal control procedures to ensure that the calculation of the actual operating subsidy is proper. Current and future projects should be monitored to ensure that they are efficiently and effectively completed; methods should be developed to spur facilitated developments and assist in the placement of applicants in tenant rental-assisted units; and staffing workloads and processes should be reviewed to ensure efficiency and effectiveness. Also, HUD reporting requirements should be adhered to and staff who are involved with the completion of HUD reports should be made aware of the significance of time deadlines. Finally, segregation of duties over the petty cash process could be improved.

The corporation generally agrees with most of our findings and recommendations. The corporation also indicated that it has implemented or are in the process of implementing all of our recommendations.

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Financial Audit of the Housing and Community Development Corporation of Hawaii

A Report to the Governor and the Legislature of the State of Hawaii

Conducted by

The Auditor
State of Hawaii
and
KPMG LLP

Submitted by

THE AUDITOR
STATE OF HAWAII

Report No. 01-14
September 2001

Foreword

This is a report of the financial audit of the Housing and Community Development Corporation of Hawaii, State of Hawaii for the fiscal year July 1, 1999 to June 30, 2000. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct postaudits of all departments, offices, and agencies of the State and its political subdivisions. The audit was conducted by the Office of the Auditor and the certified public accounting firm of KPMG LLP.

We wish to express our appreciation for the cooperation and assistance extended by officials and staff of the Housing and Community Development Corporation of Hawaii, State of Hawaii.

Marion M. Higa
State Auditor

Table of Contents

Chapter 1 Introduction

Chapter 2 Internal Control Deficiencies

Chapter 3 Financial Audit

List of Exhibits

List of Schedules

Chapter 1

Introduction

This is a report of our financial audit of the Housing and Community Development Corporation of Hawaii, State of Hawaii. The audit was conducted by the Office of the Auditor and the independent certified public accounting firm of KPMG LLP. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State of Hawaii (State) and its political subdivisions.

Background

Act 350, Session Laws of the State of Hawaii 1997, consolidated the Hawaii Housing Authority, State of Hawaii (HHA), the Housing Finance and Development Corporation (HFDC) and the Rental Housing Trust Fund (RHTF) into a single housing entity, the Housing and Community Development Corporation of Hawaii (corporation), effective July 1, 1998. Previously, the HHA managed federal and state low-rent public housing projects and subsidy programs, as well as facilities to assist the homeless. The HFDC administered housing finance and development programs to assist low and moderate-income renters and first-time homebuyers. The RHTF financed affordable rental housing projects.

The corporation's mission is to serve as a catalyst to provide Hawaii's residents with affordable housing and shelter opportunities in a balanced and supportive environment. To accomplish its mission, the corporation plans to 1) increase and preserve rental housing opportunities for low-income households and special needs groups in independent and supportive living environments; 2) revitalize existing rental projects while promoting healthy neighborhoods and strong communities; 3) assist persons in housing programs and facilities administered by the corporation to achieve higher levels of economic independence; 4) increase homeownership opportunities; and 5) improve the housing delivery system through cost-effective management of government programs and resources. During the fiscal year ended June 30, 2000, the corporation managed 67 federal and 16 state projects that provided 5,407 and 1,170 units, respectively, to low-income residents. In addition, the corporation assisted approximately 25,400 low-income residents with tenant-based rental assistance under federal and state programs.

The corporation receives significant amounts of state and federal funds

The corporation received approximately $96 million in state and federal funds during fiscal year 2000. Approximately $64.8 million was received from state appropriations and approximately $31.2 million was received from the U.S. Department of Housing and Urban Development (HUD). HUD provides funds for the payment of principal and interest on notes and bonds and for subsidized housing assistance payments. The notes and bonds previously provided funding for the construction and modernization of corporation-owned housing projects that were rented to low-income families. Under the subsidized housing programs, private landlords rather than the corporation lease housing units to low-income tenants. The private landlords are paid rental subsidies directly by the corporation using HUD funds.

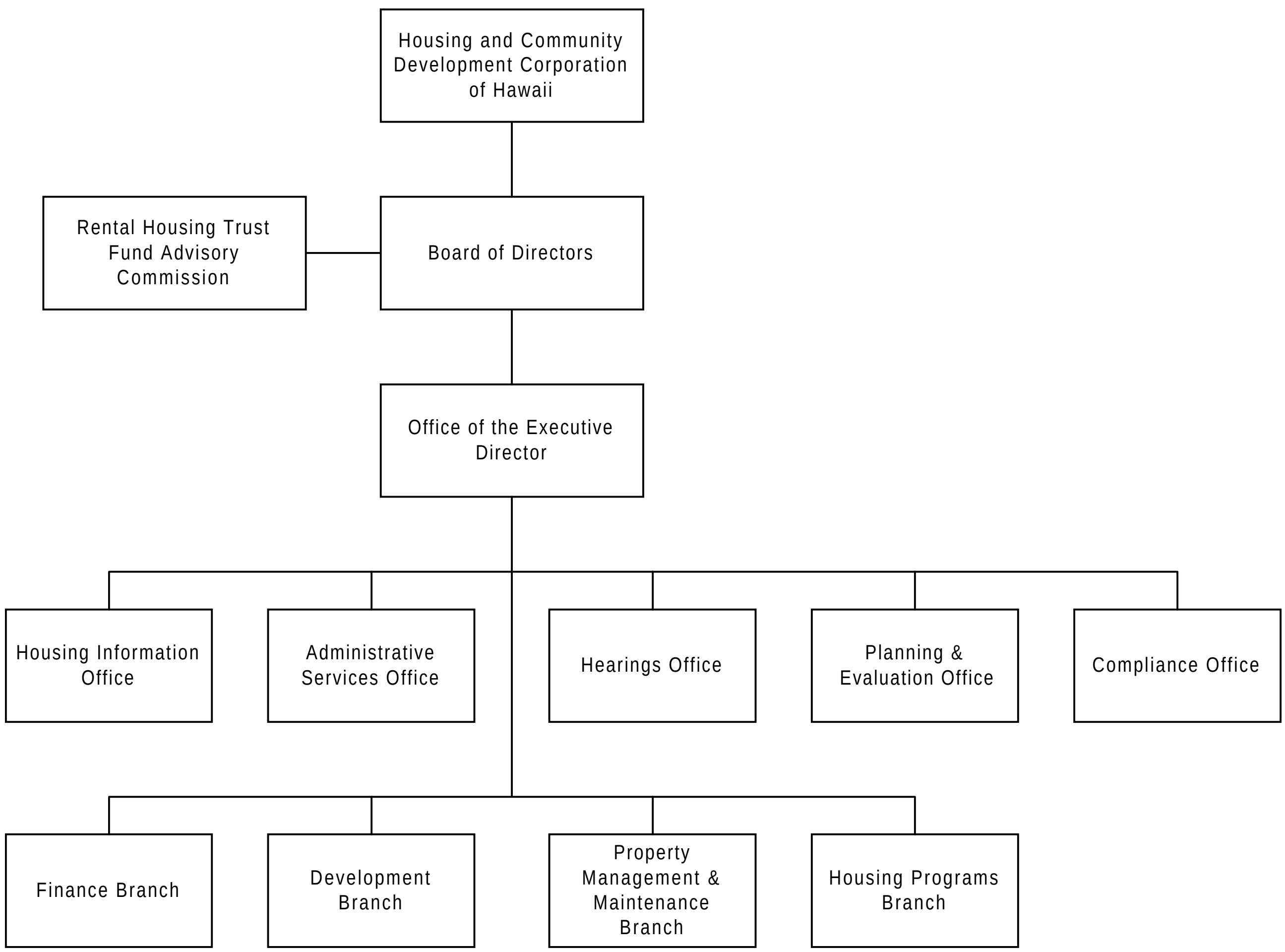
Organization

The corporation is administratively attached to the state Department of Business, Economic Development and Tourism. It is governed by a Board of Directors comprised of nine members, of whom six are appointed by the governor and three are ex-officio members. Five public members, four of which are appointed from each of the counties of Honolulu, Hawaii, Maui and Kauai, and one participant in the federal low-income housing or Section 8 tenant based rental assistance programs, serve four-year staggered terms, except that the initial appointments shall be two members for four years, two members for three years, and one member for two years. The sixth public member shall be the chairperson of the Rental Housing Trust Fund Advisory Commission who shall serve a concurrent term on the board. The three ex-officio members are the director of business, economic development and tourism; the director of human services; and the governor’s special assistant for housing. The corporation is comprised of the Office of the Executive Director, five staff offices, and four branches. Exhibit 1.1 displays the corporation’s organizational structure. The primary responsibilities of these units are as follows.

Office of the Executive Director

The Office of the Executive Director is the focal point for the execution of the statutory provisions relating to housing management services, housing development, and the delivery of housing and housing activities to the State. The executive director is responsible for the overall management of the corporation, including the uniform application of policies, procedures, and practices as they relate to the responsibility of the State and the corporation to provide housing services to the people of the State.

Exhibit 1.1
Organizational Structure of the Housing and Community Development Corporation of Hawaii



Staff Offices

Five staff offices provide support services to the corporation.

The Housing Information Office provides for regular communication among the corporation, other government and private entities, tenants of public housing, and the general public regarding the corporation's programs, services, actions, plans, and policies. In addition, the office establishes and maintains a communications program in support of public information and advocacy requirements under state law.

The Administrative Services Office provides corporation-wide fiscal, budgeting, purchasing, central files, personnel, and computer systems services in support of the corporation's programs in accordance with state, federal, and agency requirements.

The Hearings Office conducts and coordinates hearings, which involve resident disputes or evictions.

The Planning and Evaluation Office performs the overall planning, evaluation, and research activities for programs administered by the corporation, and coordinates legislative activities for the corporation.

The Compliance Office performs activities to ensure the corporation manages and operates programs in accordance with federal and state requirements, and corporate policies and directives.

Branches

Four branches carry out the programs of the corporation.

The Finance Branch provides overall administration of the various housing financing programs of the corporation including the issuance of tax exempt and taxable bonds to finance mortgages, and the construction and/or acquisition of rental housing projects. The branch also reviews requests for the financing of specific projects and makes recommendations on the provision of loans and grants to developers, nonprofits, and contractors.

The Development Branch provides overall administration for development, construction management, and technical assistance on projects assisted or developed by the corporation to increase housing opportunities for low and moderate-income households, elderly persons, and special needs groups. The branch also provides architectural and engineering reviews, inspection services, development tools, and financing assistance to eligible developers and contractors for the development of rental and for-sale housing, community redevelopment, infrastructure development, and the modernization, capital improvement, and repair and maintenance of existing facilities.

The Property Management and Maintenance Branch performs management and maintenance of assigned housing and homeless facilities, vacant land, and equipment owned or managed by the corporation; administers rent subsidy programs; and works directly with residents in identifying their needs in order to assist them in coordinating services and programs to meet those needs.

The Housing Programs Branch is responsible for the needs assessment, development, grant application, and administration of supportive services programs and grants for families and residents of the corporation's housing projects and the homeless, with the goal of bringing about self-sufficiency and economic independence. The branch also provides resident and homeless related technical support and assistance to housing personnel servicing the individual housing projects, as well as to private and public agencies. The branch serves as liaison for the corporation with other agencies and community groups in developing strategies for resident and homeless related services and self-sufficiency programs.

Objectives of the Audit

1. To assess the adequacy, effectiveness, and efficiency of the systems and procedures for the financial accounting, internal control, and financial reporting of the corporation; to recommend improvements to such systems, procedures, and reports; and to report on the financial statements of the corporation.

2. To ascertain whether expenses or deductions and other disbursements have been made and all revenues or additions and other receipts have been collected and accounted for in accordance with federal and state laws, rules and regulations, and policies and procedures.

3. To make recommendations as appropriate.

Scope and Methodology

We audited the financial records and transactions and reviewed the related systems of accounting and internal controls of the corporation for the fiscal year July 1, 1999 to June 30, 2000. We tested financial data to provide a basis to report on the fairness of the presentation of the financial statements. We also reviewed the corporation's transactions, systems, and procedures for compliance with applicable laws, regulations, and contracts.

We examined the existing accounting, reporting, and internal control structure and identified deficiencies and weaknesses therein. We made recommendations for appropriate improvements including, but not limited to, the forms and records, the management information system, and the accounting and operating procedures.

The independent auditors' opinion as to the fairness of the corporation's financial statements presented in Chapter 3 is that of KPMG LLP. The audit was conducted from July 2000 through November 2000 in accordance with generally accepted government auditing standards.

Chapter 2

Internal Control Deficiencies

Internal controls are steps instituted by management to ensure that objectives are met and resources are safeguarded. This chapter presents our findings and recommendations on the financial accounting and internal control practices and procedures of the Housing and Community Development Corporation of Hawaii, State of Hawaii (corporation).

Summary of Findings

We found several reportable conditions involving the corporation's internal control over financial reporting and operations. Reportable conditions are significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

We found the following reportable conditions:

1. The corporation did not adequately plan for the implementation of its new information system and may have underestimated its complexity and the required time commitment to successfully complete the project. This has resulted in numerous delays and additional costs to the corporation. Further, despite the problems encountered and the additional resources utilized, the corporation still does not have an adequate understanding of the problems and has not formulated a strategic plan to expedite completion. As a result, the corporation is unable to estimate the expected completion date.

2. The 1997 and 1998 State of Hawaii (State) Legislatures appropriated $800,000 and $8.7 million, respectively, for the design and construction of roofing improvements for four State-owned low-income housing projects. For one of the projects, the corporation executed a design consultant contract 23 months after the funds became available. Additionally, we were informed that the other projects faced similar delays.

3. Management has failed to implement internal control procedures to ensure the accuracy of the calculation of the final operating subsidy and the reconciliation of the final to the estimated operating subsidy. Such lack of internal controls resulted in an error in the 1997 actual calculation.

We also identified three matters that we do not consider to be reportable conditions. We found that as of July 31, 2000 the waiting list for the low-income housing and tenant rental assistance programs was approximately 7,200 and 5,800 applicants, respectively, which translates into a waiting period of two to seven years. These factors bring into question whether the corporation has been able to fulfill its mission of providing Hawaii's residents with affordable housing and shelter opportunities. We also found that a required report was not submitted to the U.S. Department of Housing and Urban Development (HUD) within the prescribed deadline, which could have resulted in a "freeze" of federal financial assistance. In addition, we found that there is an inadequate segregation of duties over the corporation's petty cash fund.

Numerous Problems Have Plagued Implementation Efforts for the New Information System

The corporation's new information system was poorly planned and resulted in unplanned costs and questionable data. In April 1998, the corporation commenced the process of implementing a new information system. The new system would integrate various software modules to manage functions such as housing application eligibility, public housing, rent subsidy programs, work orders, and comprehensive grants, as well as accounting applications such as the general ledger, accounts payable, personnel, fixed assets, purchasing, and inventory. Once completed, the system is envisioned to handle virtually all of the corporation's financial and tenant reporting requirements and move the corporation from a mainframe system to a local area network based system. The new system was to replace the existing system developed in the 1980s, automate existing manual processes, and improve the overall effectiveness of monitoring and compliance requirements. Under the old system, data was not readily accessible by staff members and was not accessible on the corporation's local area network or wide area network.

The corporation hired a vendor, Memory Lane Systems, Inc. (Memory Lane), to implement the new information system. In an attempt to control costs, the corporation elected to handle the project management internally. A committee was formed comprised of three primary members: the administrative services officer, the acting executive assistant, and the data processing systems analyst. However, based on the current status of the project, it appears that the corporation did not adequately plan for the project and underestimated the time commitment required and the complexity of managing the implementation of such a system.

Project was poorly planned

Proper planning for contracted work protects the State's limited resources and ensures that project objectives are met. Proper planning entails the establishment of a project work plan that begins with a comprehensive list of tasks to accomplish. The project leader should then identify the individuals responsible for reviewing each task deliverable. Task dependencies and relationships should be defined and analyzed to determine the necessary sequence of tasks to maximize efficiencies, estimated required hours to complete tasks, and specific resources assigned to specific tasks. Once these items have been accomplished, the work plan should be scheduled by task with start and end dates, required resources, and persons responsible. Another component of the work plan is the development of a contingency plan should problems arise and deadlines be missed. After forming the work plan, the corporation would then decide whether to manage the project internally or to contract a consultant. The corporation’s decision would be based on the availability and experience of internal resources. The project work plan would ensure that the project progresses at an acceptable rate, payments to vendors are based on progress to date, and the project meets budgets. Unfortunately, proper planning did not take place prior to implementation of the new information system resulting in delays and additional costs.

Memory Lane provided the corporation with a proposed work plan listing the tasks, start and end dates, the Memory Lane personnel responsible, and the estimated total hours for completion. The corporation relied on Memory Lane to handle the implementation efforts and, as a result, did not develop and maintain its own project work plan. Additionally, the corporation did not enforce the milestones contained in Memory Lane’s work plan to ensure that the deliverables were completed in a timely manner. Additionally, a contingency plan was not developed. As problems surfaced due to system modifications to fit the corporation’s business structure and data conversion from the old system to the Memory Lane system, the corporation did not formally classify or prioritize the problems, did not perform a high-level assessment of the problems to determine the cause, and did not formulate a strategic work plan to resolve the problems. Additionally, the corporation underestimated the complexity of the implementation project and the time commitment involved. As a result, it was difficult for the corporation to allocate sufficient resources to resolve the matters in a timely manner as problems arose.

Project completion date delayed over one year

Although the contractual completion date was October 30, 1999, and there were no executed extensions, the project remains incomplete more than a year after the contractual completion date. The contract with Memory Lane allows the corporation to assess Memory Lane for liquidating damages of $100 per day from the contractual completion date. The corporation has not assessed Memory Lane for the liquidating damages, which totaled $57,900 as of May 31, 2001. In addition, the corporation has not established a revised completion date, nor has it reached an agreement with Memory Lane on developing a revised timeframe.

Delays result in additional unplanned costs

The delays have caused the corporation to expend unanticipated resources for internal labor costs as well as payments to consultants. As the project has encountered various problems and delays, corporation personnel have expended significant time and energy on this project while also performing their normal day-to-day duties and responsibilities. The corporation has not been tracking or monitoring the amount of time that its personnel have spent on the project and is unable to estimate or quantify the internal cost of the project.

The delays also resulted in additional unplanned expenditures. The new information system, scheduled for completion in October 1999, is year 2000 compliant. However, as the new information system remained incomplete, the corporation entered into another consultant contract for approximately $55,000 to ensure that the corporation's existing system was year 2000 compliant. The corporation also paid another consultant approximately $30,000 in the fiscal year ended June 30, 2000 and an additional $22,600 between July 1, 2000 and April 30, 2001, for data entry services because the corporation's existing system does not interface with the State's system. The consultant is responsible for entering information related to invoices being paid from the corporation's system into a form that is transferable to the State's system. The new information system should be able to interface with the State's system thereby eliminating this step.

Payments to the vendor are not in line with the project's percentage of completion

Lack of a corporation's project work plan has hindered the corporation's ability to estimate the project's percentage of completion. Accurate estimates of the project's percentage of completion determines the necessary payments to the vendor for the hardware, software, and implementation. The corporation paid the vendor approximately $592,000 or 88 percent of the total contract amount as of August 2000, although the corporation estimated that the project was only 40 to 50 percent complete at that time. The corporation is unable to explain the disparity between the payments made and the estimated percentage of completion, as there is no formal way to determine project completion. Furthermore, the vendor has submitted additional invoices amounting to $173,000, which exceed the contract amount by approximately $95,000, and the corporation expects to receive additional invoices in the future. These additional billings are associated with additional support and customized programming to match the corporation's operations that were not in the proposed scope but were deemed necessary. No change orders have been executed since approved billings have not exceeded the contract amount. The corporation has not paid nor approved these additional invoice requests; however, the vendor continues to work on the project. Negotiations regarding the billings are taking place between the corporation and Memory Lane.

Disregard of standard methodology jeopardizes the integrity of the data

The State's Information and Communication Services Division (ICSD) requires all application development, requirements/selection, and reengineering projects to adhere to its system development lifecycle methodology tool, Systems Development Methodology Structured (SDM Structured). At Memory Lane's request, the corporation and Memory Lane obtained an exemption from ICSD to allow the agency to use Memory Lane's methodology. Memory Lane's methodology and the SDM Structured methodology are similar. However, one of the implementation tasks required by SDM Structured is the running of parallel processing prior to discontinuance of the old system to ensure that the new system is processing information properly. Memory Lane's process requires test runs by processing data from the old system in the new system and reviewing the output. The corporation performed parallel processing only for the general ledger and accounts payable modules, despite the fact that problems have been identified in other modules of the new system, including the low-income public housing and state low-rent program modules. As a result, the integrity of the data used to generate reports by the new system may be jeopardized.

Recommendations

We recommend that the corporation do the following:

- Assess the project's status, identify the causes of the problems, and develop a strategic plan to meet project objectives.
- Meet with the vendor and develop a work plan for completion of the project. Include task descriptions, resource requirements, and deadlines.
- Assign a project manager to oversee and monitor the project.
- Develop a contingency plan should problems arise and deadlines be missed.
- Assess liquidating damages of $100/day against the vendor.

Capital Improvement Projects of $9.5 Million Remain Incomplete After Three Years

The corporation is responsible for the repair and maintenance of 16 state-owned low-income housing projects comprised of 1,170 units. Funding for the repair and maintenance of the projects is appropriated by the Legislature as capital improvement project funds through the State's budgeting process. Timely completion of capital improvement projects is essential to ensuring the health, safety, and welfare of the tenants in the state-owned low-income housing projects.

The 1997 Legislature appropriated $800,000 for the design of the installation of improved roofing systems for four state-owned low-income housing projects comprised of 512 units. The 1998 Legislature appropriated $8.7 million for the construction of these improvements. We reviewed the planning and monitoring of one of these projects, Puahala Homes, which consists of 128 units at a construction cost of approximately $2.6 million. The corporation executed a design consultant contract in October 1999 approximately two years subsequent to the availability of funds. The project was completed in December 2000. Moreover, we were informed that the other three projects experienced similar delays.

Failure to adequately communicate with the corporation's Board of Directors delays execution of the design consultant contract over 20 months

Significant delays in executing a design consultant contract can be attributed to poor communication between the board and the staff. The corporation received notification of the availability of the design funds from the state Department of Budget and Finance on October 2, 1997. On February 20, 1998, the corporation's Board of Directors (board) authorized the corporation to enter into a consultant contract with an architectural firm. The corporation's Construction Management Unit II (CMS II) is responsible for the procurement process. However, the CMS II development administrator decided not to execute the consultant contract that was approved by the board but instead to explore an alternative procurement method. During this time, state agencies were shifting to a performance based procurement (PBP) methodology in which agencies are more involved in the selection of the design of and materials used in the project. CMS II staff, under the direction of the development administrator, met with employees from the state Department of Accounting and General Services (DAGS) who were familiar with PBP and were briefed by a representative of Arizona State University on the merits of PBP. Board members were also invited to this meeting. The briefing and other similar meetings related to the PBP methodology took place in early to mid-1999. Under the assumption that the board was in favor of adopting PBP methodology based on the briefings and feedback, the development administrator directed the CMS II staff to request that the same architectural firm approved by the board re-submit a proposal for consulting services based on PBP. The proposal was received in August 1999. However, in October 1999, the board denied authorization of the PBP methodology based on the associated cost of implementing the PBP system and the need for further assessment before proceeding with PBP. The board instructed CMS II staff to obtain feedback on PBP from DAGS after one year's implementation of the PBP method. As a result, the corporation executed a contract in October 1999 based on the original contract approved by the board in February 1998, one year and eight months subsequent to its original authorization.

As corporation employees involved in the contracting of the design consultant are no longer employed, we were unable to determine the extent of communications between the corporation and the board relating to the choice of procurement method. However, it appears that the corporation did not communicate with the board on this issue. There are no records or documentation of the existence of written communication between the corporation and the board. The only reference made in the board minutes is to the denial of the PBP methodology in October 1999.

As a result of the design contract delays, the award of the construction contract was delayed until May 22, 2000. Timelier and more effective communications with the board might have allowed the corporation to address the board's concerns prior to the October 1999 denial of the performance based procurement.

No capital improvements funds requested for fiscal year ended June 30, 2000

The corporation did not request any capital improvements funds for the fiscal year ended June 30, 2000. This occurred despite the fact that over 50 percent of the state-owned low-income housing projects are over 30 years old and in need of substantial repair or rehabilitation. The untimely extension of the design contract has been cited as a factor in the postponement of funding requests for other construction improvement projects.

Recommendations

We recommend that the corporation should do the following:

- Complete capital improvement projects in a timely manner.
- Improve communication with the board. Inform the board of the status of all projects and any problems encountered, especially if significant delays may result. Notify the board if any change is made to a board-approved procurement method. Obtain guidance from the board with regard to oversight and when issues should be identified for the board.

Amounts Due From HUD Are Underreported

HUD is authorized to make annual contributions (operating subsidies) for the operation of public housing agency owned rental housing projects. In the fiscal year ended June 30, 2000, the corporation received over $19 million as an operating subsidy from HUD. The operating subsidy is calculated in a two-step process. Prior to the beginning of the fiscal year, the corporation calculates an estimated operating subsidy based on historical information. This estimate is used by HUD to remit payment to the corporation on a weekly basis. Subsequent to year end, the corporation calculates the operating subsidy based on actual amounts and reconciles it to the estimated amount. The operating subsidy is thus calculated by accumulating certain allowable project costs less any operating income of the project. Any difference is applied to future operating subsidies received from HUD.

The corporation does not have adequate internal controls to ensure that the calculation of the actual operating subsidy is proper. As a result, underreported amounts have been determined after the reporting of the operating subsidy to HUD. A corporation budget analyst calculates the actual operating subsidy, reconciles it to the estimated operating subsidy and submits the required forms to HUD. A supervisory review of the final forms by an individual other than the preparer is not performed. The corporation focuses its efforts on the calculation of the estimated operating subsidy. The calculation of the actual operating subsidy does not undergo a review process similar to the one used for calculating the estimated operating subsidy, which includes reviews by a supervisor, the administrative services officer, and the board. Due to the lack of review procedures, the fiscal year 1997 actual operating subsidy was incorrectly calculated, resulting in an under payment to the corporation of approximately $223,000. This amount, which should have increased the fiscal year 1999 operating subsidy, remains outstanding as of June 30, 2000. Furthermore, because the 1997 actual operating subsidy was erroneously calculated, the estimated operating subsidies for 1999 and 2000, utilizing the 1997 reported information, were also incorrect. This resulted in underpayments during fiscal year 1999 and 2000 of approximately $389,000 and $34,000, respectively. These underpayments were reconciled in the respective years' actual operating subsidy calculation. These errors were identified by the corporation's independent auditors as part of the fiscal year 1999 audit. The corporation has previously notified HUD, but has yet to implement sufficient internal controls to ensure that future calculations of the actual operating subsidy are proper.

Recommendation

We recommend that the corporation implement sufficient internal control procedures to ensure that the calculation of the actual operating subsidy is proper. These procedures should be similar to those procedures performed on the estimated operating subsidy calculation, which include reviews by a supervisor, the administrative services officer, and the board.

The Corporation Has Not Been Entirely Successful in Fulfilling its Corporate Mission

The mission of the corporation is "to serve as a catalyst to provide Hawaii's residents with affordable housing and shelter opportunities in a balanced and supportive environment." To accomplish this, the corporation must ensure that there is an adequate number of well-maintained affordable units available to Hawaii residents. The current and projected unit inventory does not provide an adequate supply for Hawaii residents.

As of July 31, 2000, we found that there were approximately 7,200 and 5,800 applicants on the waiting list for low-income public housing and tenant rental assistance, respectively. Applicants may be on the waiting list for more than one program. The number of applicants awaiting low-income public housing increased from May 1999 by approximately 850 applicants. The number of applicants awaiting tenant rental assistance decreased from May 1999 by 900 applicants; however, this was mainly because applications were no longer being accepted as of April 1999. For the period May 1999 to July 2000, the corporation was only able to place 446 applicants in low-income public housing and 235 applicants in tenant rental assistance units. Based on the number of placements and new applicants during this period, it appears that the backlog will continue to increase each year.

The ability to place applicants in the low-income public housing and tenant rental assistance programs are based on several factors such as the requirements of the applicants and their ability to search for housing, the availability of public and private low-income housing and funding for tenant rental assistance, the rental market, and general economic conditions. In 1997, the corporation made a significant policy shift in how it addresses the availability of low-income public housing. Instead of directly undertaking development projects, the corporation took on the role of a housing facilitator, assisting private developers and nonprofit entities in providing affordable housing in Hawaii through loans and tax credits. The policy change was in response to the general housing market, the associated development risks, and the availability of resources. As a result, the last state low-income public housing project that was completed by the corporation was in 1995. We found that the corporation facilitated the completion of only one project totaling 99 units in fiscal year 2000. Moreover, the corporation projects the completion in fiscal years 2001 and 2002 of two and eight projects, respectively, totaling 159 and 549 units, respectively. By 2002, a total of 807 additional units are planned; however, as of July 2000, there were 7,200 applicants on the waiting list for low-income public housing, and the list continues to grow. It appears that the housing shortage will not be alleviated in the next few years and applicants will continue to wait for available housing. Furthermore, corporation personnel estimate that the current backlog results in a waiting period of two to seven years. This waiting period is a clear indication that the corporation has not been entirely successful in fulfilling its corporate mission.

Recommendation

We recommend that the corporation monitor its current and future projects to ensure that they are efficiently and effectively completed; develop methods to spur facilitated developments and assist in the placement of applicants in tenant rental-assisted units; and review staffing workloads and processes to ensure efficiency and effectiveness.

The Delay in the Submittal of a Required Report Could Have Resulted in a "Freeze" of Federal Financial Assistance

The corporation receives a substantial amount of funds, approximately $17.1 million in fiscal year 2000, under the Comprehensive Grant Program administered by HUD. These funds are used to upgrade and preserve the corporation's federal housing projects. As a participant in this program, Section 968.330 of Title 24 of the Code of Federal Regulations and the HUD Comprehensive Grant Program Handbook require that the corporation file an annual performance and evaluation report summarizing the status of all open grants by September 30 for each year. If HUD does not record the receipt of the report within 30 days after the due date of September 30, payments to the corporation will be automatically suspended for the respective grants.

Because of the significant amount of funding received from this program as well as other programs administered by HUD, it is imperative that the corporation file required reports within their respective time deadlines. We found that the corporation failed to comply with the performance and evaluation report filing deadline for September 30, 1999. We were informed by corporation personnel that HUD was notified prior to September 30, 1999, that the corporation would not file the required report on time. HUD's response was that the corporation had 30 days after September 30 to file the report. However, we found that the report was submitted to HUD on November 11, 1999. While federal guidelines clearly state that grant funds are automatically suspended for the period subsequent to October 30, it appears that no grant funds were actually frozen as the corporation did not receive any notification from HUD. Fortunately, there were no requests to draw on grant funds during this period. Nonetheless, a prolonged "freeze" could severely hinder the corporation's ability to effectively and efficiently manage its resources.

Recommendation

We recommend that the corporation adhere to HUD reporting requirements and ensure that staff who are involved with completion of the reports are aware of the significance of the time deadlines.

The Corporation's Internal Controls Over the Handling of Petty Cash Could Be Improved

The corporation's petty cash operations do not ensure internal controls to deter misuse or misappropriation. The corporation's petty cash custodian maintains a petty cash fund in an amount of $500 which is used for cash reimbursements less than $25. The fund is replenished when the balance falls below $200, which occurs approximately three times per year. Disbursements from the petty cash fund must be supported by original receipts and approved by the petty cash custodian, the employee receiving the reimbursement, and an accountant. The petty cash custodian reconciles the cash and original receipts when replenishment requests are made.

The custodial and reconciliation functions of petty cash funds should be separated to prevent misappropriation of assets. We found that the corporation's procedures lack monthly reconciliations and reviews of the petty cash fund by an employee independent of the custodial function. Currently, the petty cash custodian performs both the custodial and reconciliation functions. In previous years, a corporation employee independent of the process performed periodic reviews of the petty cash fund. No irregularities were found. As a result of past experience and limited personnel resources, the corporation discontinued these periodic reviews. However, the handling of cash provides the opportunity for misappropriation and appropriate internal controls should be established to deter any misappropriation of assets.

Recommendation

We recommend that the reconciliation of the petty cash fund or periodic reviews of the reconciliation procedures be performed by an employee independent of the petty cash process.

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Chapter 3
Financial Audit

This chapter presents the results of the financial audit of the Housing and Community Development Corporation of Hawaii, State of Hawaii (corporation) as of and for the fiscal year ended June 30, 2000. This chapter includes the independent auditors' report and the report on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards* as they relate to the corporation. It also displays the corporation's combined financial statements together with explanatory notes and supplementary information.

Summary of Findings

In the opinion of KPMG LLP, based on their audit, the combined financial statements present fairly, in all material respects, the financial position of the corporation as of June 30, 2000, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America. KPMG LLP noted certain matters involving the corporation's internal control over financial reporting and its operations that the firm considered to be reportable conditions. KPMG LLP also noted that the results of its tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Independent Auditors' Report

The Auditor
State of Hawaii:

We have audited the accompanying combined financial statements of the Housing and Community Development Corporation of Hawaii, State of Hawaii (corporation) as of and for the year ended June 30, 2000. These combined financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note A to the combined financial statements, the combined financial statements of the corporation are intended to present the financial position, results of operations, and cash flows of only that portion of the funds and account groups of the State of Hawaii that is attributable to the transactions of the corporation.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Housing and Community Development Corporation of Hawaii, State of Hawaii as of June 30, 2000, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2000 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the combined financial statements of the corporation taken as a whole. The supplementary information included in Schedules I through IX is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in our audit of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Honolulu, Hawaii
December 8, 2000

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawaii:

We have audited the combined financial statements of the Housing and Community Development Corporation of Hawaii, State of Hawaii (corporation), as of and for the fiscal year ended June 30, 2000, and have issued our report thereon dated December 8, 2000. 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.

Compliance

As part of obtaining reasonable assurance about whether the corporation's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives, and circulars, noncompliance with which could have a direct and material effect on the determination of combined 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 that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance that we have reported to the Auditor, State of Hawaii, in Chapter 2 of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the corporation's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Chapter 2 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are material weaknesses.

This report is intended solely for the information of the Auditor, State of Hawaii, and the management and the Board of Directors of the corporation and is not intended to be and should not be used by anyone other than these specified parties.

Honolulu, Hawaii
December 8, 2000

Description of Combined Financial Statements and Supplementary Information

The following is a brief description of the combined financial statements and supplementary information audited by KPMG LLP, which are located at the end of this chapter.

Combined financial statements

Combined Balance Sheet – All Fund Types and Account Groups (Exhibit A). This statement presents the assets, liabilities, and equity of all fund types and account groups of the corporation at June 30, 2000.

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Funds (Exhibit B). This statement presents the revenues, expenditures, and changes in fund balances for all governmental fund types and expendable trust funds of the corporation for the fiscal year ended June 30, 2000.

Combined Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General and Special Revenue Fund Types (Exhibit C). This statement compares actual revenues and expenditures of the corporation's general and special revenue funds on a budgetary basis to the budget adopted by the State Legislature for the fiscal year ended June 30, 2000.

Combined Statement of Revenue and Expenses – Proprietary Fund Types (Exhibit D). This statement presents the revenue and expenses for all proprietary fund types of the corporation for the fiscal year ended June 30, 2000.

Combined Statement of Fund Equity – Proprietary Fund Types (Exhibit E). This statement presents the changes in fund equity for all proprietary fund types of the corporation for the fiscal year ended June 30, 2000.

Combined Statement of Cash Flows – Proprietary Fund Types (Exhibit F). This statement presents the cash flows from operating, non capital financing, capital and related financing, and investing activities for all proprietary fund types of the corporation for the fiscal year ended June 30, 2000.

Supplementary information

Combining Balance Sheet – Special Revenue Funds (Schedule I). This schedule presents the assets, liabilities, and fund balances (deficit) of the special revenue funds of the corporation at June 30, 2000.

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Deficit) – Special Revenue Funds (Schedule II). This schedule presents the revenues, expenditures, and changes in fund balances (deficit) of the special revenue funds of the corporation for the fiscal year ended June 30, 2000.

Combining Balance Sheet – Enterprise Funds (Schedule III). This schedule presents the assets, liabilities, and fund equity of the enterprise funds of the corporation at June 30, 2000.

Combining Statement of Revenues and Expenses – Enterprise Funds (Schedule IV). This schedule presents the revenues and expenses of the enterprise funds of the corporation for the fiscal year ended June 30, 2000.

Combining Statement of Changes in Fund Equity – Enterprise Funds (Schedule V). This schedule presents the changes in fund equity of the enterprise funds of the corporation for the fiscal year ended June 30, 2000.

Combining Statement of Cash Flows – Enterprise Funds (Schedule VI). This schedule presents the cash flows from operating, non-capital financing, capital and related financing, and investing activities of the enterprise funds of the corporation for the fiscal year ended June 30, 2000.

Combining Balance Sheet – Revenue Bond Funds (Schedule VII). This schedule presents the assets, liabilities, and fund equity (deficit) of the revenue bond funds of the corporation at June 30, 2000.

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings (Accumulated Deficit) – Revenue Bond Funds (Schedule VIII). This schedule presents the revenues, expenses, and changes in retained earnings (accumulated deficit) of the revenue bond funds of the corporation for the fiscal year ended June 30, 2000.

Combining Statement of Cash Flows – Revenue Bond Funds (Schedule IX). This schedule presents the cash flows from operating, non-capital financing, capital and related financing, and investing activities of the revenue bond funds of the corporation for the fiscal year ended June 30, 2000.

Notes to Combined Financial Statements

Explanatory notes which are pertinent to an understanding of the combined financial statements and financial condition of the Housing and Community Development Corporation of Hawaii, State of Hawaii (corporation) are discussed in this section.

Note A – Organization and Significant Accounting Policies

General

Chapter 201E, Hawaii Revised Statutes (HRS) 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 Hawaii (HHA) was organized pursuant to the provisions of Chapter 356, HRS. The HHA was created to provide safe and sanitary dwelling accommodations for low and moderate income residents of Hawaii.

In accordance with Act 350, SLH, 1997, effective July 1, 1998, the functions and employees of HFDC as well as those of the HHA and the Rental Housing Trust Fund (RHTF) were transferred to the newly created corporation. The purpose of Act 350, SLH, 1997, was to consolidate all state housing functions previously administered by the HHA, the HFDC, and the RHTF. The corporation is a public body and a body corporate and politic and is, for administrative purposes only, considered to be a part of the state Department of Business, Economic Development and Tourism.

For financial reporting purposes, the corporation includes all funds and account groups 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 or account group.

HUD Subsidized Programs

The Federal Low-Rent Program and the various Section 8 funds are referred to collectively as the HUD Subsidized Programs and represent the contracts that the corporation has entered into with the U.S. Department of Housing and Urban Development (HUD). The Federal Low-Rent Program is used to account for corporation-owned housing projects that are rented to low-income families. To provide for the development and modernization of low-rent housing units, the corporation issues housing bonds and permanent notes. These bonds and notes are payable by HUD and secured by annual contributions (note L).

HUD Subsidized Programs also include subsidized housing assistance payments. Under these programs, low-income tenants lease housing units directly from private landlords rather than from the corporation. Rental payment subsidies are paid directly to the private landlords by the corporation using operating subsidies obtained from HUD.

The Federal Low-Rent Program includes all property and equipment, principally structures and improvements, acquired with the proceeds from notes and bonds collateralized by HUD.

Significant Accounting Policies

The accounting policies of the corporation utilized in the accompanying combined financial statements conform to generally accepted accounting principles (GAAP) applicable to governments as prescribed by the Governmental Accounting Standards Board through its statements and interpretations. The following is a summary of the significant accounting policies.

1. **Basis of Presentation**

   The financial transactions of the corporation are recorded in individual funds and account groups that are reported by type in the combined financial statements. The corporation accounts for and reports only its portion of those fund types and account groups maintained by the State of Hawaii (State). The state Comptroller maintains the accounts for all state funds and account groups and publishes the State's annual financial statements.

The accounts of the corporation are organized into funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues, and expenditures or expenses. Account groups are used to establish accounting control and accountability for the corporation's general fixed assets and general long-term obligations. Account groups are not funds as they do not reflect available financial resources and related liabilities. Government resources are allocated to and are accounted for in individual funds based on the purpose for which they are to be spent and the means by which spending activities are controlled.

The corporation uses the following fund types, funds, and account groups:

Governmental Fund Types

General fund – Accounts for all financial resources except those required to be accounted for in another fund. This fund includes the Rent Supplement, Security/Beautification, and the Homeless Program.

Special revenue funds – Accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds include Section 8 Existing, New Construction Haili, Housing Voucher Program, New Construction, Drug Elimination Programs, Shelter Plus Care, Family Investment Center, Youth Sports Program, Safe and Drug Free Schools and Communities, Housing Opportunities for Persons with AIDS Program, Economic Development and Support Services, and Supportive Housing Program.

Capital projects fund – Accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by the proprietary fund types.

Proprietary Fund Types

Enterprise funds – Accounts for operations that are financed and operated in a manner similar to private business enterprises where the corporation has decided that periodic determination of revenues earned, expenses incurred, and net income is appropriate for management control and public accountability. The enterprise funds include the Revenue Bond Funds, Dwelling Unit Revolving Fund (DURF), Homes Revolving Fund (HRF), Federal Low-Rent Program, and other funds that are not individually significant to the combined financial statements.

Under the Revenue Bond Funds, proceeds from the 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 finance multifamily housing projects. These funds include the Single Family Mortgage Purchase Revenue Bond Fund, the Multifamily Housing Revenue Bond Fund, the Rental Housing System Revenue Bond Fund (RHS), the State of Hawaii Affordable Rental Program (SHARP), and the University of Hawaii Faculty Housing Program Revenue Bond Fund.

The DURF was established for acquiring, developing, selling, leasing, and renting residential, commercial, and industrial properties; and providing mortgage and interim financing.

The HRF was established for the purpose of developing and implementing affordable housing development programs.

The Federal Low-Rent Program rents property and equipment, principally structures and improvements, acquired with the proceeds from notes and bonds collateralized by HUD to low-income families.

Internal service funds – Accounts for the financing of goods or services provided by these funds to other funds of the corporation, or to other governmental units, on a cost-reimbursement basis. These funds include Equipment Rental and Vehicle Rental.

Fiduciary Fund Types

Expendable trust fund – Accounts for assets held by the corporation in a trustee capacity.

Agency fund – Accounts for grants received for disbursement to other governmental units (secondary recipients).

Account Groups

General fixed assets account group – Accounts for all fixed assets of the corporation, other than those accounted for in the proprietary fund types.

General long-term obligation account group – Accounts for the long-term portion of accrued vacation, other than the amounts that are specific liabilities of the proprietary fund types.

2. **Basis of Accounting**

Governmental Fund Types and Expendable Trust and Agency Funds

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the combined balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The corporation uses the modified accrual basis of accounting for the general, special revenue, capital projects, and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues and related current assets are recognized in the accounting period when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year-end. Measurable means that the amount of the transaction can be determined. Available means that the amount is collected in the current fiscal year or soon enough after fiscal year-end to liquidate liabilities existing at the end of the fiscal year. Revenues susceptible to accrual include federal grants and funds appropriated by the State Legislature and allotted by the Governor.

Expenditures are recorded when the related fund liabilities are incurred.

Encumbrances are recorded obligations in the form of purchase orders or contracts. The corporation records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Proprietary Fund Types

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of those funds are included on the combined balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accounts of the proprietary fund types are reported under the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred.

The proprietary fund types have not applied Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989.

3. **Cash and Cash Equivalents**

Cash and cash equivalents for the purpose of the combined statement of cash flows include all cash and investments with original purchased maturities of three months or less.

4. **Investments**

Investments in repurchase agreements, U.S. government and mortgage-backed securities are generally carried at fair value. Investments in U.S. government securities, certificates of deposit, money market accounts, and repurchase agreements that have a remaining maturity, at time of purchase, of one year or less are stated at amortized cost. The change in fair value of investments is recognized in the combined statement of revenues and expenses – proprietary fund types as “net decrease in the fair value of investments.”

5. **Inventories**

<u>Developments in Progress and Dwelling Units</u>

Inventories consist of developments in progress and units available for sale. Units available for sale include constructed units, developed lots, and repurchased units available for sale. Developments in progress include construction in progress and land held for future development. The corporation currently has three development projects in progress. These master planned community projects include Kapolei (Oahu), La’i’opua (Hawaii), and Leiali’i (Maui). Costs included in developments in progress relate to infrastructure construction for these master planned communities.

Inventories are stated at the lower of cost or estimated net realizable value. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Valuation allowances for estimated losses on units available for sale are provided when the total estimated carrying costs exceeds the estimated net realizable value.

The recognition of gains 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.

6. **Property and Equipment**

Property and equipment recorded in the corporation's proprietary fund types are recorded at cost (net of accumulated depreciation). Property and equipment includes land owned by the corporation and leased to developers and homeowners. Interest costs incurred during construction are capitalized.

Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings and improvements	10 – 40 years
Equipment, furniture, and fixtures	1 – 10 years

Depreciation recognized on assets acquired or constructed from grants or contributions is transferred to and deducted from contributed capital to the extent that contributed capital is available.

Property and equipment reported in the general fixed assets account group are recorded at cost. Those assets were acquired or constructed for general governmental purposes and were reported as expenditures in the funds that financed the assets at acquisition. No depreciation is provided on those assets.

7. **HUD Annual Contributions**

The corporation receives annual contributions and subsidies from HUD for operating the corporation's housing assistance payment programs and the development and operation of low-income housing projects. The corporation also receives annual subsidies from HUD for housing assistance payments and operating deficits incurred in the operation of the programs. Annual subsidies recorded in the proprietary fund types are recognized as nonoperating revenue upon notification of approval from HUD and are accounted for in the combined statement of revenues and expenses – proprietary fund types as HUD operating subsidy.

8. **Amortization**

   Issuance costs of revenue bonds are deferred and amortized ratably over the term of the bond principal outstanding.

9. **Vacation and Sick Pay**

   Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued expenses – other in the general long-term obligation account group and the enterprise funds at the balance sheet date.

   Unused sick leave may be accumulated without limit but can be taken only in the event of illness and is not convertible to pay upon termination of employment.

10. **Allocated Costs**

    The corporation provides certain administrative services to its various funds. The cost of these services is allocated to the funds based on estimates of the corporation.

11. **Reservations of Fund Balances**

    The general and capital projects fund balances are reserved for continuing appropriations which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use. The expendable trust fund balance is reserved for other specific purposes.

12. **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.

13. **Use of Estimates**

The preparation of combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

14. **Total Columns on the Combined Financial Statements**

The total columns on the accompanying combined financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Information in those columns does not purport to present financial position, results of operations, or cash flows of the corporation in conformity with GAAP. Such data is not comparable to a consolidation. Interfund balances and transactions have not been eliminated.

Note B – Budgeting and Budgetary Control

The budget of the corporation is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services, and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which financial policy decisions are made, implemented, and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the combined statement of revenues and expenditures – budget and actual (budgetary basis) – general and special revenue fund types are those estimates as compiled by the corporation and reviewed by the state Department of Budget and Finance. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in the State Constitution, the HRS, and other specific appropriation acts in various SLH.

Expenditures of these appropriated funds are made pursuant to the appropriations in the biennial budget as amended by subsequent supplemental appropriations. Budgetary control is maintained at the departmental level. Budget revisions and interdepartmental transfers may be affected with certain executive and legislative branch approvals.

The general fund and certain special revenue funds have legally appropriated annual budgets. The final legally adopted budget in the combined statement of revenue and expenditures – budget and actual (budgetary basis) – general and special revenue fund types represent the original appropriations, transfers, and other legally authorized legislative and executive changes.

To the extent not expended or encumbered, general and special revenue funds appropriations generally lapse at the end of the fiscal year or grant period for which the appropriations were made. The State Legislature or federal government specifies the lapse dates and any other contingencies that may terminate the authorization for other appropriations. Known lapses occurring in the year of appropriation, if any, are included in the amended budgets, and are netted against revenues in the combined statement of revenues and expenditures – budget and actual (budgetary basis) – general and special revenue fund types.

A comparison of budgeted and actual revenues and expenditures of the general and special revenue funds are presented in the combined statement of revenues and expenditures – budget and actual (budgetary basis) – general and special revenue fund types. Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP are mainly due to revenues and expenditures of unbudgeted funds and the different methods used to recognize resource uses. For budgeting purposes, resource uses are recognized when cash disbursements are made or funds are encumbered. For financial statements presented in accordance with GAAP, expenditures are recognized when incurred and encumbrances are not reported as resources used.

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP for the general and special revenue funds for the fiscal year ended June 30, 2000 is as follows:

	Funds General	Funds Special Revenue
Excess of revenues and other financing source over expenditures – actual (budgetary basis)	$ --	$ --
Reserved for encumbrances at fiscal year-end*	530,791	--
Expenditures for liquidation of prior fiscal year encumbrances	(342,720)	--
Adjustment to accrual	(81,453)	--
Other adjustments	(224,840)	
Unbudgeted programs, net	--	82,568
Excess (deficiency) of revenues and other financing source over expenditures and other financing use – GAAP basis	$ (118,222)	$ 82,568

*Amount reflects the encumbrance balance included in continuing appropriations.

Note C – Cash

The State maintains a cash pool that is available to all funds. The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. 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. Effective August 1, 1999, cash is pooled with funds from other state agencies and departments and deposited with approved financial institutions or participants under the State Treasury Investment Pool System. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account. At June 30, 2000, the corporation had approximately $174,528,000 deposited in the State Treasury Investment Pool System.

In accordance with the implementation of the State Treasury Investment Pool System, certain investments of the fund were deposited into the State Treasury in July 1999. These investments were treated as maturing on July 31, 1999 and deposited into the State Treasury as cash.

The State requires that the depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

Cash, other than pooled cash, at a carrying value of approximately $19,931,000 is included in the combined balance sheet as cash, deposits held in trust, and assets held by trustees under revenue bond programs. The corporation maintains its cash balances at several financial institutions located in the State. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $100,000.

The corporation's deposits at year end were entirely covered by the FDIC insurance or by collateral held by the corporation's agent in the corporation's name.

Note D – Investments

Investments can be categorized to give an indication of the level of risk assumed by the corporation at June 30, 2000. Category 1 includes investments that are insured or registered, or securities held by the corporation or its agent in the corporation's name. Category 2 includes uninsured and unregistered investments, with securities held by the counterparty's trust department or agent in the corporation's name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent, but not in the corporation's name.

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. Uninsured certificates of deposit are required to be collateralized by investment securities of an equal or greater fair value. Repurchase agreements are generally treated as collateral lending. The underlying securities for repurchase agreements are required to be U.S. government or agency obligations of an equal or greater fair value. The corporation monitors the fair value of these securities and obtains additional collateral when appropriate. At June 30, 2000, the underlying fair values of the securities approximated carrying amount. These investments are included on the combined balance sheet as assets held by trustees under revenue bond programs.

Investments at June 30, 2000 are summarized as follows:

	Category			Reported	
	1	2	3	amount	Fair value
Investments excluding investments held by trustees under revenue bond programs:					
Certificates of deposit and money market accounts	$ 4,552,104	$ —	$ 1,236,090	$ 5,788,194	$ 5,788,194
U.S. government securities	9,891,516	—	—	9,891,516	9,891,516
Mortgage-backed securities	5,960,852	—	—	5,960,852	5,960,852
	20,404,472	—	1,236,090	21,640,562	21,640,562
Investments held by trustees under revenue bond programs:					
Certificates of deposit and money market accounts	30,277,973	—	—	30,277,973	30,277,973
U.S. government securities	8,694,295	—	—	8,694,295	8,676,238
Repurchase agreements	231,299,851	—	—	231,299,851	231,299,851
Mortgage-backed securities	404,716,875	—	—	404,716,875	404,716,875
Guaranteed investment contract	143,632	—	—	143,632	143,632
	675,132,626	—	—	675,132,626	675,114,569
Total investments	$ 695,537,098	$ —	$ 1,236,090	$ 696,773,188	$ 696,755,131

Mortgage-backed securities by contractual maturity at June 30, 2000 are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without prepayment penalties.

	Fair value
Due after five years	$410,677,727

Note E – Mortgage Loans and Notes and Loans Receivable

Mortgage loans and other notes and loans receivable at June 30, 2000 are comprised of the following:

	Mortgage loans	Notes and loans
Mortgage loans bearing interest at 0.00% to 14.50%, generally maturing within 30 years	$ 112,148,117	$ --
Development loans non-interest bearing, maturing in 2001	--	292,173
Interim construction loans bearing interest at 7.50%, maturing in 2001 and 2003	--	4,190,445
Promissory note bearing interest at 9.00%, due 2010	--	426,100
	$ 112,148,117	$ 4,908,718

Mortgage and development loans are collateralized by real property. The Revenue Bond Funds’ mortgage loans 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.

On June 30, 1998, the corporation executed a $25,000,000 interim construction loan agreement and an amended development agreement with the developers of Village V (Iwalani) at Kapolei. The interim loan is collateralized by the project’s improvements and materials. In addition, as provided by the agreement, all unsold project land (125 lots) was conveyed back to the corporation. As units in Iwalani are completed and sold, the underlying 125 lots will be sold by the corporation at an individual lot fee price of $29,574. These loans accrue interest at 7.5 percent and mature in June 2001. At June 30, 2000, the total amount of interim construction loans outstanding on the Village V phases approximated $1,891,000.

During 1984, the corporation entered into a sales transaction with a group of limited partnerships involving two housing projects owned by the corporation and one owned by a related entity. The projects were sold for approximately $10,800,000, consisting of $350,000 in cash, $7,450,000 in mortgages and other secured notes, and approximately $3,000,000 in assumed debt. Since the limited partnership's continuing investment is not considered adequate, the gain on the sale is being recognized on the installment method in the corporation's Rental Assistance Fund (RAF). The gain resulting from the sale of the corporation's two housing projects of approximately $1,570,000 is being recognized as earned revenue when payments are received. The gain resulting from the sale of the related entity's housing project of approximately $1,507,000 is being recognized as contributed capital when payments are received. In December 1999, the corporation collected the outstanding balances of two of the housing projects. As a result, the corporation recognized approximately $503,000 of gain and approximately $1,170,000 of contributed capital in the current year. The remaining outstanding mortgage and loan balance and the remaining gain as of June 30, 2000 were approximately $912,000 and $623,000, respectively.

The $426,100 promissory note receivable from a developer is uncollateralized. On January 1, 2010, the corporation has the option to acquire certain improvements constructed by the developer. If the corporation does not exercise the option, the entire principal balance and accrued interest shall be paid over a period of 15 years in monthly installments necessary to fully amortize the outstanding amount of this note.

Note F – Net Investment in Direct Financing Lease

University of Hawaii Faculty Housing Program Revenue Bond Fund
On November 1, 1995, the corporation entered into a lease and sublease agreement (Agreement) with the Board of Regents, University of Hawaii (University). Under the Agreement, the corporation leases the land under the housing project from the University for an annual rent of $1 and then subleases the leased land, buildings and improvements, and equipment back to the University. The University will make certain lease rental payments to the corporation, including amounts sufficient to pay the principal, premium, if any, and interest on the bonds as the same become due and payable. The Agreement expires on June 30, 2026. Upon expiration of the Agreement, the ownership of the buildings and improvements and equipment will revert to the University.

The following lists the components of the net investment in direct financing lease as of June 30, 2000:

Total minimum lease payments to be received	$ 35,015,049
Less unearned interest income	(16,062,969)
Net investment in direct financing lease	$ 18,952,080

The future minimum lease payments to be received during the subsequent five years are as follows:

Year ending June 30,	
2001	$ 1,242,000
2002	1,237,000
2003	1,237,000
2004	1,236,000
2005	1,239,000

Note G – 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 indentures. At June 30, 2000, the debt service reserves and mortgage loan reserves required by the indentures were as follows:

	Single Family Mortgage Purchase
Debt service reserve requirements	$ 68,428,000
Mortgage loan reserve requirements	5,818,489
	$ 74,246,489

At June 30, 2000, approximately $67 million of investment securities, at cost, were being held in the debt service reserve funds. In August 2000, the corporation had the trustee transfer assets into the debt service funds in amounts sufficient to meet the requirements of the indenture.

Under the trust indenture agreement between the corporation and the trustee for the RHS and SHARP revenue bonds, 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 1.1 times the aggregate debt service on outstanding bonds during the bond year. At June 30, 2000, the RHS and SHARP revenue bond funds provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 5.41 and 11.45 times the aggregate debt service on outstanding bonds during the year, respectively, and net revenues (as defined in the trust indenture agreement) of 1.34 and 1.92 times the aggregate debt service on outstanding bonds during the year, respectively. As per the trust indenture agreement, the RHS may use unrestricted assets of the corporation's other funds to calculate the ratio of net revenues and lawfully available funds to 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, 2000.

Note H – Property and Equipment

A summary of changes in general fixed assets for the fiscal year ended June 30, 2000 is as follows:

	Balance, July 1, 1999	Additions	Deletions	Balance, June 30, 2000
Land	$ 1,515,410	$ --	$ --	$ 1,515,410
Buildings and improvements	19,757,621	4,668,184	--	24,425,805
Equipment, furniture, and fixtures	1,021,195	--	--	1,021,195
Construction in progress	4,927,687	1,202,899	4,924,112	1,206,474
Property and equipment	$ 27,221,913	$ 5,871,083	$ 4,924,112	$ 28,168,884

At June 30, 2000, property, plant, and equipment for the proprietary fund types consisted of the following:

	Enterprise Funds	Internal Service Funds	Total
Land	$ 61,603,391	$ --	$ 61,603,391
Buildings and improvements	529,481,333	--	529,481,333
Equipment, furniture, and fixtures	9,274,361	2,428,036	11,702,397
Construction in progress	14,805,049	--	14,805,049
	615,164,134	2,428,036	617,592,170
Less accumulated depreciation	231,637,061	2,153,662	233,790,723
Net property and equipment	$ 383,527,073	$ 274,374	$ 383,801,447

During the fiscal year ended June 30, 2000, the corporation executed certain long-term leases with the tenants at Waiahole Valley. Accordingly, approximately $11.5 million of land held for sale under the DURF was reclassified to property and equipment (note R).

Note I – Mortgages and Notes Payable

Mortgages Payable

The Banyan Street Manor Project entered into a mortgage note agreement in October 1976 in the amount of $1,727,800 with USGI, Inc. (insured by HUD). On September 1, 1996, Greystone Servicing Corporation, Inc. became the new servicing agent and mortgagee. The mortgage loan bears interest at 7.5 percent and is collateralized by the rental property. Principal and interest are payable in monthly installments of $11,370, maturing January 1, 2018. At June 30, 2000, the mortgage payable balance was $1,016,244.

The Wilikina Apartments Project (Wilikina) entered into a mortgage note agreement in January 1977 in the amount of $3,535,500 with the State of Michigan Department of Treasury (insured by HUD). In connection with the purchase of Wilikina by the HHA Wilikina Apartments Project, Inc., the HHA Wilikina Apartments Project, Inc. assumed the note. During the year, HHA Wilikina Apartment Projects, Inc. exercised its prepayment option, and fully paid the mortgage note balance of $2,142,707 in the month of May 2000.

The Kekuilani Gardens Project (Kekuilani) entered into a mortgage agreement in December 1996 in the amount of $5,213,614 with the U.S. Department of Agriculture and Rural Development. The mortgage loan bears interest at 7.25 percent and is collateralized by the Kekuilani Gardens. Principal and interest are payable in monthly installments of $11,509 and matures on December 1, 2046. At June 30, 2000, the mortgage payable balance was $5,172,925.

Kekuilani also entered into an interest credit and rental assistance agreement in December 1996 with the U.S. Department of Agriculture and Rural Development that reduces Kekuilani's principal and interest payments. During the period, Kekuilani realized approximately $256,000 of interest credit reducing the interest expense from approximately $376,000 to $121,000.

In addition, Kekuilani entered into a mortgage agreement in December 1996 in the amount of $696,267 with the RHTF. The mortgage loan bears interest at 1 percent and is collateralized by the Kekuilani Gardens. Principal and interest are payable in monthly installments of $1,475 and matures on January 1, 2047. At June 30, 2000, the mortgage payable balance was $650,997.

Notes Payable

The corporation has three mortgage notes payable to the U.S. Department of Agriculture, Farmers Home Administration (FHA). Two notes were originated in August 1976, and are payable in combined monthly installments of $2,207, including interest at 1 percent, with the final combined payment due in August 2009. The third note was originated in October 1994, and is payable in monthly installments of $1,315 due in October 2027. The notes are secured by property and rental receipts. Notes payable to the FHA as of June 30, 2000 totaled $566,231.

During 1996, the SHARP borrowed $3.5 million from the RHTF and issued approximately $7 million of revenue bonds to purchase the Kekuilani Courts Rental Housing project from an outside party. The full amount of the non-interest bearing note shall become due and payable upon the earlier of June 30, 2027, or the redemption of all SHARP revenue bonds associated with the Kekuilani Courts Rental Housing project.

Notes payable also consists of a $171,327 unsecured promissory note payable to an individual (the former owner of Banyan Street). The entire principal balance plus accrued interest, which accrues at the same rate as the residual receipt funds held by USGI, Inc. (approximately 4.08 percent for the year ended June 30, 2000), is due within 45 days of full payment of the 7.5 percent USGI, Inc. mortgage note collateralized by HUD which matures on January 1, 2018.

The approximate maturities of mortgages and notes payable are as follows:

Fiscal year ending June 30,	
2001	$ 124,000
2002	130,000
2003	137,000
2004	145,000
2005	153,000
Thereafter	10,389,000
	$ 11,078,000

Note J – Revenue Bonds Payable

Through June 30, 2000, approximately $1,873,935,000 of revenue bonds have been issued. The revenue bonds are payable from and secured solely by the revenues and other monies and assets of the Revenue Bond Funds and other assets of the corporation pledged under the indentures.

In August 1997 and June 1998, the corporation, through its Single Family Mortgage Purchase Revenue Bond Fund, issued $161,430,000 and $164,060,000 of Single Family Mortgage Purchase Revenue Bonds, respectively. The 1997 and 1998 Series Bonds were issued to provide funds to purchase single pool mortgage-backed securities and to effect a redemption of $114,405,000 of certain bonds previously issued by the corporation.

The 1997 and 1998 refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $2,500,000. This difference, reported in the accompanying combined financial statements as a deduction from bonds payable, is being charged to operations through the year 2029.

In June 2000, the corporation, through its Single Family Mortgage Purchase Revenue Bond Fund, issued $106,785,000 2000 Series A and $1,980,000 2000 Series B Single Family Mortgage Purchase Revenue Bonds. The 2000 Series Bonds were issued to provide funds to purchase single pool mortgage-backed securities and to effect a redemption of certain bonds previously issued by the corporation. The net proceeds of $8,765,000 were used to purchase repurchase agreements. Those repurchase agreements were deposited with the Trustee to provide for the redemption of portions of the 1998 Series A, 1997 Series A, 1994 Series A, 1991 Series A and B, and 1990 Series A bonds, by July 1, 2000. As a result, these bonds were considered to be in-substance defeased and the liability for those bonds was no longer reported.

The 2000 advanced refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $30,000. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2008. The corporation completed the advanced refunding to reduce its total debt service payments over the next 30 years by approximately $880,000 and to obtain an economic gain (difference between the present value of the old and new debt service payments) of approximately $370,000.

Revenue bonds payable at June 30, 2000 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds:	
1989 Series A:	
Serial bonds maturing annually through 2006 (7.25% to 7.55%)	$ 120,000
Term bonds maturing in 2010 and 2030 (7.63% and 7.80%)	1,600,000
	1,720,000
1990 Series A:	
Serial bonds maturing annually through 2006 (7.10% to 7.60%)	1,370,000
Term bonds maturing in 2011, 2020, and 2024 (7.80% to 8.00%)	8,215,000
	9,585,000
1991 Series A:	
Serial bonds maturing annually through 2004 (6.45% to 6.75%)	1,245,000
Term bonds maturing in 2012, 2021, and 2025 (6.75% to 7.10%)	13,435,000
	14,680,000

1991 Series B:	
Term bonds maturing in 2017 and 2032 (6.90% and 7.00%)	21,445,000
1994 Series A:	
Serial bonds maturing annually through 2010 (4.75% to 5.75%)	37,540,000
Term bonds maturing in 2017, 2020, and 2027 (5.05% to 6.00%)	90,145,000
	127,685,000
1994 Series B:	
Term bonds maturing in 2014, 2018, and 2028 (5.70% to 5.90%)	87,285,000
1997 Series A:	
Serial bonds maturing annually through 2003 (4.25% to 4.55%)	3,900,000
Term bonds maturing in 2019, 2029, and 2031 (4.90% to 5.75%)	96,905,000
	100,805,000
1997 Series B:	
Serial bonds maturing annually from 2004 to 2010 (4.45% to 5.00%)	15,995,000
Term bonds maturing in 2018 (5.45%)	29,405,000
	45,400,000
1998 Series A:	
Serial bonds maturing annually through 2014 (4.10% to 5.25%)	32,560,000
Term bonds maturing in 2019, 2030, and 2031 (4.85% to 5.40%)	110,440,000
	143,000,000
1998 Series B:	
Term bonds maturing in 2029 (5.30%)	11,085,000
1998 Series C:	
Term bonds maturing in 2021 (5.35%)	4,060,000
2000 Series A:	
Serial bonds maturing from 2003 to 2013 (5.30% to 6.15%)	13,610,000
Term bonds maturing in 2021, 2028, 2032, and 2033 (5.93% to 6.375%)	93,175,000
	106,785,000
2000 Series B:	
Term bonds maturing in 2016 (6.00%)	1,980,000
Total Single Family Mortgage Purchase revenue bonds	675,515,000
Multifamily Housing revenue bonds:	
1985 Series A (Tropicana West project) – term bonds maturing in 2011 (fixed rate in accordance with the terms of the indenture, 4.40% at June 30, 2000)	32,000,000
1999 Series (Manana Gardens Apartment project) – serial bonds maturing in 2035 (6.30%)	3,750,000
Total Multifamily Housing revenue bonds	35,750,000

RHS revenue bonds:	
1989 Series A (Honokowai Kauhale project) – serial bonds maturing annually through 2025 (variable rate in accordance with the terms of the indenture, 4.95% at June 30, 2000)	15,500,000
1990 Series A (Kamakee Vista project) – serial bonds maturing annually through 2026 (variable rate in accordance with the terms of the indenture, 5.35% at June 30, 2000)	32,800,000
1990 Series B (Pohulani project) – serial bonds maturing annually through 2026 (variable rate in accordance with the terms of the indenture, 5.35% at June 30, 2000)	35,100,000
1993 Series A (La'ilani project):	
Serial bonds maturing annually through 2006 (4.65% to 5.20%)	2,425,000
Term bonds maturing in 2013 and 2019 (5.60% and 5.70%)	9,560,000
	11,985,000
Total RHS revenue bonds	95,385,000
SHARP revenue bonds:	
1993 Series A (Kauhale Kakaako project) – serial bonds maturing annually from 2001 through 2028 (variable rate in accordance with the terms of the indenture, 4.65% at June 30, 2000)	30,700,000
1995 Series A (Kekuilani Courts Rental Housing project) – term bonds maturing on 2016, 2023, and 2031 (6.00%, 6.05%, and 6.10%)	6,835,000
Total SHARP revenue bonds	37,535,000
University of Hawaii Faculty Housing Program revenue bonds:	
1995 Series:	
Serial bonds maturing annually through 2007 (4.35% to 5.00%)	2,545,000
Term bonds maturing in 2017 and 2026 (5.65% and 5.70%)	14,255,000
Total University of Hawaii Faculty Housing Program revenue bonds	16,800,000
	860,985,000
Deferred refunding amount (difference between reacquisition price and net carrying value of old debt)	2,073,707
Total Revenue Bonds	$ 858,911,293

Interest on the Single Family Mortgage Purchase revenue bonds is payable semi-annually. Interest on the Multifamily Housing revenue bonds is payable quarterly for the Tropicana West project and semi-annually for the Manana Gardens Apartment project. Interest on the RHS and SHARP revenue bonds are payable monthly except for the RHS 1993 Series A and SHARP 1995 Series A bond issues, which are payable semi-annually. Interest on the University of Hawaii Faculty Housing Program revenue bonds is payable semi-annually.

The Single Family Mortgage Purchase and RHS revenue bonds with designated maturity dates, the Multifamily Housing 1999 Series revenue bonds, the SHARP 1995 Series A revenue bonds, and the University of Hawaii Faculty Housing Program revenue bonds may be redeemed at the option of the corporation commencing in 1999 for the 1989 Series, 2000 for the 1990 Series, 2001 for the 1991 Series, 2004 for the 1994 Series, and 2007 for the 1997 Series, subject to a redemption premium that ranges from 2 percent to zero; 2008 for the 1998 Series, subject to a redemption premium that ranges from 1.5 percent to zero; 2010 for the 2000 Series, 2001 for the Multifamily Housing 1999 Series, subject to a redemption premium that ranges from 2 percent to zero; 2005 for the SHARP 1995 Series A subject to a redemption premium that ranges from 2 percent to zero; and 2005 for the University of Hawaii Faculty Housing Program 1995 Series subject to a redemption premium that ranges from 1 percent to zero. 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). The RHS and SHARP revenue bonds with variable interest rates may be redeemed early at face value at the option of either the bondholders or the corporation during the variable interest rate period. Subsequent to the variable interest rate period, the bonds may be redeemed early at the option of the corporation subject to a redemption premium that ranges from 2 percent to zero. The Multifamily Housing revenue bonds related to the Tropicana West project are subject to redemption without premium prior to maturity, from undisbursed bond proceeds, principal mortgage payments and prepayments, hazard insurance proceeds, or condemnation proceeds received. The bonds currently bear interest at a fixed rate. The bonds related to the Tropicana West project are subject to a redemption premium that ranges from 3 percent to zero only upon conversion to a fixed rate.

During the fiscal year ended June 30, 2000, early redemptions totaled $13,040,000. The deferred bond issuance costs related to the early redemption of bonds are written off at the time an early redemption is approved and are reflected as an extraordinary item in the combined financial statements.

The approximate maturities and sinking fund requirements of revenue bonds are as follows:

Fiscal year ending June 30,	
2001	$ 2,185,000
2002	10,505,000
2003	12,045,000
2004	13,095,000
2005	14,060,000
Thereafter	809,095,000
	$ 860,985,000

Arbitrage Rebate

In order to ensure the exclusion of interest on the corporation's RHS revenue bonds, SHARP revenue bonds and Single Family Mortgage Purchase 1989 Series A, 1990 Series A, 1991 Series A and B, and 1994 Series A and B 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, 2000, the corporation determined that approximately $3,074,000 of rebates were due to the U.S. Treasury.

Note K – General Long-Term Obligation

The general long-term obligation account group is used to account for the long-term portion of the obligation for accrued vacation payable. The obligation changed during the fiscal year ended June 30, 2000 as follows:

	Accrued vacation payable
Balance at July 1, 1999	$ 248,221
Net increase in accrued vacation	3,068
Balance at June 30, 2000	$ 251,289

Note L – Contributed Capital

The contributed capital of the DURF was funded with proceeds of $125,000,000 of state general obligation bonds, for which the principal payments are being funded by the state general fund. These bonds are the state's general obligation and are not included in these combined financial statements. The DURF, however, is required to reimburse the state general fund for the interest portion of the debt service, at rates ranging from 3.85 percent to 5.5 percent. Interest cost incurred for the fiscal year ended June 30, 2000 was approximately $48,000.

The annual interest requirements on the general obligation bonds as of June 30, 2000 are as follows:

Fiscal year ending June 30,		
2001	$	39,400
2002		26,700
2003		13,500
	$	79,600

The contributed capital of the HUD Subsidized Programs in the enterprise funds includes HUD-guaranteed (bonds and loans) and HUD-direct debt incurred to finance development and modernization of corporation-owned housing projects. HUD, through its annual contribution contract payments, is obligated to fund the debt service requirements, including housing bonds issued by the corporation. On July 1, 1999, the corporation determined that approximately $27,000,000 of certain HUD collateralized liabilities and HUD note payables did not constitute debt of the corporation and, accordingly, have been reclassified as contributed capital.

Note M – Fund Equity

During the current year, the corporation determined that an enterprise fund had erroneously capitalized certain expenditures as fixed assets in the prior years. In addition, certain fixed assets were not being properly depreciated over their estimated useful lives. Accordingly, the beginning retained earnings balances and contributed capital balances as previously reported have been restated by approximately $18,659,000 and $27,806,000, respectively.

During 1997, the HRF transferred to the state Department of Hawaiian Home Lands certain parcels of land currently being developed by the corporation. Estimated future cost resulting from the development of these parcels of land will be recognized as contributions returned to the State when costs are incurred (note R).

The capital projects fund was established to account for capital improvement project appropriations received from the State. Upon completion, these projects are transferred to other funds or agencies.

Note N – Leases

Lease Commitments

The corporation leases land, buildings, and improvements under various noncancelable operating leases expiring at various dates through 2056. The land lease for the Banyan Street Manor Project contains the option to purchase the fee-simple interest in the land at any time for a specified percentage of fair market value at the time of purchase.

The minimum rental commitments under operating leases are as follows:

Fiscal year ending June 30,	
2001	$ 582,800
2002	592,700
2003	602,900
2004	613,900
2005	625,300
Thereafter	10,641,600
	$ 13,659,200

Rent expense for the fiscal year ended June 30, 2000 totaled approximately $587,000.

Lease Rentals

The corporation leases approximately $20,000,000 of land to various developers and home buyers. The leases are generally for 55 years with the last 25 years' lease rent negotiated based on the fair market value of the land. Rent income for the fiscal year ended June 30, 2000 was approximately $344,000.

The future minimum lease rent from these operating leases at June 30, 2000 is as follows:

Fiscal year ending June 30,	
2001	$ 325,400
2002	325,600
2003	325,600
2004	325,600
2005	284,300
Thereafter	2,729,400
	$ 4,315,900

Note O – Commitments and Contingencies

Loan Commitments and Guarantee

The corporation has outstanding commitments to purchase loans from participating lenders of approximately $135,000,000 at June 30, 2000.

As of June 30, 2000, the corporation has filed an extension for filing its schedules of mortgage payment credits with the bond trustees for the Single Family Mortgage Purchase Revenue Bond Fund. Mortgage payment credits are the amounts to be credited to particular mortgagors, if any, who voluntarily prepay their mortgage loans in the ensuing year. The credits are based on the amount by which cumulative nonmortgage investment income exceeds the cumulative cost of the related funds. Estimated mortgage payment credits at June 30, 1992 amounted to approximately $102,000 of which approximately $84,143 was rebated through June 30, 2000.

In accordance with the provision of the Development Agreement dated February 14, 1997 for the Single Family phases of Villages 7 and 8 at Kapolei, the corporation shall provide interim construction financing of approximately $67,000,000, subject to the satisfaction of certain terms and conditions of the Development Agreement. The term of the interim loan shall mature on the date which is 48 months from the effective date of the Development Agreement and will accrue interest at 7.5 percent. In July 2000, the corporation approved an extension for the loan agreement until February 2001.

The corporation has guaranteed up to $40,000,000 of the mortgage loans sold by it to the Employees' Retirement System of the State of Hawaii (ERS). Upon the 120th day of any delinquency or default, the corporation is obligated to cure the arrearage of principal and interest or buy back the delinquent loan. At June 30, 2000, the outstanding balance of mortgage loans that have been sold to the ERS that are covered by the loan guarantee was approximately $2,308,000. At June 30, 2000, notes and loans receivable include approximately $309,000 of delinquent loans purchased back from the ERS.

Construction Contracts

At June 30, 2000, the DURF had outstanding commitments to expend approximately $1,577,000 for the construction and renovation of housing projects and outstanding commitments to fund interim loans for various projects totaling approximately $10,574,000.

At June 30, 2000, the HRF had outstanding commitments for construction contracts related to three master-planned development projects of approximately $11,873,000, of which approximately $11,159,000 will be funded by the DURF.

Development Costs

The corporation's Board of Directors has approved funding of development costs for the Leiali'i Master Planned Community project of approximately $68,000,000. As of June 30, 2000 approximately $41,442,000 has been expended, net of approximately $1,370,000 from the County of Maui for the wastewater system design and water system and $1,753,000 from the state Department of Transportation (DOT) as reimbursements for Ikena Avenue.

The corporation's Board of Directors approved funding of the development costs for the infrastructure construction for the La'i'opua project of approximately $40,600,000. As of June 30, 2000, approximately $19,802,000 has been expended, net of approximately $10 million of reimbursements from DOT for certain expenditures.

Rental Assistance

The corporation's Board of Directors approved a commitment by the RAF to provide maximum rental assistance subsidies of approximately $69,129,000 on various projects.

Torts

The corporation is involved in various actions, the outcome of which, in the opinion of management and the state Department of the Attorney General, will not have a material adverse effect on the corporation's financial position except for the Office of Hawaiian Affairs (OHA) lawsuit described below. Losses, if any, are either covered by insurance or will be the liability of the State.

Workers' Compensation Policy

The corporation has a retrospectively rated workers' compensation insurance policy. Based on available claim experience information, the minimum premium accrued for financial statement reporting purposes approximates the corporation's ultimate workers' compensation cost.

Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It 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 ERS. Accumulated sick leave at June 30, 2000 amounted to approximately $5,290,000.

Deferred Compensation Plan

In 1984, the State established a deferred compensation plan that enables state employees to defer a portion of their compensation. The state Department of Human Resources Development has the fiduciary responsibility of administering the plan. Deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

Litigation

In November 1994, OHA filed a claim against the corporation seeking declaratory and injunctive relief and for monetary damages pursuant to Sections 632-1 and 66-1 of the HRS. The claim relates to certain ceded lands located in Lahaina, Maui. OHA seeks the following relief: (1) barring the corporation from conveying and alienating the subject land from the public land trust and (2) finding any conveyance to a third party not an agency of the State or its political subdivision in violation of the Hawaii State Constitution.

In its claim, OHA also alleges that the corporation is in violation of the HRS Section 10-3.6 and Act 318, SLH 1992. In 1992, the Legislature enacted Act 318, which sets forth a plan to compensate OHA for land from the public land trust which was to be conveyed from the state Department of Land and Natural Resources (DLNR) to the corporation for housing developments. Under Act 318, OHA is to be compensated 20 percent of the fair market value of ceded lands. OHA maintains that the fair market value of the Lahaina ceded lands was determined in May 1994. In November 1994, the ceded lands were conveyed from DLNR to the corporation and a check for 20 percent of the fair market value of the property in the amount of $5,573,604 was presented to OHA. OHA claims that a timely appraisal was not performed, 90 days before the date of conveyance, and that the conveyance of the Lahaina property was illegal. The payment was rejected by OHA and a liability remains outstanding as of June 30, 2000. In the event that OHA is not granted the injunctive and declaratory relief its seeks, OHA requests for a timely reappraisal of the fair market value of the Lahaina ceded lands and payment in accordance with Act 318. The corporation maintains that the fair market value was determined in August 1994 and therefore complies with the requirements of Act 318.

In November 1994, several individuals filed a claim similar to the OHA claim against DLNR and the corporation seeking to enjoin the sale or transfer of certain ceded lands located in Lahaina, Maui, from the State to private individuals or entities. The claim alleges that the State does not have good marketable title of the ceded lands and any such sale or transfer would constitute an illegal conversion of lands. The plaintiffs seek an injunctive relief barring the corporation from sale or transfer of the Lahaina ceded lands.

In response to the above claims, the state Department of the Attorney General issued, in July 1995, its opinion as to whether the State has legal authority to sell or dispose of ceded lands. The attorney general concluded that the State has been and remains empowered to sell trust lands subject to the terms of the trust.

The above claims have resulted in delays in the Leiali'i and La'i'opua Master-Planned Community projects. The corporation is currently evaluating alternatives and remains optimistic and committed to these projects. The corporation will continue to work with innovation and creativity to resolve these concerns fairly, while still delivering quality houses in quality communities. The ultimate outcome of these claims cannot be determined at this time. Accordingly, no provision for any liability nor its effect on the projects' net realizable value, if any, that may result upon adjudication, has been made in the accompanying combined financial statements.

In 1994, an action was filed by OHA against the State and various unnamed parties claiming the State's alleged failure to properly account for and pay to OHA monies due to OHA, under Article XII of the Hawaii State Constitution and Chapter 10 of the HRS, for occupation by the State on certain ceded lands, as more fully described below.

It has been alleged that payments received by the corporation for all projects developed on ceded lands are subject to the above claim. However, the ultimate outcome of the litigation and its effect on the corporation, if any, cannot be determined at this time. Accordingly, no provision for any liability, if any, that may result from the resolution of this matter has been made in the combined financial statements.

Ceded Lands

OHA et al. v. State of Hawaii, Civil No. 94-0205-01 (First Circuit). The lands transferred to the United States by the Republic of Hawaii at Hawaii's annexation to the United States in 1898 are commonly referred to as the ceded lands. Upon Hawaii's admission to the Union in 1959, title to ceded lands still held by the United States and to lands that the United States acquired by exchange for ceded lands after 1898 was conveyed by the United States to the State. Section 5 of the Admission Act expressly provided that those lands were to be held by the State as a public trust. Certain rental housing projects of the corporation are situated on parcels of land that are to be held by the State as a public trust under Section 5.

In 1978, the State Constitution was amended to expressly specify that the lands conveyed to the State as a public trust by the Admission Act were to be held by the State as a public trust for native Hawaiians and the general public, and to establish OHA to administer and manage the proceeds and income derived from the pro rata portion of the lands held by the State for the betterment of native Hawaiians.

On January 14, 1994, OHA filed suit against the State alleging that the State failed to properly account for and fully pay the pro rata share of proceeds and income derived from the lands of public trust established by the Admission Act and the 1978 amendments to the State Constitution. OHA seeks an accounting of all proceeds, income, funds, and revenues derived from the lands since 1978, and restitution or damages amounting to 20 percent of the proceeds and income derived from (a) the lands since November 7, 1978, (b) the lands since June 16, 1980, and (c) the lands under Act 304, SLH 1990, as well as interest thereon. The State has denied all of OHA's substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

In May 1996, OHA filed four motions for partial summary judgment as to the State's liability to pay OHA 20 percent of monies from four specific sources, including rental housing projects of the corporation situated on public trust lands. The State opposed those four motions. The State also filed a motion to dismiss on sovereign immunity grounds.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) denied the State's motion to dismiss and granted OHA's four motions for partial summary judgment. The State has filed an interlocutory appeal to the Hawaii Supreme Court from both orders. All other proceedings, including the trial previously scheduled to begin on November 18, 1996, have been stayed pending the Hawaii Supreme Court's disposition of the appeal.

OHA's complaint and motions do not specify the State's alleged failures, nor do they state the dollar amount of the claims. The First Circuit Court's October 24, 1996 order granting OHA's motions for partial summary judgment did not determine the amounts owing. The basis and methodology for calculating any such amount are being disputed. OHA has not provided complete information for its claims for the period from 1981 through 1991, and has provided no information as to its claims for the period from 1991 to the present. The expert witness retained by OHA in this case has estimated that the State's potential liability for the four sources specified in OHA's summary judgment motions for the years 1981 through 1991 (but not thereafter) to be not less than $178,000,000, of which approximately $9,200,000 is related to gross rental income derived by the corporation.

On June 30, 1997, the governor approved Act 329, SLH 1997. The purpose of this act was to achieve a comprehensive, just, and lasting resolution of all controversies relating to the proper management and disposition of the lands subject to public trust, and of the proceeds and income that the lands generate. The act also fixes the amount of proceeds and income OHA will receive during the two-year period at $15.1 million per year, and requires the completion, continued maintenance, and use of a comprehensive inventory of the public trust lands.

OHA et al. v. HHA et al., Civil No. 95-2682-07 (First Circuit). On July 27, 1995, OHA filed suit against the HHA and the state director of finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands, which were transferred to the HHA for rental housing projects. Discovery is ongoing and no trial date has been set.

The State's potential liability may be determined either (1) by the ruling by the Hawaii Supreme Court on the State's interlocutory appeal and, if such ruling is adverse to the State, the conclusion of any subsequent trial and related appeals, or (2) by legislation enacted as a result of the process set out in Act 329. Given all of the above, and the uncertain timing of any final disposition of the case, the State is not able to predict either the ultimate outcome of the case, or the magnitude of its potential liability with any reasonable certainty. A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the state's financial condition.

A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the corporation's financial condition if an adverse resolution or decision against the State includes liability for gross rental income derived by the corporation from rental housing projects situated on lands in the public trust and the liability is imposed upon the corporation. However, the ultimate outcome of the litigation and its effect on the corporation, if any, cannot be determined. Accordingly, no estimate of loss has been made in the accompanying combined financial statements of the corporation.

Note P – Retirement Plan

Employees' Retirement System

Plan Description. All eligible employees of the state and counties are required by Chapter 88 of the HRS to become members of the ERS, a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information that may be obtained by writing to the ERS, City Financial Tower, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813.

The ERS consists of a contributory plan and a noncontributory plan. Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984, who are covered by Social Security, are generally required to join the noncontributory plan. Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service excluding the vacation payment. All benefits vest after five and ten years of credited service for the contributory and noncontributory plans, respectively. All contributions, benefits, and eligibility requirements are governed by Chapter 88, HRS.

Funding Policy. Most covered employees of the contributory plan are required to contribute 7.8 percent of their salary. Police officers, firefighters, investigators of the department of the prosecuting attorney and the attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2 percent of their salary. The actuarial cost or funding method used to calculate the total employer contribution requirement was changed by Act 327 of the Regular Session of the 1997 Legislature to the Entry Age Normal Actuarial Cost Method. Under this method, employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded actuarial accrued liability over the remaining period of 18 years from July 1, 1998.

The contributions related to the corporation are included in personnel services expense in the combined financial statements. Such contributions approximated $703,000 and $653,000 for the fiscal years ended June 30, 2000 and 1999, respectively, which were equal to the required contributions for each year.

Note Q – Post-Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all employees hired prior to July 1, 1996 who retire from state employment on or after attaining age 62 with at least 10 years of service or age 55 with at least 30 years of service under the noncontributory plan and age 55 with at least 5 years of service under the contributory plan. Retirees credited with at least ten years of service, excluding sick leave credit, qualify for free medical insurance premiums; however, retirees with less than ten years must assume a portion of the monthly premiums. All service-connected disability retirees who retired after June 30, 1984, with less than 10 years of service, also qualify for free medical insurance premiums. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 are also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of a portion of the basic medical coverage premiums.

For employees hired after July 1, 1996 who retire with fewer than 25 years of service, the State shall pay to a fund a monthly contribution equal to one-half of the retired employee's monthly Medicare or non-Medicare premium for certain medical benefits for retired employees with ten or more years of service; and 75 percent of the retired employee's monthly Medicare or non-Medicare premium for retired employees with at least 15 but fewer than 25 years of service.

Contributions are based upon negotiated collective bargaining agreements, and are funded by the corporation as accrued.

The corporation's general fund share of the post-retirement benefits expense for the fiscal year ended June 30, 2000 has not been separately computed and is not reflected in the corporation's combined financial statements. The corporation's enterprise funds' and Section 8 special revenue funds' share of the post-retirement health care and life insurance benefits expense for the fiscal year ended June 30, 2000 was $740,000.

Note R – Related Party Transactions

DLNR conveyed land to the corporation for the Kapolei project. The cost of this land, $17,225,200, has been capitalized and charged to cost of sales to the extent the units have been sold. The consideration for this conveyance is reported as an advance from DLNR at June 30, 1998. During 1995, the corporation and DLNR agreed to exchange the corporation's fee-simple lands at Waiahole Valley in lieu of repayment of the $17,225,200. However, in May 1998, representatives from the corporation, DLNR and the state Department of the Attorney General met to discuss the transfer of the Waiahole property. During the meeting, it was determined that the corporation would retain the Waiahole Valley property, execute long-term leases with the tenants at Waiahole Valley, and have no further obligation to DLNR. In April 1999, the measures were approved by the Board of Land and Natural Resources and the $17,225,200 advance from DLNR was credited to contributed capital.

In accordance with Act 95, SLH 1996, the corporation transferred certain parcels of land located within the Villages of La'i'opua on the island of Hawaii and Kapolei on the island of Oahu to the state Department of Hawaiian Home Lands. The properties were conveyed in 1997 and approximately $8,175,000 of allocated costs were charged against contributed capital. Any estimated future costs of these parcels will be recognized as contributions returned to the State when costs are incurred. During the fiscal year ended June 30, 2000, approximately $727,000 of costs were incurred on these parcels and charged against contributed capital. The estimated allocated project costs and allocated costs incurred for these parcels of land located in La'i'opua and Kapolei as of June 30, 2000 are approximately as follows:

		Allocated project cost		Allocated costs incurred to date
La'i'opua	$	8,978,000	$	1,827,000
Kapolei		11,557,000		8,682,000
	$	20,535,000	$	10,509,000

The RAF 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 $1,338,000 during the fiscal year ended June 30, 2000 and was recorded by the corporation as rental income in the RHS and the SHARP. In addition, the corporation relocated its offices to the Pohulani building in September 1992, which is owned by the RHS. During the fiscal year ended June 30, 2000, the RHS recorded rental income of approximately $9,400,000, of which approximately $791,200 was allocated as office rental expense to various funds of the corporation. In addition, the state Department of Accounting and General Services (DAGS) incurred $826,500 in rent to the RHS for leased space in the Pohulani building. The term of the lease with DAGS is from September 1992 through August 2022. The minimum annual rent is determined by multiplying the previous year's minimum annual rent by 103 percent. The minimum annual rent for the initial year was approximately $493,000.

Note S – Subsequent Events

On July 1, 2000, the corporation redeemed certain outstanding revenue bonds totaling $10,465,000, of which $1,270,000 were early redemptions and $8,765,000 were refundings.

Exhibit A

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII
Combined Balance Sheet – All Fund Types and Account Groups
June 30, 2000

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Assets	General	Special revenue	Capital projects	Enterprise	Internal service	Trust and agency	General fixed assets	General long-term obligation	Total (memorandum only)
Assets:									
Cash (note C)	554,401	$ 7,552,637	$ 11,764,216	$ 160,845,990	$ 1,030,647	$ 11,529,580	$ —	$ —	$ 193,277,471
Investments (note D)	—	3,050,000	—	18,590,562	—	—	—	—	21,640,562
Receivables:									
Mortgage loans (note E)	—	—	—	112,148,117	—	—	—	—	112,148,117
Notes and loans (notes E and O)	—	—	—	4,908,718	—	—	—	—	4,908,718
Accrued interest	—	24,636	—	10,174,998	15,256	—	—	—	10,214,890
Tenant receivables, less allowance for doubtful receivables of $3,360,000	—	—	—	1,201,767	—	—	—	—	1,201,767
Other	—	298	—	3,073,518	—	—	—	—	3,073,816
	—	24,934		131,507,118		—	—		131,547,308
Due from other funds	—	10,608,226		36,286,992		—	—		46,895,218
Due from HUD	—	2,785,829		2,086,482		—	—		4,872,311
Inventories:									
Developments in progress and dwelling units (notes H, O, and R)	—	—	—	112,233,340	—	—	—	—	112,233,340
Materials and supplies	—	—	—	633,222	—	—	—	—	633,222
Net investment in direct financing lease (note F)	—	—	—	18,952,080	—	—	—	—	18,952,080
Prepaid expenses and other assets	—	1,133,675	—	544,624	—	—	—	—	1,678,299
Deposits held in trust	—	—	—	84,861	—	—	—	—	84,861
Restricted deposits and funded reserves	—	—	—	5,270,250	—	—	—	—	5,270,250
Assets held by trustees under revenue bond programs:									
Cash (notes C and D)	—	—	—	1,144,616	—	—	—	—	1,144,616
Investments (note D)	—	—	—	675,132,626	—	—	—	—	675,132,626
				676,277,242					676,277,242
Property and equipment, less accumulated depreciation and amortization (notes H, M, N, and O)	—	—	—	383,527,073	274,374	—	28,168,884	—	411,970,331
Deferred bond issuance costs, net (note J)	—	—	—	7,229,294	—	—	—	—	7,229,294
Amount to be provided for retirement of general long-term obligation (note K)								251,289	251,289
Total assets	$ 554,401	$ 25,155,301	$ 11,764,216	$ 1,554,069,130	$ 1,320,277	$ 11,529,580	$ 28,168,884	$ 251,289	$ 1,632,813,078

See accompanying notes to combined financial statements.

Continued

Exhibit A

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combined Balance Sheet – All Fund Types and Account Groups

June 30, 2000

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Liabilities and Equity	**General**	**Special revenue**	**Capital projects**	**Enterprise**	**Internal service**	**Trust and agency**	**General fixed assets**	**General long-term obligation**	**Total (memorandum only)**
Liabilities:									
Accounts payable	$ 292,610	$	$ 9,442	$ 6,066,233	$	$	$	$	6,368,285
Accrued expenses:									
Interest	—	—	—	17,676,901	—	—	—	—	17,676,901
Other (note K)	185	—	—	3,247,298	—	—	—	251,289	3,498,772
Due to other funds	37,108	10,287,492	—	36,602,338	—	—	—	—	46,926,938
Due to State of Hawaii, including Office of Hawaiian Affairs (note O)	—	—	—	5,648,604	—	—	—	—	5,648,604
Due to HUD	—	6,673,117	—	118,442	—	—	—	—	6,791,559
Security deposits	—	—	—	2,253,372	—	—	—	—	2,253,372
Revenue bonds payable, less deferred refunding cost (notes G and J)	—	—	—	858,911,293	—	—	—	—	858,911,293
Arbitrage rebate payable (note J)	—	—	—	3,073,742	—	—	—	—	3,073,742
Notes payable (note I)	—	—	—	4,237,558	—	—	—	—	4,237,558
Mortgages payable (note I)	—	—	—	6,840,166	—	—	—	—	6,840,166
Deferred income	—	2,538,830	—	2,514	—	—	—	—	2,541,344
Deferred commitment fees	—	—	—	7,004,901	—	—	—	—	7,004,901
Deferred gain on sale of units and land (note E)	—	—	—	3,943,971	—	—	—	—	3,943,971
Estimated future costs of land sold (note O)	—	—	—	17,927,693	—	—	—	—	17,927,693
Total liabilities				973,555,026					993,645,099
Commitments and contingencies (notes F, L, N, O, P, Q, and R)									
Equity:									
Investment in general fixed assets (note H)							28,168,884		28,168,884
Contributed capital (notes L, M, and R):									
Federal	—	—	—	333,980,337	181,644	—	—	—	334,161,981
State of Hawaii	—	—	—	397,424,405	312,224	—	—	—	397,736,629
Other	—	—	—	2,378,472	—	—	—	—	2,378,472
				733,783,214					734,277,082
Less depreciation and amortization on property and equipment acquired or constructed from grants and contributions									(179,680,718)
	—	—	—			—	—	—	554,596,364
Retained earnings (note M)	—	—	—			—	—	—	27,238,017
Fund balances:									
Reserved for continuing appropriations	224,498	—	11,754,774	—		11,529,580	—	—	23,508,852
Unreserved	—	5,655,862	—	—		—	—	—	5,655,862
Total equity	224,498	5,655,862	11,754,774	580,514,104	1,320,277	11,529,580	28,168,884		639,167,979
Total liabilities and equity	$ 554,401	$ 25,155,301	$ 11,764,216	$ 1,554,069,130	$ 1,320,277	$ 11,529,580	$ 28,168,884	$ 251,289	$ 1,632,813,078

See accompanying notes to combined financial statements.

Exhibit B

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Funds

Year ended June 30, 2000

	Governmental Fund Types			Fiduciary Fund Type	
	General	Special Revenue	Capital Projects	Expendable Trust	Total (memorandum only)
Revenues:					
Intergovernmental – HUD annual contributions	$ —	$ 21,263,581	$ —	$ —	$ 21,263,581
State allotted appropriations	7,263,213	—	8,785,836	48,750,000	64,799,049
Interest	—	229,361	—	—	229,361
Other	—	11,532	—	—	11,532
Total revenues	7,263,213	21,504,474	8,785,836		86,303,523
Other financing source – operating transfers in	25,117	—	—		25,117
Total revenues and other financing source	7,288,330	21,504,474			86,328,640
Expenditures:					
Current:					
Housing assistance payments	1,709,267	17,912,723	—	—	19,621,990
Homeless services	4,039,341	—	—	—	4,039,341
Personnel services (notes P and Q)	541,206	1,470,855	—	—	2,012,061
Administration	35,852	1,450,184	24,198	—	1,510,234
Professional services	151,550	97,234	—	—	248,784
Security	494,179	1,166	—	—	495,345
Repairs and maintenance	120,278	474,839	257	1,327	596,701
Utilities	454	2,059	—	—	2,513
Other	2,905	11,519	—	—	14,424
Capital outlay (note H)	—	—	1,173,903	39,854,376	41,028,279
Total expenditures	7,095,032		1,198,358	39,855,703	69,569,672
Other financing use – operating transfers out to enterprise funds	311,520		—	—	311,520
Total expenditures and other financing use	7,406,552			39,855,703	69,881,192
Excess (deficiency) of revenues and other financing source over expenditures and other financing use	(118,222)	83,895	7,587,478	8,894,297	16,447,448
Fund balance at July 1, 1999	342,720	5,571,967	4,167,296	2,635,283	12,717,266
Fund balance at June 30, 2000	$ 224,498	$ 5,655,862	$ [redacted]	11,529,580	$ 29,164,714

See accompanying notes to combined financial statements.

Exhibit C

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combined Statement of Revenues and Expenditures -
Budget and Actual (Budgetary Basis) - General and Special Revenue Fund Types

Year ended June 30, 2000

	General Fund			Special Revenue		
	Budget	Actual (budgetary basis)	Variance - favorable (unfavorable)	Budget	Actual (budgetary basis)	Variance - favorable (unfavorable)
Revenues:						
Intergovernmental – HUD annual contributions	$ —	$ —	$ —	$ 17,391,306	$ 14,913,610	$ (2,477,696)
State allotted appropriations	7,644,510	7,283,051	(361,459)	—	—	—
Total revenues	7,644,510	7,283,051	(361,459)	17,391,306	14,913,610	(2,477,696)
Other financing source – operating transfers in		25,117	25,117		30,838	30,838
Total revenues and other financing source	7,644,510	7,308,168	(336,342)	17,391,306	14,944,448	(2,446,858)
Expenditures:						
Homeless services	4,019,475	3,935,316	84,159	—	—	—
Rental assistance services	2,017,698	1,911,315	106,383	17,391,306	14,944,448	2,446,858
Rental housing services	1,007,337	961,537	45,800	—	—	—
Homeless assistance	600,000	500,000	100,000	—	—	—
Total expenditures	7,644,510	7,308,168	336,342	17,391,306	14,944,448	2,446,858
Excess of revenues and other financing source over expenditures	$	$ —	$ —	$ —	$ —	$

See accompanying notes to combined financial statements.

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combined Statement of Revenue and Expenses – Proprietary Fund Types

Year ended June 30, 2000

	Enterprise	Internal Service	Total (memorandum only)
Operating revenues:			
Interest	$ 49,973,237	$ —	$ 49,973,237
Sales of land	3,582,522	—	3,582,522
Sales of units	185,000	—	185,000
Rental (notes F, N, and R)	32,218,410	125,512	32,343,922
Net decrease in the fair value of investments	(20,874,366)	—	(20,874,366)
Conveyance tax	1,181,696	—	1,181,696
Other	6,136,243	1,125	6,137,368
Total operating revenues	72,402,742		72,529,379
Operating expenses:			
Interest	40,978,404	—	40,978,404
Cost of land sold	6,336,542	—	6,336,542
Project	8,749,052	—	8,749,052
Personnel services (notes P and Q)	16,355,055	—	16,355,055
Depreciation	14,018,745	123,503	14,142,248
Housing assistance payments	2,331,727	—	2,331,727
Administration	2,371,130	—	2,371,130
Provision for losses	351,724	—	351,724
Loan servicing fees	745,239	—	745,239
Letter of credit fees	469,286	—	469,286
Professional services	642,916	9,993	652,909
Arbitrage rebate (note J)	1,269,966	—	1,269,966
Trustee fees	325,920	—	325,920
Amortization of deferred bond issuance costs	323,350	—	323,350
Amortization of deferred refunding cost	177,799	—	177,799
Mortgage insurance	40,748	—	40,748
Security	548,731	—	548,731
Insurance	289,022	—	289,022
Repairs and maintenance	4,507,584	—	4,507,584
Utilities	7,137,699	—	7,137,699
Payments in lieu of taxes	1,151,889	—	1,151,889
Other	2,402,513	874	2,403,387
Total operating expenses	111,525,041	134,370	111,659,411
Operating loss	(39,122,299)	(7,733)	(39,130,032)
Nonoperating revenues and expenses:			
Interest income	5,332,820	49,072	5,381,892
HUD operating subsidy and others	9,909,680	—	9,909,680
Interest expense	(416,394)	—	(416,394)
Total nonoperating revenues and expenses	14,826,106	49,072	14,875,178
Income (loss) before operating transfer and extraordinary item	(24,296,193)	41,339	(24,254,854)
Operating transfer in from general fund	311,520	—	311,520
Income (loss) before extraordinary item	(23,984,673)		(23,943,334)
Extraordinary item – loss from early redemption of revenue bonds payable	(68,459)		(68,459)
Net income (loss)	$ (24,053,132)	$ 41,339	$ (24,011,793)

See accompanying notes to combined financial statements.

Exhibit E

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combined Statement of Fund Equity – Proprietary Fund Types

Year ended June 30, 2000

	Enterprise			Internal Service			Total
	Contributed Capital	Retained Earnings	Total Fund Equity	Contributed Capital	Retained Earnings	Total Fund Equity	(memorandum only)
Balances at July 1, 1999, as previously reported	$ 546,480,412	$ 59,680,743	$ 606,161,155	$ 2,841	$ 1,276,097	$ 1,278,938	$ 607,440,093
Adjustment:							
HUD collateralized liabilities (note L)	27,259,509	—	27,259,509	—	—	—	27,259,509
Net property and equipment (note M)	(27,806,089)	(18,659,159)	(46,465,248)	—	—	—	(46,465,248)
Balances at July 1, 1999, as restated	545,933,832	41,021,584	586,955,416		1,276,097	1,278,938	588,234,354
Net income (loss)	—	(24,053,132)	(24,053,132)		41,339	41,339	(24,011,793)
Transfer of depreciation and amortization on property and equipment acquired or constructed from grants and contributions to contributed capital	(8,950,708)	8,950,708		(1,421)	1,421		
Contributions received from (returned to):							
HUD annual contributions	17,173,201	—	17,173,201	—	—	—	17,173,201
State of Hawaii	(731,798)	—	(731,798)	—	—	—	(731,798)
Others (note E)	1,170,417	—	1,170,417	—	—	—	1,170,417
Balances at June 30, 2000	$ 554,594,944	$ 25,919,160	$ 580,514,104	$ 1,420	$ 1,318,857	$ 1,320,277	$ 581,834,381

See accompanying notes to combined financial statements.

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combined Statement of Cash Flows – Proprietary Fund Types

Year ended June 30, 2000

	Enterprise	Internal Service	Total (memorandum only)
Cash flows from operating activities:			
Operating loss	$ (39,122,299)	$ (7,733)	$ (39,130,032)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation and amortization	14,571,669	123,503	14,695,172
Gain on sale of land	(58,173)	—	(58,173)
Interest on investments	(40,772,115)	—	(40,772,115)
Interest on financing lease	(869,023)	—	(869,023)
Interest on revenue bonds	40,978,404	—	40,978,404
Provision for losses	355,278	—	355,278
Net decrease in the fair value of investments	20,874,366	—	20,874,366
Lender commitment fees amortized	(1,116,856)	—	(1,116,856)
Loss on disposal of property and equipment	—	878	878
Changes in assets and liabilities:			
Mortgage loans receivable	5,116,745	—	5,116,745
Notes and loans receivable	5,986,492	—	5,986,492
Accrued interest receivable on mortgages, notes, and loans	1,768,957	—	1,768,957
Tenant receivables	(320,564)	—	(320,564)
Other receivables	(486,149)	—	(486,149)
Due from other funds	(6,508,509)	194,864	(6,313,645)
Due from HUD	288,960	—	288,960
Due from State of Hawaii	9,985	—	9,985
Inventories	5,862,234	—	5,862,234
Prepaid expenses and other assets	410,823	—	410,823
Deposits held in trust	(258,058)	—	(258,058)
Accounts payable	909,314	(33,065)	876,249
Accrued interest payable	311	—	311
Accrued other expenses	537,532	—	537,532
Due to other funds	1,866,178	—	1,866,178
Due to HUD	85,849	—	85,849
Security deposits	495,299	—	495,299
Arbitrage rebate payable	1,269,966	—	1,269,966
Deferred income	(47,457)	—	(47,457)
Deferred gain on sale of units and land	(677,508)	—	(677,508)
Estimated future costs of land sold	(1,667,420)	—	(1,667,420)
Net cash provided by operating activities	9,484,231	278,447	9,762,678
Cash flows from noncapital financing activities:			
Proceeds from sale of revenue bonds	108,765,000	—	108,765,000
Principal paid on revenue bond maturities and redemptions	(18,275,000)	—	(18,275,000)
Interest paid on revenue bonds	(32,806,915)	—	(32,806,915)
HUD operating subsidy received	8,967,690	—	8,967,690
Operating transfers in from general fund	311,520	—	311,520
Bond issuance costs paid	(866,417)	—	(866,417)
Lender commitment fees received	2,157,415	—	2,157,415
Advances from other funds	4,303,226	—	4,303,226
Contributions returned to State of Hawaii	(4,632)	—	(4,632)
Net cash provided by non capital financing activities	72,551,887		72,551,887
Subtotal, carried forward	$ 82,036,118	$ 278,447	$

Exhibit F

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combined Statement of Cash Flows – Proprietary Fund Types

Year ended June 30, 2000

	Enterprise	Internal Service	Total (memorandum only)
Subtotal, brought forward	$ 82,036,118	$ 278,447	$ 82,314,565
Cash flows from capital and related financing activities:			
Proceeds from sale of revenue bonds	3,750,000	—	3,750,000
Principal paid on revenue bond maturities and redemptions	(4,399,332)	—	(4,399,332)
Interest paid on revenue bonds	(8,525,688)	—	(8,525,688)
Proceeds from sale of land	71,000	—	71,000
Principal payments on notes payable	(36,383)	—	(36,383)
Acquisition of property and equipment	(16,943,128)	(49,827)	(16,992,955)
Principal payments on mortgage loans	(2,305,572)	—	(2,305,572)
Receipts of capital grants	16,343,144	—	16,343,144
Payments of interest	(415,506)	—	(415,506)
Net cash used in capital and related financing activities			(12,511,292)
Cash flows from investing activities:			
Purchases of investments	(421,354,661)	—	(421,354,661)
Proceeds from investments	413,378,090	700,000	414,078,090
Interest received on investments	43,274,419	40,768	43,315,187
Payments received on direct financing lease	1,240,183	—	1,240,183
Net decrease in restricted deposits and funded reserves	1,428,739	—	1,428,739
Net cash provided by investing activities	37,966,770	740,768	38,707,538
Net increase in cash and cash equivalents	107,541,423	969,388	108,510,811
Cash and cash equivalents at July 1, 1999	84,502,156	61,259	84,563,415
Cash and cash equivalents at June 30, 2000	$ 192,043,579	$ 1,030,647	$ 193,074,226
Reconciliation of cash to cash and cash equivalents:			
Cash	$ 161,990,606	$ 1,030,647	$ 163,021,253
Certificates of deposit and money market accounts	30,052,973	—	30,052,973
Cash and cash equivalents at June 30, 2000	$ 192,043,579	$ 1,030,647	$ 193,074,226
Supplemental disclosure of noncash information:			
Transfers of property to State of Hawaii	$ (727,166)	$	$ (727,166)
Recognition of gain on sale of housing project as contributed capital	$ 1,170,417	$	$ 1,170,417

See accompanying notes to combined financial statements.

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Balance Sheet – Special Revenue Funds

June 30, 2000

	Section 8								
Assets	Existing	New Construction Haili	Housing Voucher Program	New Construction		Shelter Plus Care	Housing Opportunities for Persons with AIDS Program	Other	Total
Cash	$ 6,065,303	$ 31,129	$ 731,909	$ 690,510	$	2,501	$ —	$ 29,083	$ 7,552,637
Investments	1,300,000	50,000	—	1,700,000		—	—	—	3,050,000
Accrued interest receivable	9,635	326	—	14,675		—	—	—	24,636
Other receivables	—	—	—	298		—	—	—	298
Due from other funds	1,506,219	25,984	8,740,083	335,940		—	—	—	10,608,226
Due from HUD	2,726,466	—	—	10,638		—	280	30,610	2,785,829
Prepaid expenses and other assets	432,570	—	701,105	—		—	—	—	1,133,675
Total assets	$ 12,040,193	$ 107,439	$ 10,173,097	$ 2,752,061	$ 20,037	$ 2,501	$ 280	$ 59,693	$ 25,155,301
Liabilities and Fund Balances (Deficit)									
Liabilities:									
Due to other funds	$ 9,399,876	$ 67,934	$ 724,213	$ 14,156	$ 40,608	$ —	$ 280	$ 40,425	$ 10,287,492
Due to HUD	—	5,325	6,512,583	155,209	—	—	—	—	6,673,117
Deferred income	412,179	25,984	1,734,683	315,701	—	—	—	50,283	2,538,830
Total liabilities	9,812,055	99,243	8,971,479	485,066	40,608	—	280	90,708	19,499,439
Fund balances (deficit) – unreserved	2,228,138	8,196	1,201,618	2,266,995	(20,571)	2,501	—	(31,015)	5,655,862
Total liabilities and fund balances	$ 12,040,193	$ 107,439	$ 10,173,097	$ 2,752,061	$ 20,037	$ 2,501	$ 280	$ 59,693	$ 25,155,301

Schedule II

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances (Deficit) – Special Revenue Funds

Year ended June 30, 2000

	Section 8								
	Existing	New Construction Haili	Housing Voucher Program	New Construction	Drug Elimination Program	Shelter Plus Care	Housing Opportunities for Persons with AIDS Program	Other	Total
Revenues:									
Intergovernmental – HUD annual contributions	$ 9,912,197	$ 309,313	$ 5,301,432	$ 3,660,040	$ 1,174,385	$ 258,131	155,524	$ 492,559	21,263,581
Interest	127,405	2,240	6,021	93,612	83	—	—	—	229,361
Other	5,915	—	5,617	—	—	—	—	—	11,532
Total revenues	10,045,517	311,553	5,313,070						21,504,474
Expenditures:									
Housing assistance payments	9,369,878	292,703	4,399,336	3,592,675	—	258,131	—	—	17,912,723
Personnel services	770,290	55,984	206,194	120,490	174,947	—	—	142,950	1,470,855
Administration	126,495	3,780	27,393	11,367	949,731	—	2,356	329,062	1,450,184
Professional services	55,334	7,500	21,983	12,417	—	—	—	—	97,234
Security	781	65	210	110	—	—	—	—	1,166
Repairs and maintenance	243,087	1,896	13,038	3,313	49,790	—	153,168	10,547	474,839
Utilities	1,835	—	224	—	—	—	—	—	2,059
Other	483	—	—	1,036	—	—	—	10,000	11,519
Total expenditures	10,568,183	361,928	4,668,378	3,741,408	1,174,468	258,131	155,524	492,559	21,420,579
Excess (deficiency) of revenues over expenditures	(522,666)	(50,375)	644,692	12,244	—	—	—	—	83,895
Fund balance (deficit) at July 1, 1999	2,750,804	58,571	556,926	2,254,751	(20,571)	2,501	—	(31,015)	5,571,967
Fund balance (deficit) at June 30, 2000	2,228,138	$ 8,196	$ 1,201,618	$ 2,266,995	$ (20,571)	$ 2,501	$ —	$ (31,015)	$ 5,655,862

Schedule III

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Balance Sheet – Enterprise Funds

June 30, 2000

Assets	Revenue Bond Funds	Dwelling Unit Revolving Fund	Homes Revolving Fund	Federal Low-Rent Program	Other Funds	Total
Cash	$ 667,099	$ 81,970,288	$ 3,471,116	$ 8,573,841	$ 66,163,646	$
Investments	—	—	—	5,350,000	13,240,562	
Receivables:						
Mortgage loans	75,264,324	1,743,524	—	—	35,140,269	112,148,117
Notes and loans	—	4,190,446	—	—	718,272	4,908,718
Accrued interest	5,801,545	1,309,586	59,223	11,306	2,993,338	10,174,998
Tenant receivables, less allowance for doubtful receivables	486,755	58,203	—	400,369	256,440	1,201,767
Other	798,572	988,032	—	192,314	1,094,600	3,073,518
	82,351,196	8,289,791	59,223	603,989	40,202,919	131,507,118
Due from other funds	—	28,250,515	—	3,215,816	4,820,661	36,286,992
Due from HUD	—	—	—	1,772,047	314,435	2,086,482
Inventories:						
Developments in progress and dwelling units	—	11,038,899	101,194,441	—	—	112,233,340
Materials and supplies	—	—	—	—	633,222	633,222
Net investment in direct financing lease	18,952,080	—	—	—	—	18,952,080
Prepaid expenses and other assets	79,527	29,952	—	34,309	400,836	544,624
Deposits held in trust	—	—	—	—	84,861	84,861
Restricted deposits and funded reserves	—	—	—	—	5,270,250	5,270,250
Assets held by trustees under revenue bond programs:						
Cash	1,144,616	—	—	—	—	1,144,616
Investments	675,132,626	—	—	—	—	675,132,626
	676,277,242					
Property and equipment, less accumulated depreciation and amortization	109,774,091	25,233,990	—	160,705,199	87,813,793	383,527,073
Deferred bond issuance costs, net	7,229,294	—	—	—	—	7,229,294
Total assets	$ 895,330,529	$ 154,813,435	$ 104,724,780	$ 180,255,201	$ 218,945,185	$ 1,554,069,130

Continued

Schedule III

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Balance Sheet – Enterprise Funds

June 30, 2000

Liabilities and Fund Equity	Revenue Bond Funds	Dwelling Unit Revolving Fund	Homes Revolving Fund	Federal Low-Rent Program	Other Funds	Total
Liabilities:						
Accounts payable	$ 870,336	$ 2,985,437	$	$ 2,112,033	98,427	6,066,233
Accrued expenses:						
Interest	17,591,225	19,399	—	311	65,966	17,676,901
Other	138,634	411,070	39,545	1,983,159	674,890	3,247,298
Due to other funds	55,657	21,340	27,687,861	1,762,622	7,074,858	36,602,338
Due to State of Hawaii, including Office of Hawaiian Affairs	—	—	5,573,604	—	75,000	5,648,604
Due to HUD	—	—	—	—	118,442	118,442
Security deposits	785,284	50,473	—	649,147	768,468	2,253,372
Revenue bonds payable, less deferred refunding cost	858,911,293	—	—	—	—	858,911,293
Arbitrage rebate payable	3,073,742	—	—	—	—	3,073,742
Notes payable	3,500,000	566,231	—	—	171,327	4,237,558
Mortgages payable	—	—	—	—	6,840,166	6,840,166
Deferred income	1,586	—	—	—	928	2,514
Deferred commitment fees	7,004,901	—	—	—	—	7,004,901
Deferred gain on sale of units and land	—	3,127,693	193,318	—	622,960	3,943,971
Estimated future costs of land sold	—	—	17,927,693	—	—	17,927,693
Total liabilities			51,422,021			973,555,026
Fund equity:						
Contributed capital:						
Federal	—	—	—	333,525,761	454,576	333,980,337
State of Hawaii	30,111,464	134,252,376	44,137,896	9,182,700	179,739,969	397,424,405
Other	—	—	—	—	2,378,472	2,378,472
					182,573,017	733,783,214
Less depreciation and amortization on property and equipment acquired or constructed from grants and contributions		(6,014,212)		(150,551,760)	(22,622,298)	(179,188,270)
	30,111,464	128,238,164	44,137,896	192,156,701	159,950,719	554,594,944
Retained earnings (accumulated deficit)	(26,713,593)	19,393,628	9,164,863	(18,408,772)	42,483,034	25,919,160
Total fund equity	3,397,871	147,631,792	53,302,759	173,747,929	202,433,753	580,514,104
Total liabilities and fund equity	$ 895,330,529	$ 154,813,435	$ 104,724,780	$ 180,255,201	$ 218,945,185	$ 1,554,069,130

Schedule IV

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Statement of Revenues and Expenses – Enterprise Funds

Year ended June 30, 2000

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Homes Revolving Fund	Federal Low-Rent Program	Other Funds	Total
Operating revenues:						
Interest	$ 43,301,459	$ 982,697	$ —	$ —	$ 5,689,081	$ 49,973,237
Sales of land	—	693,360	2,889,162	—	—	3,582,522
Sales of units	—	185,000	—	—	—	185,000
Rental	12,773,921	1,096,365	—	12,848,055	5,500,069	32,218,410
Net decrease in the fair value of investments	(20,353,712)	—	—	—	(520,654)	(20,874,366)
Conveyance tax	—	—	—	—	1,181,696	1,181,696
Other	1,448,435	925,298	81,554	196,201	3,484,755	6,136,243
Total operating revenues	37,170,103	3,882,720	2,970,716	13,044,256	15,334,947	72,402,742
Operating expenses:						
Interest	40,978,404	—	—	—	—	40,978,404
Cost of land sold	—	504,349	5,832,193	—	—	6,336,542
Project	4,105,211	2,321,067	—	—	2,322,774	8,749,052
Personnel services	704,730	2,400,668	—	10,599,457	2,650,200	16,355,055
Depreciation	4,913,353	321,694	—	6,186,017	2,597,681	14,018,745
Housing assistance payments	—	—	—	—	2,331,727	2,331,727
Administration	179,879	496,918	—	1,326,460	367,873	2,371,130
Provision for losses	351,724	—	—	—	—	351,724
Loan servicing fees	745,239	—	—	—	—	745,239
Letter of credit fees	469,286	—	—	—	—	469,286
Professional services	84,848	208,690	—	217,922	131,456	642,916
Arbitrage rebate	1,269,966	—	—	—	—	1,269,966
Trustee fees	325,920	—	—	—	—	325,920
Amortization of deferred bond issuance costs	323,350	—	—	—	—	323,350
Amortization of deferred refunding cost	177,799	—	—	—	—	177,799
Mortgage insurance	40,748	—	—	—	—	40,748
Security	370	1,192	—	543,992	3,177	548,731
Insurance	19,092	54,194	—	170,071	45,665	289,022
Repairs and maintenance	9,634	197,707	—	3,457,849	842,394	4,507,584
Utilities	969	—	—	5,788,846	1,347,884	7,137,699
Payments in lieu of taxes	—	—	—	1,151,889	—	1,151,889
Other	64,687	2,123,050	—	4,107	210,669	2,402,513
Total operating expenses	54,765,209	8,629,529	5,832,193	29,446,610	12,851,500	111,525,041
Operating income (loss)	$ (17,595,106)	$ (4,746,809)	$ (2,861,477)	(16,402,354)	$ 2,483,447	$ (39,122,299)

Continued

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Statement of Revenues and Expenses – Enterprise Funds

Year ended June 30, 2000

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Homes Revolving Fund	Federal Low-Rent Program	Other Funds	Total
Nonoperating revenues and expenses:						
Interest income	$ —	$ 4,168,677	$ 192,418	$ 391,212	$ 580,513	$ 5,332,820
HUD operating subsidy and others	—	—	—	9,909,680	—	9,909,680
Interest expense	—	(47,655)	—	—	(368,739)	(416,394)
Total nonoperating revenues and expenses		4,121,022	192,418		211,774	14,826,106
Income (loss) before operating transfer and extraordinary item	(17,595,106)	(625,787)	(2,669,059)	(6,101,462)	2,695,221	(24,296,193)
Operating transfer in from general fund	—	—	—	—	311,520	311,520
Income (loss) before extraordinary item					3,006,741	(23,984,673)
Extraordinary item – loss from early redemption of revenue bonds payable	(68,459)					(68,459)
Net income (loss)	$ (17,663,565)	$ (625,787)	$ (2,669,059)	$ (6,101,462)	$ 3,006,741	$ (24,053,132)

Schedule V

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII
Combining Statement of Changes in Fund Equity – Enterprise Funds

Year ended June 30, 2000

	Contributed Capital						Retained Earnings (Accumulated Deficit)					
	Revenue Bond Funds	Dwelling Unit Revolving Fund	Homes Revolving Fund	Federal Low-Rent Program	Other Funds	Total	Revenue Bond Funds	Dwelling Unit Revolving Fund	Homes Revolving Fund	Federal Low-Rent Program	Other Funds	Total
Balances at July 1, 1999, as previously reported	30,111,464	$ 128,559,858	$ 44,865,062	$ 181,716,097	$ 161,227,931	546,480,412	$ (9,050,028)	$ 19,697,721	$ 11,833,922	$ 165,832	$ 37,033,296	$ 59,680,743
Adjustment:												
HUD collateralized liabilities	—	—	—	27,259,509	—	27,259,509	—	—	—	—	—	—
Net property and equipment	—	—	—	(27,806,089)	—	(27,806,089)	—	—	—	(18,659,159)	—	(18,659,159)
Balances at July 1, 1999, as restated	30,111,464	128,559,858	44,865,062	181,169,517	161,227,931	545,933,832	(9,050,028)	19,697,721	11,833,922	(18,493,327)	37,033,296	41,021,584
Net income (loss)	—	—	—	—	—	—	(17,663,565)	(625,787)	(2,669,059)	(6,101,462)	3,006,741	(24,053,132)
Transfer of depreciation and amortization on property and equipment acquired or constructed from grants and contributions to contributed capital		(321,694)		(6,186,017)	(2,442,997)	(8,950,708)		321,694		6,186,017	2,442,997	8,950,708
Contributions received from (returned to):												
HUD annual contributions	—	—	—	17,173,201	—	17,173,201	—	—	—	—	—	—
State of Hawaii	—	—	(727,166)	—	(4,632)	(731,798)	—	—	—	—	—	—
Others	—	—	—	—	1,170,417	1,170,417	—	—	—	—	—	—
Balances at June 30, 2000	$ 30,111,464	$ 128,238,164	$ 44,137,896	$ 192,156,701	$ 159,950,719	554,594,944	$ (26,713,593)	$ 19,393,628	$ 9,164,863	$ (18,408,772)	$ 42,483,034	$ 25,919,160

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Statement of Cash Flows – Enterprise Funds

Year ended June 30, 2000

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Homes Revolving Fund	Federal Low-Rent Program	Other Funds	Total
Cash flows from operating activities:						
Operating income (loss)	$ (17,595,106)	$ (4,746,809)	$ (2,861,477)	$ (16,402,354)	2,483,447	(39,122,299)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation and amortization	5,466,277	321,694	—	6,186,017	2,597,681	14,571,669
Gain on sale of land	—	(58,173)	—	—	—	(58,173)
Interest on investments	(35,589,759)	—	—	—	(5,182,356)	(40,772,115)
Interest on financing lease	(869,023)	—	—	—	—	(869,023)
Interest on revenue bonds	40,978,404	—	—	—	—	40,978,404
Provision for losses	351,724	3,554	—	—	—	355,278
Net decrease in the fair value of investments	20,353,712	—	—	—	520,654	20,874,366
Lender commitment fees amortized	(1,116,856)	—	—	—	—	(1,116,856)
Changes in assets and liabilities:						
Mortgage loans receivable	10,013,216	83,196	—	—	(4,979,667)	5,116,745
Notes and loans receivable	—	5,980,469	—	—	6,023	5,986,492
Accrued interest receivable on mortgages, notes, and loans	101,922	1,137,968	—	—	529,067	1,768,957
Tenant receivables	(462,805)	435,102	—	(138,718)	(154,143)	(320,564)
Other receivables	(8,147)	(314,839)	—	(145,227)	(17,936)	(486,149)
Due from other funds	—	(4,431,394)	—	(543,583)	(1,533,532)	(6,508,509)
Due from HUD	—	—	—	—	288,960	288,960
Due from State of Hawaii	—	—	—	—	9,985	9,985
Inventories	—	5,611,783	159,259	—	91,192	5,862,234
Prepaid expenses and other assets	(16,753)	—	—	(2,465)	430,041	410,823
Deposits held in trust	—	—	—	—	(258,058)	(258,058)
Accounts payable	11,997	774,907	(61,946)	155,966	28,390	909,314
Accrued interest payable	—	—	—	311	—	311
Accrued other expenses	45,544	(20,828)	292	217,517	295,007	537,532
Due to other funds	(49,042)	20,697	—	606,048	1,288,475	1,866,178
Due to HUD	—	—	—	—	85,849	85,849
Security deposits	31,734	(9,401)	—	(1,745)	474,711	495,299
Arbitrage rebate payable	1,269,966	—	—	—	—	1,269,966
Deferred income	(48,385)	—	—	—	928	(47,457)
Deferred gain on sale of units and land	—	(31,416)	(126,486)	—	(519,606)	(677,508)
Estimated future costs of land sold	—	—	(1,667,420)	—	—	(1,667,420)
Net cash provided by (used in) operating activities, carried forward	$ 22,868,620	$ 4,756,510	$ (4,557,778)	$ (10,068,233)	$ (3,514,888)	$ 9,484,231

Continued

Schedule VI

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Statement of Cash Flows – Enterprise Funds

Year ended June 30, 2000

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Homes Revolving Fund	Federal Low-Rent Program	Other Funds	Total
Net cash provided by (used in) operating activities, brought forward	$ 22,868,620	$ 4,756,510	$ (4,557,778)	$ (10,068,233)	$ (3,514,888)	$ 9,484,231
Cash flows from noncapital financing activities:						
Proceeds from sale of revenue bonds	108,765,000	—	—	—	—	108,765,000
Principal paid on revenue bond maturities and redemptions	(18,275,000)	—	—	—	—	(18,275,000)
Interest paid on revenue bonds	(32,806,915)	—	—	—	—	(32,806,915)
HUD operating subsidy received	—	—	—	8,967,690	—	8,967,690
Operating transfers in from general fund	—	—	—	—	311,520	311,520
Bond issuance costs paid	(866,417)	—	—	—	—	(866,417)
Lender commitment fees received	2,157,415	—	—	—	—	2,157,415
Advances from other funds	—	—	4,303,226	—	—	4,303,226
Contributions returned to State of Hawaii	—	—	—	—	(4,632)	(4,632)
Net cash provided by noncapital financing activities	58,974,083		4,303,226	8,967,690	306,888	72,551,887
Cash flows from capital and related financing activities:						
Proceeds from sale of revenue bonds	3,750,000	—	—	—	—	3,750,000
Principal paid on revenue bond maturities and redemptions	(4,399,332)	—	—	—	—	(4,399,332)
Interest paid on revenue bonds	(8,525,688)	—	—	—	—	(8,525,688)
Proceeds from sale of land	—	71,000	—	—	—	71,000
Principal payments on notes payable	—	(36,383)	—	—	—	(36,383)
Acquisition of property and equipment	(65,922)	(58,675)	—	(15,966,417)	(852,114)	(16,943,128)
Principal payments on mortgage loans	—	—	—	—	(2,305,572)	(2,305,572)
Receipts of capital grants	—	—	—	16,343,144	—	16,343,144
Payments of interest	—	(51,791)	—	—	(363,715)	(415,506)
Net cash provided by (used in) capital and related financing activities	(9,240,942)	(75,849)	—	376,727	(3,521,401)	(12,461,465)
Subtotal carried forward	$ 72,601,761	$ 4,680,661	$ (254,552)	$ (723,816)	$ (6,729,401)	$ 69,574,653

Continued

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Statement of Cash Flows – Enterprise Funds

Year ended June 30, 2000

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Homes Revolving Fund	Federal Low-Rent Program	Other Funds	Total
Subtotal brought forward	$ 72,601,761	$ 4,680,661	$ (254,552)	$ (723,816)	(6,729,401)	$ 69,574,653
Cash flows from investing activities:						
Purchases of investments	(402,311,409)	—	—	(14,100,000)	(4,943,252)	(421,354,661)
Proceeds from investments	290,392,431	68,400,000	1,900,000	14,100,000	38,585,659	413,378,090
Interest received on investments	33,635,240	3,802,253	175,298	618,527	5,043,101	43,274,419
Payments received on direct financing lease	1,240,183	—	—	—	—	1,240,183
Net decrease in restricted deposits and funded reserves	—	—	—	—	1,428,739	1,428,739
Net cash provided by (used in) investing activities	(77,043,555)	72,202,253	2,075,298	618,527	40,114,247	37,966,770
Net increase (decrease) in cash and cash equivalents	(4,441,794)	76,882,914	1,820,746	(105,289)	33,384,846	107,541,423
Cash and cash equivalents at July 1, 1999	36,306,482	5,087,374	1,650,370	8,679,130	32,778,800	84,502,156
Cash and cash equivalents at June 30, 2000	$ 31,864,688	$ 81,970,288	$ 3,471,116	$ 8,573,841	$ 66,163,646	$ 192,043,579
Reconciliation of cash to cash and cash equivalents:						
Cash	$ 1,811,715	81,970,288	3,471,116	8,573,841	66,163,646	161,990,606
Certificates of deposit and money market accounts	30,052,973	—	—	—	—	30,052,973
Cash and cash equivalents at June 30, 2000	$ 31,864,688	$ 81,970,288	$ 3,471,116	$ 8,573,841	$ 66,163,646	$ 192,043,579
Supplemental disclosure of noncash information:						
Transfers of property to State of Hawaii	$	$	$ (727,166)	$	$	$ (727,166)
Recognition of gain on sale of housing project as contributed capital	$	$	$	$	$ 1,170,417	$ 1,170,417

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Balance Sheet – Revenue Bond Funds

June 30, 2000

Assets	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Rental Housing System Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Revenue Bond Fund	Total
Cash	$	$	$	$ 158,257	$ 13,344	$
Receivables:						
Mortgage loans	43,264,324	32,000,000	—	—	—	75,264,324
Accrued interest	5,401,996	255,361	73,064	69,212	1,912	5,801,545
Tenant receivables, less allowance for doubtful receivables	—	—	459,785	26,970	—	486,755
Other	59,782	116,667	459,703	139,778	22,642	798,572
Net investment in direct financing lease	—	—	—	—	18,952,080	18,952,080
Prepaid expenses and other assets	67,364	—	11,133	1,030	—	79,527
Assets held by trustees under Revenue Bond Programs:						
Cash	1,063,746	—	80,870	—	—	1,144,616
Investments	630,516,522	3,889,414	24,373,426	16,128,264	225,000	675,132,626
Property and equipment, less accumulated depreciation	—	—	66,251,072	43,523,019	—	109,774,091
Deferred bond issuance costs, net	5,414,796	—	904,737	512,513	397,248	7,229,294
Total assets	$ 685,788,530	$ 36,261,442	$ 93,109,288	$ 60,559,043	$ 19,612,226	$ 895,330,529
Liabilities and Fund Equity (Deficit)						
Liabilities:						
Accounts payable	$ 216,277	$	$ 495,367	$ 151,511	$ 7,181	$ 870,336
Accrued expenses:						
Interest	16,092,194	354,830	595,504	316,521	232,176	17,591,225
Other	93,840	5,921	21,081	17,792	—	138,634
Due to other funds	79,810	(76,261)	26,954	24,070	1,084	55,657
Security deposits	—	—	547,838	237,446	—	785,284
Revenue bonds payable, less deferred refunding cost	673,441,293	35,750,000	95,385,000	37,535,000	16,800,000	858,911,293
Arbitrage rebate payable	2,923,442	—	—	150,300	—	3,073,742
Note payable	—	—	—	3,500,000	—	3,500,000
Deferred income	—	—	1,586	—	—	1,586
Deferred commitment fees	7,004,901	—	—	—	—	7,004,901
Total liabilities	699,851,757	36,034,490	97,073,330	41,932,640	17,040,441	891,932,658
Fund equity (deficit):						
Contributed capital – State of Hawaii	—	—	8,238,464	19,423,000	2,450,000	30,111,464
Retained earnings (accumulated deficit)	(14,063,227)	226,952	(12,202,506)	(796,597)	121,785	(26,713,593)
Total fund equity (deficit)	(14,063,227)	226,952	(3,964,042)	18,626,403	2,571,785	3,397,871
Total liabilities and fund equity	$ 685,788,530	$ 36,261,442	$ 93,109,288	$ 60,559,043	$ 19,612,226	$ 895,330,529

Schedule VIII

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Statement of Revenues, Expenses, and Changes in Retained Earnings (Accumulated Deficit) – Revenue Bond Funds

Year ended June 30, 2000

	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Rental Housing System Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Revenue Bond Fund	Total
Operating revenues:						
Interest	$ 38,090,321	$ 2,351,780	$ 1,175,066	$ 803,656	$ 880,636	43,301,459
Rental	—	—	9,459,812	3,314,109	—	12,773,921
Net decrease in the fair value of investments	(20,353,712)	—	—	—	—	(20,353,712)
Other	550,570	93,800	597,888	172,381	33,796	1,448,435
Total operating revenues	18,287,179	2,445,580	11,232,766	4,290,146	914,432	37,170,103
Operating expenses:						
Interest	32,359,810	,737,774	4,369,149	1,579,728	931,943	40,978,404
Project	—	—	3,240,567	864,644	—	4,105,211
Personnel services	427,321	25,042	135,564	116,803	—	704,730
Depreciation	—	—	3,350,907	1,562,446	—	4,913,353
Administration	109,187	6,185	36,251	26,756	1,500	179,879
Provision for losses	—	—	333,088	18,636	—	351,724
Loan servicing fees	171,178	574,061	—	—	—	745,239
Letter of credit fees	—	—	312,932	156,354	—	469,286
Professional services	16,930	11,436	25,377	21,225	9,880	84,848
Arbitrage rebate	1,185,371	—	—	84,595	—	1,269,966
Trustee fees	89,332	—	176,382	60,206	—	325,920
Amortization of deferred bond issuance costs	210,697	—	65,674	26,351	20,628	323,350
Amortization of deferred refunding cost	177,799	—	—	—	—	177,799
Mortgage insurance	40,748	—	—	—	—	40,748
Security	136	6	106	122	—	370
Insurance	14,359	1,069	2,288	1,376	—	19,092
Repairs and maintenance	6,138	626	1,511	1,359	—	9,634
Utilities	—	—	531	438	—	969
Other	7,522	—	19,324	37,841	—	64,687
Total operating expenses	34,816,528	2,356,199	12,069,651	4,558,880	963,951	54,765,209
Operating income (loss)	(16,529,349)	89,381	(836,885)	(268,734)	(49,519)	(17,595,106)
Extraordinary item – loss from early redemption of revenue bonds payable	(68,459)					(68,459)
Net income (loss)	(16,597,808)	89,381	(836,885)	(268,734)	(49,519)	(17,663,565)
Retained earnings (accumulated deficit) at July 1, 1999	2,534,581	137,571	(11,365,621)	(527,863)	171,304	(9,050,028)
Retained earnings (accumulated deficit) at June 30, 2000	$ (14,063,227)	$ 226,952	$ (12,202,506)	$ (796,597)	$ 121,785	$ (26,713,593)

Schedule IX

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Statement of Cash Flows – Revenue Bond Funds

Year ended June 30, 2000

	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Rental Housing System Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Revenue Bond Fund	Total
Cash flows from operating activities:						
Operating income (loss)	$ (16,529,349)	$ 89,381	$ (836,885)	$ (268,734)	$ (49,519)	$ (17,595,106)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	388,496	—	3,468,356	1,588,797	20,628	5,466,277
Interest on investments	(33,439,314)	(160,110)	(1,175,066)	(803,656)	(11,613)	(35,589,759)
Interest on financing lease	—	—	—	—	(869,023)	(869,023)
Interest on revenue bonds	32,359,810	1,737,774	4,369,149	1,579,728	931,943	40,978,404
Provision for losses	—	—	333,088	18,636	—	351,724
Net decrease in the fair value of investments	20,353,712	—	—	—	—	20,353,712
Lender commitment fees amortized	(1,116,856)	—	—	—	—	(1,116,856)
Changes in assets and liabilities:						
Mortgage loans receivable	6,693,884	3,319,332	—	—	—	10,013,216
Accrued interest receivable on mortgages	80,365	21,557	—	—	—	101,922
Tenant receivables	—	—	(425,477)	(37,328)	—	(462,805)
Other receivables	(56,567)	52,086	7,483	(10,815)	(334)	(8,147)
Prepaid expenses and other assets	(21,780)	—	40	4,987	—	(16,753)
Accounts payable	(3,630)	—	13,216	911	1,500	11,997
Accrued other expenses	31,626	2,074	6,334	5,510	—	45,544
Due to other funds	36,704	(103,596)	9,507	7,259	1,084	(49,042)
Security deposits	—	—	36,346	(4,612)	—	31,734
Arbitrage rebate payable	1,185,371	—	—	84,595	—	1,269,966
Deferred income	—	—	(23,768)	(24,617)	—	(48,385)
Net cash provided by operating activities	9,962,472	4,958,498	5,782,323	2,140,661	24,666	22,868,620
Cash flows from noncapital financing activities:						
Proceeds from sale of revenue bonds	108,765,000	—	—	—	—	108,765,000
Principal paid on revenue bond maturities and redemptions	(18,275,000)	—	—	—	—	(18,275,000)
Interest paid on revenue bonds	(32,806,915)	—	—	—	—	(32,806,915)
Bond issuance costs paid	(866,417)	—	—	—	—	(866,417)
Lender commitment fees received	2,157,415	—	—	—	—	2,157,415
Net cash provided by noncapital financing activities	58,974,083					58,974,083
Subtotal carried forward	$ 68,936,555	$ 4,958,498	$ 5,782,323	$ 2,140,661	$ 24,666	$ 81,842,703

Continued

STATE OF HAWAII
HOUSING AND COMMUNITY DEVELOPMENT CORPORATION OF HAWAII

Combining Statement of Cash Flows – Revenue Bond Funds

Year ended June 30, 2000

	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Rental Housing System Revenue Bond Fund	State of Hawaii Affordable Rental Program	University of Hawaii Faculty Housing Revenue Bond Fund	Total
Subtotal brought forward	$ 68,936,555	$ 4,958,498	$ 5,782,323	$ 2,140,661	24,666	$ 81,842,703
Cash flows from capital and related financing activities:						
Proceeds from sale of revenue bonds	—	3,750,000	—	—	—	3,750,000
Principal paid on revenue bond maturities and redemptions	—	(3,319,332)	(775,000)	—	(305,000)	(4,399,332)
Interest paid on revenue bonds	—	(1,639,167)	(4,397,511)	(1,553,827)	(935,183)	(8,525,688)
Acquisition of property and equipment	—	—	(65,110)	(812)	—	(65,922)
Net cash used in capital and related financing activities		(1,208,499)	(5,237,621)	(1,554,639)	(1,240,183)	(9,240,942)
Cash flows from investing activities:						
Purchases of investments	(359,602,045)	(3,889,364)	(38,020,000)	(350,000)	(450,000)	(402,311,409)
Proceeds from investments	251,368,431	—	38,020,000	581,000	423,000	290,392,431
Interest received on investments	31,548,185	139,415	1,151,189	785,590	10,861	33,635,240
Payments received on direct financing lease	—	—	—	—	1,240,183	1,240,183
Net cash provided by (used in) investing activities	(76,685,429)	(3,749,949)	1,151,189	1,016,590	1,224,044	(77,043,555)
Net increase (decrease) in cash and cash equivalents	(7,748,874)	50	1,695,891	1,602,612	8,527	(4,441,794)
Cash and cash equivalents at July 1, 1999	10,076,148	—	14,559,608	11,665,909	4,817	36,306,482
Cash and cash equivalents at June 30, 2000	$ 2,327,274	$	$ 16,255,499	$ 13,268,521	$ 13,344	$ 31,864,688
Reconciliation of cash to cash and cash equivalents:						
Cash	$ 1,063,746	$ —	$ 576,368	$ 158,257	$ 13,344	$ 1,811,715
Certificates of deposit and money market accounts	1,263,528	50	15,679,131	13,110,264	—	30,052,973
Cash and cash equivalents at June 30, 2000	$ 2,327,274	$	$ 16,255,499	$ 13,268,521	$ 13,344	$ 31,864,688

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Response of the Affected Agency

Comments on Agency Response

We transmitted a draft of this report to the Department of Business, Economic Development and Tourism (department) on August 22, 2001. A copy of the transmittal letter to the department is included as Attachment 1. The response of the Housing and Community Development Corporation of Hawaii (corporation) is included as Attachment 2.

The corporation generally agrees with our findings and has begun to address most of the findings and recommendations. We commend the corporation for its efforts to address the findings and for already beginning to implement some of the recommendations.

The corporation notes that it has taken corrective action to address the problems related to the implementation of the new information system. A full-time project manager has been assigned to manage and oversee the project. The project's status has been evaluated, deliverables have been reviewed, a contingency plan for completion is being developed, and the corporation is negotiating with the vendor to bring closure to the original contract agreement.

The corporation agrees with the need for timely communications with the corporation's Board of Directors and the timely completion of capital improvement projects. The corporation notes that all projects identified in the audit as being incomplete have now been contracted out and most of the projects have been completed or are near completion. The corporation has also established a prioritizing process for capital improvement projects and will be holding bi-weekly meetings to monitor the status of projects for approval by the board.

The corporation notes that it has adequate internal control procedures in place for reviewing the operating subsidy calculations and that the erroneous 1997 calculation was an isolated incidence. However, to prevent the occurrence of this type of error in the future, the corporation will conduct more thorough supervisory reviews over the calculation of the actual subsidy.

The corporation also notes that it is doing its best to fulfill the corporate mission. Despite the various factors that have made achieving the mission difficult, the corporation assures that it will continue to work toward the goal of "providing Hawaii's residents with affordable housing and shelter opportunities in a balanced and supportive environment without discrimination." The corporation will also continue working on ensuring that all required reports are submitted to the federal government in a timely manner. Finally, segregation of duties related to the petty cash funds will be improved.

ATTACHMENT 1

STATE OF HAWAII
OFFICE OF THE AUDITOR
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

MARION M. HIGA
State Auditor

(808) 587-0800
FAX: (808) 587-0830

August 22, 2001

COPY

The Honorable Seiji F. Naya, Director
Department of Business, Economic Development
and Tourism
No. 1 Capitol District
250 South Hotel Street
Honolulu, Hawaii 96813

Dear Dr. Naya:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Financial Audit of the Housing and Community Development Corporation of Hawaii.* We ask that you telephone us by Friday, August 24, 2001, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Friday, August 31, 2001.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa
State Auditor

Enclosures

ATTACHMENT 2

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August 31, 2001

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OFC. OF THE AUDITOR
STATE OF HAWAII

Ms. Marion M. Higa
State Auditor
Office of the Auditor
Kekuanaoa Building
465 South King Street, Room 500
Honolulu, Hawaii 96813

Subject: Reply to Draft Audit Report

Dear Ms. Higa:

I have read the draft Auditor's report and am pleased to inform you that a majority of the recommendations made in the report were already implemented by the Corporation prior to the completion of the audit. Regarding the items requiring attention as highlighted by your analysis, specific corrective actions taken include the following:

1) Information System

Corrective action has already been implemented to address the audit findings pertaining to the new Information system. Prior to the start of the audit, staff had already started assessing the project's status and developing a contingency plan for completion. A full-time project manager, with experience in system implementation, was assigned specifically to manage and oversee the project. Staff reviewed the deliverables for each module and determined which issues remain unresolved, and should have the highest priority. Ongoing negotiations with the vendor are focused on bringing closure to the original contract agreement, and to ensure ongoing support for the system. Implementation of the system is anticipated to be completed by March 2002.

We are investigating the need to assess liquidated damages considering all the facts and conditions that affect the completion of the contract.

2) Capital Improvements Funds

We do not dispute that capital improvement projects should be completed in a timely manner, and recognize that timely communications with the Corporation's Board is vital to keep projects on track.

All capital improvement moneys identified in the audit report as being incomplete have now been contracted out, and most of the projects have been completed or are near completion. In addition, since the time of the delays, a prioritizing process has been established that ranks capital improvement projects on a weighted basis based upon health and safety factors, and the necessity of the work being required. To improve project implementation, bi-weekly meetings are held to monitor the status of projects approved by the Board.

3) Internal Controls

The corporation has adequate internal control procedures in place to provide for the review of the operating subsidy calculations. These procedures include a review by the preparer's supervisor and the Administrative Services Officer, and are performed on both the estimated and actual operating subsidy calculations. The estimated operating subsidy calculations are submitted to the Board in support of a Board resolution required by U. S. Department of Housing and Urban Development. The actual operating subsidy calculation does not require any Board action or resolution.

The erroneous 1997 actual operating subsidy was an isolated incident due to a computational error rather than lack of the review procedures. There will be more thorough supervisory reviews to ensure that the calculation of the actual subsidy is proper.

4) Lack of Success in Fulfilling the Corporation's Mission

To imply that the Corporation has not been entirely successful in fulfilling its Corporate mission is incorrect and ignores the tremendous efforts we have undertaken to provide affordable housing. I am concerned that a financial audit of a corporation would comment on a "non-reportable" finding without due consideration of a wide variety of market issues and economic and social conditions in the State. Further, there appears to be no analysis of what the size of the waiting list would be without the Corporation's programs.

It is the goal and mission of HCDCH "to serve as a catalyst to provide Hawaii's residents with affordable housing and shelter opportunities in a balanced and supportive environment without discrimination." To measure the success of the Corporation by looking at just the wait lists in the continuum of the State's housing efforts from homeless assistance to homeownership for first-time homebuyers is not an accurate way to assess our performance.

HCDCH has worked with its partners in the private sector to help more than 8,900 people make the transition to permanent housing during the past five years. Hawaii's homeless program received national recognition in 1999 from the U.S. Department of Housing and Urban Development as one of the best in the nation.

Since 1995, the Rental Housing Trust Fund, the Low Income Housing Tax Credit and other HCDCH programs have provided more than $326 million in financial assistance and development incentives to private developers. This has made possible the development and preservation of 5,079 affordable rental housing units totaling $635 million in development costs.

Also, since 1995, the Hula Mae program for first time homebuyers has provided over $400 million in mortgages for over 2,000 households with interest rates as low as 5.89% Another issue of $115 million is expected this Fall.

In a most exciting venture, the State has embarked on a major initiative to change the character and quality of public housing by revitalizing more than 1,700 units in the Kalihi-Palama area – or about a third of the federal public housing units in Hawaii.

- Phase I of Kalihi Valley Homes along Likelike Highway is nearing completion and embodies the new character and quality of public housing.

- The groundbreaking of the Community Resource Center at Kuhio Park Terrace and Kuhio Homes took place just this week. When completed a year from now, 50,000 square feet of space for community and human services providers will offer economic development programs, culinary arts training, childcare, a teen center, job training and referral services and more for area residents.

- Since May of 1999 until June of this year, HCDCH has worked diligently in partnership with residents and community leaders of Kuhio Park Terrace and Kuhio Homes to plan for a new beginning. With a successful acceptance of our HOPE VI grant, HCDCH plans to demolish the two high-rise towers and replace them with a planned community development. In its place, will be single family dwellings, townhomes, and a senior oriented mid-rise apartment building surrounded by open green space.

It is important to note that the lengthy wait list is symptomatic of a basic underlying problem, that is, a shortage of adequate public and private housing inventory due primarily to the high cost of development. The key issue is the lack of available rental units.

While we acknowledge that there has been some difficulty due to market conditions to place applicants on the public housing and Section 8 wait lists, HCDCH has accomplished much in providing affordable housing opportunities in the State. To accelerate placement of persons on the waiting lists, a substantial amount of resources will be required to increase the inventory of affordable rentals.

5) Delay in Submitting a Federal report

In 1999, one report was submitted 11 days late to the Federal government. No payment requests were delayed as a result of this action.

Since that isolated incident, HCDCH has worked to ensure that all required reports are submitted in a timely manner.

6) Petty Cash Funds

The custodial and reconciliation functions of petty cash funds will be separated to improve the handling of petty cash funds that are limited to $500. Furthermore, periodic reviews of the reconciliation procedures will be performed by an employee independent of petty cash process.

In closing, we acknowledge the findings and recommendations of the Auditor and have already implemented actions to improve corporate performance. With the limited resources available to our agency, we are proud of the accomplishments we have made to date and will continue to look toward improving upon our results.

Sincerely,

Sharyn Miyashiro

Sharyn L. Miyashiro
Executive Director

c: Dr. Seiji Naya
Board of Directors