

**Hawaii Housing Finance and Development Corporation
(Office of Management and Budget (OMB) Circular A-133)**

Financial Statements

June 30, 2008

Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**

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SECTION I
FINANCIAL STATEMENTS

Hawaii Housing Finance and Development Corporation

Management Discussion and Analysis
June 30, 2008

The management of the Hawaii Housing Finance and Development Corporation (Corporation) offers readers of the Corporation's financial statements this narrative overview and analysis of their financial activities for the fiscal year ended (FYE) June 30, 2008. This document should be read in conjunction with the audited financial statements. All amounts presented in tables, unless otherwise indicated, are expressed in thousands of dollars.

Introduction

The Hawaii Housing Finance and Development Corporation (the Corporation) was established by the State Legislature effective July 1, 2006 in accordance with Act 196, SLH 2005, as amended by Act 180, SLH 2006.

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

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

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Management Discussion and Analysis
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Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements of the Corporation for the period ended June 30, 2008. The financial statements consist of Management's Discussion and Analysis, the basic financial statements, related notes to the financial statements and other required supplementary information. These components are described below:

1. Basic Financial Statements

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

- The first two statements are Corporation-wide financial statements that provide information about the Corporation's overall financial position and results of operations. These statements are presented on an accrual basis of accounting and consist of the Statement of Net Assets and the Statement of Activities.
- The remaining statements are the fund financial statements of the Corporation's governmental funds, for which activities are funded primarily from appropriations from the State, and the Corporation's major and non-major proprietary funds, which operate similar to business-type activities. The governmental funds are presented on a modified accrual basis of accounting while the proprietary and the fiduciary funds are presented on an accrual basis of accounting.
- The basic financial statements also include a "Notes to Financial Statements" section that explains some of the information in the government-wide and the fund financial statements and provides more detailed data.
- The "Notes to Financial Statements" are followed by a "Supplementary Information" section, which presents a budgetary comparison schedule, which is required supplementary information, and information on non-major funds, which is not required.

2. Government-Wide Financial Statements

The government-wide statements report information about the Corporation as a whole using accounting methods similar to those used by private sector companies. The statement of net assets provides both short-term and long-term information about the Corporation's financial position, which assists in assessing the Corporation's economic condition at the end of the fiscal year. All of the current year revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. Most of the Corporation's activities are business-type activities and

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are reported in its proprietary funds. The government-wide financial statements include two statements:

- The *statement of net assets* presents all of the Corporation's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in the Corporation's net assets may serve as a useful indicator of the health of the financial position of the Corporation.
- The *statement of activities* presents information indicating how the Corporation's net assets changed during the most recent fiscal year.

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

- Governmental activities – The activities in this section are primarily supported by State or Federal appropriations or by Federal contributions.
- Business-type activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users.

3. Fund Financial Statements

The fund financial statements provide more detailed information about the Corporation's most significant funds and not the Corporation as a whole. The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as a major fund or a non-major fund. The Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments* sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining section of the financial statements.

The Corporation has three types of funds:

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

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Management Discussion and Analysis

June 30, 2008

- Governmental fund financial statements help determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation's programs.
- The focus of the governmental funds is narrower than that of the government-wide financial statements; therefore it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision.
- Both the governmental fund balance sheet and the governmental statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- Proprietary Funds – the Corporation's only type of proprietary funds are its enterprise funds, which are used to account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing services to customers.
- Fiduciary Fund is not reflected in the government-wide financial statement because the resources of those funds are not available to support the Corporation's own programs.

4. Notes to Financial Statements

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

5. Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. This section includes a budgetary comparison schedule, which includes a reconciliation between the statutory fund balance for budgetary purposes and the fund balance for the major governmental fund as presented in the governmental fund financial statements. Also, management's discussion and analysis is considered supplementary information and is required to precede the financial statements.

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Management Discussion and Analysis June 30, 2008

6. Other Information

The combining financial statements of the non-major enterprise funds are presented as other information.

Government-Wide Financial Analysis

As noted earlier, the *statement of net assets* presents all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of the Corporation's financial position. As indicated below, as of June 30, 2008, the Corporation's total net asset balance was approximately \$377,615,000 an increase of \$63,218,000 (or 20.1%) from the previous year.

Government-Wide Condensed Statement of Net Assets June 30, 2008 and 2007 (In thousand of dollars)								
	Governmental Activities		Business Activities		Total		Total Percent Change	
	2008	2007	2008	2007	2008	2007		
Current assets	\$ 182	\$ 1,469	\$ 279,863	\$ 240,109	\$ 280,045	\$ 241,578	15.9%	
Assets held by trustee	-	-	308,006	318,715	308,006	318,715	-3.4%	
Capital assets	389	161	107,409	87,137	107,798	87,298	23.5%	
Other assets	-	-	174,404	95,973	174,404	95,973	81.7%	
Total assets	\$ 571	\$ 1,630	\$ 869,682	\$ 741,934	\$ 870,253	\$ 743,564	17.0%	
Current liabilities	\$ -	\$ -	\$ 98,810	\$ 63,017	\$ 98,810	\$ 63,017	56.8%	
Long-term liabilities	-	-	393,828	366,150	393,828	366,150	7.6%	
Total liabilities	-	-	492,638	429,167	492,638	429,167	14.8%	
Net assets								
Invested in capital assets								
net of related debt	389	161	3,789	(18,981)	4,178	(18,820)	-122.2%	
Restricted	-	-	308,596	319,291	308,596	319,291	-3.3%	
Unrestricted	182	1,469	64,659	12,457	64,841	13,926	365.6%	
Total net assets	571	1,630	377,044	312,767	377,615	314,397	20.1%	
Total liabilities and net assets	\$ 571	\$ 1,630	\$ 869,682	\$ 741,934	\$ 870,253	\$ 743,564	17.0%	

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Management Discussion and Analysis

June 30, 2008

Current assets increased by approximately \$38,467,000 (or 15.9%) during 2008 primarily related to an increase in cash of approximately \$27,000,000 in the Rental Housing Trust Fund of which \$15,000,000 relates to a cash infusion from Act 213. The remaining increase in cash in the Rental Housing Trust Fund is related to revenues generated in excess of expenditures.

Assets held by trustee result from the trust indentures of the revenue bond funds requiring cash and investments to be held by a trustee. These assets decreased by approximately \$10,709,000 (or 3.4%) during 2008 due to the use of these assets to redeem previously outstanding bonds. Restricted net assets, which represent resources that are subject to external restrictions on how they may be used, primarily include the assets held by trustee and decreased by approximately \$10,695,000 (or 3.3%) during 2008.

Capital assets increased by approximately \$20,499,000 (or 23.5%) during 2008 primarily due to the acquisition of the Kukui Gardens Parcel A.

Other assets increase by approximately \$78,431,000 (or 81.7%) during 2008 primarily due to approximately \$53,000,000 of mortgage notes receivable received to secure new conduit debt issued by the Multifamily Revenue Bond Housing Fund and an increase in notes receivable of approximately \$29,000,000 in the Dwelling Unit Revolving Fund received from the buyer of Kukui Gardens Parcel A.

Current liabilities increased by approximately \$35,793,000 (or 56.8%) during 2008 primarily due to the recognition of approximately \$25,000,000 of deferred income related to the Kukui Gardens project, an increase in the current portion of revenue bonds payable of approximately \$7,000,000 and an increase in the estimated future cost of land sold of approximately \$3,000,000.

Long-term liabilities increased by approximately \$27,678,000 (or 7.6%) primarily due to the issuance of \$53,400,000 in revenue bonds in the Multi Family Revenue Bond Fund which included \$45,000,000 for the acquisition financing for the Kukui Gardens and \$8,400,000 for the Kahului Town Terrace project. Bond redemptions totaled \$18,200,000.

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

Unrestricted net assets consist of net assets that do not meet the definition of “restricted” or “net assets invested in capital assets, net of related debt.”

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Management Discussion and Analysis June 30, 2008

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

Government-Wide Statement of Activities Years Ended June 30, 2008 and June 30, 2007 (In thousand of dollars)								Total Percent Change
Governmental Activities		Business Activities		Total				
2008	2007	2008	2007	2008	2007			
Revenues								
Program revenues:								
Charges for services	\$ -	\$ -	\$ 50,828	\$ 60,159	\$ 50,828	\$ 60,159	-15.5%	
Operating grants and contributions	2,854	4,135	58,244	18,972	61,098	23,107	164.4%	
Capital grants and contributions	-	-	-	-	-	-	-	
General revenues:								
State allotted appropriations, net of lapses	102	2,323	-	200	102	2,523	-96.0%	
Total revenues	<u>2,956</u>	<u>6,458</u>	<u>109,072</u>	<u>79,331</u>	<u>112,028</u>	<u>85,789</u>	30.6%	
Expenses								
Governmental activities								
Expenditures - Disbursements	4,015	4,828	-	-	4,015	4,828	-16.8%	
Business-type activities								
Rental assistance program	-	-	1,518	1,622	1,518	1,622	-6.4%	
Housing development program	-	-	6,287	6,429	6,287	6,429	-2.2%	
Multi-family mortgage loan programs	-	-	6,664	8,801	6,664	8,801	-24.3%	
Single-family mortgage loan program	-	-	11,472	13,728	11,472	13,728	-16.4%	
Rental housing program	-	-	17,352	17,455	17,352	17,455	-0.6%	
Others	-	-	1,500	1,386	1,500	1,386	8.2%	
Total government-wide expenses	<u>4,015</u>	<u>4,828</u>	<u>44,793</u>	<u>49,421</u>	<u>48,808</u>	<u>54,249</u>	-10.0%	
Excess of revenues over expenses	<u>(1,059)</u>	<u>1,630</u>	<u>64,279</u>	<u>29,910</u>	<u>63,220</u>	<u>31,540</u>	100.4%	
Transfers	<u>-</u>	<u>-</u>	<u>(2)</u>	<u>(113)</u>	<u>(2)</u>	<u>(113)</u>	98.2%	
Change in net assets	(1,059)	1,630	64,277	29,797	63,218	31,427	101.2%	
Total net assets, beginning of year	<u>1,630</u>	<u>-</u>	<u>312,767</u>	<u>282,970</u>	<u>314,397</u>	<u>282,970</u>	11.1%	
Total net assets, end of year	<u>\$ 571</u>	<u>\$ 1,630</u>	<u>\$377,044</u>	<u>\$ 312,767</u>	<u>\$377,615</u>	<u>\$ 314,397</u>	20.1%	

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Management Discussion and Analysis
June 30, 2008

Governmental Activities

For the fiscal year ending June 30, 2008, total net assets of the governmental activities decreased by approximately \$1,059,000, from \$1,630,000 in 2007 to \$571,000 in 2008 primarily due to expenditures for low income housing services.

Business-type Activities

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

For the fiscal year ending June 30, 2008, business-type activities increased the Corporation's net assets by \$64,277,000. Key elements of this increase are as follows:

- Charges for services decreased by approximately \$9,331,000 (or 15.5%) to \$50,828,000 in 2008 from \$60,159,000 in 2007 primarily as a result of a decrease of approximately \$4,960,000 in conveyance taxes to the Rental Housing Trust Fund during 2008 and a decrease of approximately \$4,000,000 in unit sales in the Dwelling Unit Revolving Fund.
- Operating grants and contributions increased by \$39,272,000 to \$58,244,000 in 2008 from \$18,972,000 in 2007 primarily due to the improvement in the change in fair-value of mortgage-backed securities of \$2,400,000 in the Single Family Mortgage Purchase Revenue Bond Fund and \$2,800,000 in the Multifamily Revenue Bond Fund, \$15,000,000 appropriated in Act 213, SLH 2007 to the Rental Housing Trust Fund and the \$25,000,000 appropriated within Act 231, SHL 2007 to reimburse the Dwelling Unit Revolving Fund for the acquisition of Parcel A of the Kukui Gardens rental housing complex.

Expenses related to multifamily mortgage loan programs decreased by \$2,137,000 to \$6,664,000 in 2008 from \$8,801,000 in 2007.

Financial Analysis of the Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirement.

Hawaii Housing Finance and Development Corporation

Management Discussion and Analysis

June 30, 2008

Governmental Funds

At June 30, 2008, the Corporation's governmental funds reported a combined ending fund balance of \$182,000, a decrease of \$1,287,000 in comparison to the combined \$1,469,000 fund balance at June 30, 2007. The decrease was primarily due to the following:

- The fund balance of the General Fund decreased \$1,287,000 due to State allotted appropriations of \$102,000, less related expenditures of \$1,389,000.

Proprietary Funds

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

- The *Rental Housing Trust Fund* provides developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units. The fund recognized an increase in net assets of \$33,161,000 in 2008, compared to \$21,633,000 in 2007. The 2008 increase in net assets consisted of conveyance tax collections of \$19,204,000 and interest income of \$411,000 less operating expenses of \$2,516,000 and a contribution from the State of \$15,000,000 pursuant to Act 231, SHL 2007.

Conveyance taxes decreased by \$4,960,000 (or 20.5%) to \$19,204,000 in 2008 from \$24,164,000 in 2007. Interest income on cash balances decreased by \$1,667,000 (or 80.2%) to \$411,000 in 2008 from \$2,078,000 in 2007 primarily due to the change in fair value amounts of the investments in the State Treasury Investment Pool during 2008.

- The *Dwelling Unit Revolving Fund* accounts for State funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing interim financing, which generates rents, sales proceeds and interest earnings from the financing and investment of such funds. The fund had an increase in net assets of \$24,521,000 in 2008, which was an increase of \$18,549,000 (or 310.6%) over the increase in net assets of \$5,972,000 in 2007. The 2008 increase in net assets consisted of operating losses of \$1,391,000 and non-operating income of \$25,912,000. The non-operating income consists primarily of the receipt of \$25,000,000 appropriated in Act 231, SHL 2007 for the acquisition of Parcel A of the Kukui Gardens rental housing complex. Interest income on cash balances decreased by \$2,804,000 (or 75.4%) to \$915,000 in 2008 from \$3,719,000 in 2007 primarily due to the change in fair value amount of the investments in the State Treasury Investment Pool during 2008.

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- The *Hawaii Rental Housing System Revenue Bond Fund* accounts for special funds for housing projects or systems of housing projects financed from proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State. The fund had a decrease in net assets, and a loss before transfers, of \$951,000 in 2008, which was a decrease of \$115,000 (or 7.6%) from the loss before transfers of \$1,029,000 in 2007. The decrease in the loss before transfers of the fund is due to the decrease in operating expenses of \$54,000 (or 0.4%) to \$12,300,000 in 2008 from \$12,353,000 in 2007. Operating revenues increased by \$391,000 (or 2.7%) to \$14,802,000 in 2008 from \$14,411,000 in 2007 and non-operating expenses increased by \$367,000 (or 11.9%) to \$3,453,000 in 2008 from \$3,087,000 in 2007.
- The *Single Family Mortgage Purchase Revenue Bond Fund* accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest, and earnings from such loans and investment of such funds. Net assets in the fund increased by \$6,011,000 substantially due to a \$2,400,000 increase in the fair-value of mortgage-backed securities and a decrease in arbitrage rebate expense of \$1,387,000 from \$1,511,000 in 2007 to \$124,000 in 2008. The continued refinancing of mortgage-backed securities resulted in management continuing to use available cash to redeem the related bonds outstanding. Accordingly, interest income from mortgage-backed securities declined by \$734,000 from \$9,272,000 in 2007 to \$8,538,000 in 2008 and interest income from cash declined by \$775,000 from \$7,305,000 in 2007 to \$6,531,000 in 2008.
- The *Multifamily Housing Revenue Bond Fund* accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing at below market interest rates to facilitate the construction or rehabilitation of affordable housing projects. There was a decrease in net assets of \$465,000 in 2008 primarily due to the defeasance of GNMA Series 2000 multifamily bonds. Interest income from mortgages increased by \$785,000 from \$506,000 in 2007 to \$1,291,000 in 2008 and interest income from cash and investments declined by \$463,000 from \$1,771,000 in 2007 to \$1,308,000 in 2008. Interest expense related to outstanding bonds decreased by \$766,000 from \$2,184,000 in 2007 to \$2,950,000 in 2008.

Hawaii Housing Finance and Development Corporation

Management Discussion and Analysis
June 30, 2008

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2008, the Corporation had invested approximately \$107,798,000 (net of accumulated depreciation of \$83,131,000) in a broad range of capital assets. This amount represents an increase of approximately \$20,500,000 (or 23.5%) over the prior year, primarily due to the acquisition of Parcel A, Kukui Gardens rental housing complex.

	Governmental		Business		Total		Total Percent Change
	Activities		Activities				
	2008	2007	2008	2007	2008	2007	
Land	\$ -	\$ -	\$ 43,454	\$ 20,274	\$ 43,454	\$ 20,274	114.3%
Buildings and improvements	-	-	145,234	142,407	145,234	142,407	2.0%
Equipment	448	176	1,793	1,792	2,241	1,968	13.9%
Construction in progress	-	-	-	837	-	837	-100.00%
Total	448	176	190,481	165,310	190,929	165,486	15.4%
Accumulated depreciation	(59)	(15)	(83,072)	(78,173)	(83,131)	(78,188)	6.3%
Total Capital Assets, net	\$ 389	\$ 161	\$107,409	\$ 87,137	\$107,798	\$ 87,298	23.5%

Debt Administration

Through June 30, 2008, approximately \$2.18 billion of revenue bonds have been issued. The revenue bonds are payable solely from the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the various bond indentures. Revenue bonds payable increased by approximately \$35,468,000 to approximately \$400,110,000 at June 30, 2008 from approximately \$364,642,000 at June 30, 2007. During the year ended June 30, 2008, the Corporation issued \$53,420,000 in new bonds for the Multifamily Housing System and had bond redemptions of approximately \$18,225,000. As defined in the bond indentures, under certain conditions, revenue bonds may be redeemed without premium prior to maturity. Included in the current year bond redemptions were early redemptions of approximately \$8,615,000.

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Management Discussion and Analysis

June 30, 2008

During fiscal year 2008, Moody's Investors Service's rating of the Corporation continued to be A2 with a negative outlook. The Corporation's bond ratings for the Single Family Mortgage Purchase Revenue Bond program were as follows:

- Standard & Poor's Rating Services: AAA
- Moody's Investors Service: Aaa
- Fitch Ratings: AAA

Currently Known Facts, Decisions, or Conditions

- On July 1, 2008, the Corporation redeemed \$5.1 million of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund.
- In November, 2008, the Corporation issued \$33.5 million of Hula Mae Multifamily bonds for the Lokahi Ka'u project, a 306 unit family project located in Kona on the Island of Hawaii.

Requests for Information

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



A Hawaii Limited Liability Partnership

Independent Auditor's Report

The Auditor
State of Hawaii

The Board of Directors
Hawaii Housing Finance and Development Corporation:

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hawaii Housing Finance and Development Corporation (Corporation) as of and for the year ended June 30, 2008, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Corporation are intended to present the financial position, changes in financial position and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate other fund information of the State of Hawaii that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2008, and the changes in its financial position and the cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Corporation, as of June 30, 2008, and the respective changes in financial position and the cash flows where applicable thereof 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 March 27, 2009 on our consideration of the Corporation’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with “Government Auditing Standards” and should be considered in assessing the results of our audit.

The Management’s Discussion and Analysis on pages 1 to 12 and Budgetary Comparison Schedule on page 71 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation’s basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 27, 2009

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Net Assets
June 30, 2008

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current Assets:			
Cash	\$ -	\$ 201,562,760	\$ 201,562,760
Receivables:			
Mortgage loans	-	7,739,317	7,739,317
Notes and loans	-	11,863,626	11,863,626
Accrued interest	-	8,564,991	8,564,991
Tenant receivables, less allowance for doubtful accounts of \$1,670,774	-	100,815	100,815
Other	-	2,855,424	2,855,424
	<u>-</u>	<u>31,124,173</u>	<u>31,124,173</u>
Due from other funds	-	3,306,698	3,306,698
Due from other governments	53,616	-	53,616
Internal balances	(53,616)	53,616	-
Due from other State of Hawaii Departments	181,729	20,844,391	21,026,120
Inventories --			
Developments in progress and dwelling units	-	22,060,985	22,060,985
Net investment in direct financing lease	-	570,486	570,486
Prepaid expenses and other assets	-	204,658	204,658
Deposits held in trust	-	5,717	5,717
Deferred bond issuance costs	-	129,272	129,272
Total current assets	<u>181,729</u>	<u>279,862,756</u>	<u>280,044,485</u>
Assets Held by Trustees Under Revenue Bond Programs:			
Cash and cash equivalent	-	34,823,630	34,823,630
Investments	-	273,182,373	273,182,373
	<u>-</u>	<u>308,006,003</u>	<u>308,006,003</u>
Investments	-	6,547,685	6,547,685
Mortgage Loans, net of current portion	-	121,891,904	121,891,904
Notes and Loans, net of current portion	-	29,054,552	29,054,552
Restricted Deposits and Funded Reserves	-	590,430	590,430
Net Investment in Financing Lease, net of current portion	-	14,461,804	14,461,804
Deferred Bond Issuance Costs, net of current portion	-	1,858,272	1,858,272
Capital Assets, less accumulated depreciation	389,197	107,408,318	107,797,515
Total assets	<u>\$ 570,926</u>	<u>\$ 869,681,724</u>	<u>\$ 870,252,650</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Net Assets (continued)
June 30, 2008

<u>Liabilities and Net Assets</u>	Governmental Activities	Business-type Activities	Total
Current Liabilities:			
Accounts payable	\$ -	\$ 2,477,904	\$ 2,477,904
Accrued expenses:			
Interest	-	7,908,934	7,908,934
Other	-	1,257,306	1,257,306
Accrued lease rent payable	-	696,800	696,800
Due to other funds	-	3,306,698	3,306,698
Due to State of Hawaii, including Office of Hawaiian Affairs	-	5,583,604	5,583,604
Security deposits	-	1,936,389	1,936,389
Notes payable	-	13,475	13,475
Mortgage payable	-	37,024	37,024
Revenue bonds payable, less deferred refunding cost	-	15,737,553	15,737,553
Deferred income	-	25,113,316	25,113,316
Deferred commitment fees	-	338,597	338,597
Deferred gain on sale of units and land	-	1,642,801	1,642,801
Estimated future costs of land sold	-	32,759,434	32,759,434
Total current liabilities	-	98,809,835	98,809,835
Deferred Commitment Fees, net of current portion	-	901,013	901,013
Arbitrage Rebate Payable	-	2,757,205	2,757,205
Notes Payable, net of current portion	-	248,564	248,564
Mortgage Payable, net of current portion	-	5,548,567	5,548,567
Revenue Bonds Payable, less deferred refunding costs, net of current portion	-	384,372,552	384,372,552
Commitments and Contingencies			
Net Assets:			
Invested in capital assets, net of related debt	389,197	3,789,321	4,178,518
Restricted by legislation and contractual agreements	-	308,596,433	308,596,433
Unrestricted	181,729	64,658,234	64,839,963
Total net assets	570,926	377,043,988	377,614,914
Total liabilities and net assets	\$ 570,926	\$ 869,681,724	\$ 870,252,650

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Activities
June 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities--						
Low income housing service and assistance program	\$ 4,014,594	\$ -	\$ 2,854,400	\$ -	\$ (1,160,194)	\$ (1,160,194)
Total governmental activities	<u>4,014,594</u>	<u>-</u>	<u>2,854,400</u>	<u>-</u>	<u>(1,160,194)</u>	<u>(1,160,194)</u>
Business-type activities:						
Rental assistance program	1,518,610	121,540	971,803	-	(425,267)	(425,267)
Housing development program	6,286,677	3,161,790	27,646,105	-	24,521,218	24,521,218
Multi-family mortgage loan programs	6,663,778	22,463,490	19,428,616	-	35,228,328	35,228,328
Single-family mortgage loan program	11,472,105	8,538,439	8,930,939	-	5,997,273	5,997,273
Rental housing program	17,351,713	15,174,177	1,041,222	-	(1,136,314)	(1,136,314)
Others	1,500,985	1,369,063	224,983	-	93,061	93,061
Total business-type activities	<u>44,793,868</u>	<u>50,828,499</u>	<u>58,243,668</u>	<u>-</u>	<u>64,278,299</u>	<u>64,278,299</u>
Total government-wide	<u>\$ 48,808,462</u>	<u>\$ 50,828,499</u>	<u>\$ 61,098,068</u>	<u>\$ -</u>	<u>(1,160,194)</u>	<u>63,118,105</u>
State Allotted Appropriations, net of lapses				101,657	-	101,657
Net Transfers				-	(1,563)	(1,563)
Total general revenues and transfers				<u>101,657</u>	<u>(1,563)</u>	<u>100,094</u>
Change in net assets				(1,058,537)	64,276,736	63,218,199
Net Assets, July 1, 2007				<u>1,629,463</u>	<u>312,767,252</u>	<u>314,396,715</u>
Net Assets, June 30, 2008				<u>\$ 570,926</u>	<u>\$ 377,043,988</u>	<u>\$ 377,614,914</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Governmental Funds
 Balance Sheet
 June 30, 2008

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
<u>Assets</u>	<u> </u>	<u> </u>	<u> </u>
Due from State	\$ 181,729	\$ -	\$ 181,729
Due from other agencies	<u>-</u>	<u>53,616</u>	<u>53,616</u>
Total assets	<u>\$ 181,729</u>	<u>\$ 53,616</u>	<u>\$ 235,345</u>
 <u>Liabilities and Fund Balance</u> 			
Liabilities --			
Internal balances	<u>\$ -</u>	<u>\$ 53,616</u>	<u>\$ 53,616</u>
Total liabilities	-	53,616	53,616
Fund Balances - Unrestricted			
Reserved for encumbrances	<u>181,729</u>	<u>-</u>	<u>181,729</u>
Total liabilities and fund balance	<u>\$ 181,729</u>	<u>\$ 53,616</u>	<u>\$ 235,345</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Reconciliation of the Governmental Fund Balance to the
Statement of Net Assets
June 30, 2008

Total fund balance - governmental funds \$ 181,729

Amounts reported for governmental activities in
the statement of net assets are different because:

Capital assets used in governmental activities
are not financial resources and therefore
not reported in the funds. These assets consist
of the following:

Equipment	448,264	
Accumulated depreciation	<u>(59,067)</u>	
Total capital assets		<u>389,197</u>
Net assets of governmental activities		<u>\$ 570,926</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2008

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
Revenues:			
State allotted appropriations	\$ 101,657	\$ -	\$ 101,657
Intergovernmental revenue	-	2,854,400	2,854,400
Total revenues	101,657	2,854,400	2,956,057
Expenditures:			
Low income housing services	898,772	-	898,772
Capital outlays	388,351	-	388,351
Project	-	2,765,782	2,765,782
Personnel services	101,657	54,809	156,466
Administration	-	33,809	33,809
Professional services	-	-	-
Total expenditures	1,388,780	2,854,400	4,243,180
Change in fund balance	(1,287,123)	-	(1,287,123)
Fund Balance at July 1, 2007	1,468,852	-	1,468,852
Fund Balance at June 30, 2008	\$ 181,729	\$ -	\$ 181,729

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Reconciliation of the Change in Fund Balances of Governmental
Funds to the Statement of Activities
June 30, 2008

Net change in fund balances - total governmental funds \$ (1,287,123)

Amounts reported for governmental activities in
the statement of activities are different because:

Governmental funds report capital outlays as
expenditures. In the statement of activities, the
cost of those assets is allocated over their
estimated useful lives and reported as
depreciation expense. This is the amount by
which capital outlay exceeded depreciation
expense during the year.

Capital outlay	272,430	
Depreciation expense	<u>(43,844)</u>	
		<u>228,586</u>
Change in net assets - governmental activities		<u><u>\$ (1,058,537)</u></u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Net Assets
June 30, 2008

<u>Assets</u>	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Current Assets:							
Cash	\$ 88,551,207	\$ 79,364,266	\$ 1,917,208	\$ -	\$ -	\$ 31,730,079	\$ 201,562,760
Receivables:							
Mortgage loans	349,190	62,628	-	696,059	6,567,553	63,887	7,739,317
Notes and loans	-	11,863,626	-	-	-	-	11,863,626
Accrued interest	2,558,202	1,159,330	44,458	3,803,797	204,425	794,779	8,564,991
Tenant receivables, less allowance for doubtful accounts of \$1,670,774	-	12,577	64,004	-	-	24,234	100,815
Other	-	2,020,013	790,238	-	15,358	29,815	2,855,424
	<u>2,907,392</u>	<u>15,118,174</u>	<u>898,700</u>	<u>4,499,856</u>	<u>6,787,336</u>	<u>912,715</u>	<u>31,124,173</u>
Due from other funds	35	628,056	-	-	352,378	2,326,229	3,306,698
Internal balances	-	-	-	-	-	53,616	53,616
Due from other State of Hawaii Departments	-	20,844,391	-	-	-	-	20,844,391
Inventories	-	22,060,985	-	-	-	-	22,060,985
Net investment in financing lease	-	-	-	-	-	570,486	570,486
Prepaid expenses and other assets	-	29,952	62,322	7,205	-	105,179	204,658
Deposits held in trust	-	-	-	-	-	5,717	5,717
Deferred bond issuance costs	-	-	48,952	62,318	-	18,002	129,272
Total current assets	<u>91,458,634</u>	<u>138,045,824</u>	<u>2,927,182</u>	<u>4,569,379</u>	<u>7,139,714</u>	<u>35,722,023</u>	<u>279,862,756</u>
Assets Held by Trustees Under Revenue Bond Programs:							
Cash and cash equivalent	-	-	31,622,788	3,190,770	10,072	-	34,823,630
Investments	-	-	-	241,280,873	31,901,500	-	273,182,373
	<u>-</u>	<u>-</u>	<u>31,622,788</u>	<u>244,471,643</u>	<u>31,911,572</u>	<u>-</u>	<u>308,006,003</u>
Investments	-	-	-	-	-	6,547,685	6,547,685
Mortgage Loans, net of current portion	58,636,446	545,391	-	5,343,849	53,919,863	3,446,355	121,891,904
Notes and Loans, net of current portion	-	29,054,552	-	-	-	-	29,054,552
Restricted Deposits and Funded Reserves	-	-	-	-	-	590,430	590,430
Net Investment in Financing Lease, net of current portion	-	-	-	-	-	14,461,804	14,461,804
Deferred Bond Issuance Costs, net of current portion	-	-	681,430	950,350	-	226,492	1,858,272
Capital Assets, less accumulated depreciation	-	27,716,886	75,049,571	2,148	-	4,639,713	107,408,318
Total assets	<u>\$ 150,095,080</u>	<u>\$ 195,362,653</u>	<u>\$ 110,280,971</u>	<u>\$ 255,337,369</u>	<u>\$ 92,971,149</u>	<u>\$ 65,634,502</u>	<u>\$ 869,681,724</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Net Assets (continued)
June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
<u>Liabilities and Net Assets</u>							
Current Liabilities:							
Accounts payable	\$ -	\$ 835,448	\$ 1,413,482	\$ 51,895	\$ -	\$ 177,079	\$ 2,477,904
Accrued expenses:							
Interest	16,335	-	1,718,973	5,109,217	864,863	199,546	7,908,934
Other	-	795,909	96,100	160,111	20,072	185,114	1,257,306
Accrued lease rent payable	-	696,800	-	-	-	-	696,800
Due to other funds	-	-	102,977	232,141	-	2,971,580	3,306,698
Due to State of Hawaii, including Office of Hawaiian Affairs	-	5,573,604	-	-	-	10,000	5,583,604
Security deposits	-	76,652	941,998	-	-	917,739	1,936,389
Notes payable	-	13,475	-	-	-	-	13,475
Mortgage payable	-	-	-	-	-	37,024	37,024
Revenue bonds payable, less deferred refunding cost	-	-	2,355,000	5,940,000	6,982,553	460,000	15,737,553
Deferred income	-	25,015,913	97,403	-	-	-	25,113,316
Deferred commitment fees	-	-	-	338,597	-	-	338,597
Deferred gain on sale of units and land	-	1,642,801	-	-	-	-	1,642,801
Estimated future costs of land sold	-	32,759,434	-	-	-	-	32,759,434
Total current liabilities	<u>16,335</u>	<u>67,410,036</u>	<u>6,725,933</u>	<u>11,831,961</u>	<u>7,867,488</u>	<u>4,958,082</u>	<u>98,809,835</u>
Deferred Commitment Fees, net of current portion	-	-	-	901,013	-	-	901,013
Arbitrage Rebate Payable	-	-	-	2,757,205	-	-	2,757,205
Notes Payable, net of current portion	-	248,564	-	-	-	-	248,564
Mortgage Payable, net of current portion	-	-	-	-	-	5,548,567	5,548,567
Revenue Bonds Payable, less deferred refunding cost, net of current portion	-	-	96,146,749	192,540,940	82,324,863	13,360,000	384,372,552
Commitments and Contingencies							
Net Assets:							
Invested in capital assets, net of related debt	-	27,454,847	(22,721,796)	2,148	-	(945,878)	3,789,321
Restricted by legislation and contractual agreements	-	-	31,622,788	244,471,643	31,911,572	590,430	308,596,433
Unrestricted	150,078,745	100,249,206	(1,492,703)	(197,167,541)	(29,132,774)	42,123,301	64,658,234
Total net assets	<u>150,078,745</u>	<u>127,704,053</u>	<u>7,408,289</u>	<u>47,306,250</u>	<u>2,778,798</u>	<u>41,767,853</u>	<u>377,043,988</u>
Total liabilities and net assets	<u>\$ 150,095,080</u>	<u>\$ 195,362,653</u>	<u>\$ 110,280,971</u>	<u>\$ 255,337,369</u>	<u>\$ 92,971,149</u>	<u>\$ 65,634,502</u>	<u>\$ 869,681,724</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year Ended June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues:							
Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease	\$ 1,060,354	\$ 1,730,765	\$ -	\$ 8,538,202	\$ 1,291,058	\$ 838,331	\$ 13,458,710
Net increase in fair value of mortgage-backed securities	-	-	-	2,400,063	-	-	2,400,063
Conveyance tax	19,204,010	-	-	-	-	-	19,204,010
Sales of land	-	518,000	-	-	-	-	518,000
Sales of unit	-	380,000	-	-	-	-	380,000
Rental	-	1,267,920	14,101,764	-	-	362,341	15,732,025
Other	1,012	995,870	700,420	237	177,351	1,553,816	3,428,706
Total operating revenues	20,265,376	4,892,555	14,802,184	10,938,502	1,468,409	2,754,488	55,121,514
Operating Expenses:							
Cost of land and units sold	-	172,365	-	-	-	-	172,365
Project	-	1,525,226	6,779,378	-	-	-	8,304,604
Personnel services	111,718	2,761,400	400,067	403,481	92,714	1,132,077	4,901,457
Depreciation	-	108,525	4,676,729	804	-	153,415	4,939,473
Housing assistance payments	-	-	-	-	-	1,369,618	1,369,618
Administration	25,898	1,001,003	30,730	214,379	15,936	477,613	1,765,559
Provision for losses	-	44,577	106,004	-	-	125,858	276,439
Loan servicing fees	-	-	-	26,603	-	-	26,603
Professional services	20,814	170,265	6,089	49,083	17,709	139,796	403,756
Transitional and emergency housing grant	2,356,000	-	-	-	-	-	2,356,000
Insurance	-	-	-	10,767	-	-	10,767
Repairs and maintenance	1,119	452,627	1,864	15,672	1,865	27,313	500,460
Utilities	-	-	-	5,436	-	62,940	68,376
Capital expenditures	113	30,609	123,498	4,567	180	783	159,750
Interest expense	-	-	-	10,432,063	2,949,817	-	13,381,880
Other	-	16,560	175,325	-	215,345	33,910	441,140
Total operating expenses	2,515,662	6,283,157	12,299,684	11,162,855	3,293,566	3,523,323	39,078,247
Operating income (loss) carried forward	\$ 17,749,714	\$ (1,390,602)	\$ 2,502,500	\$ (224,353)	\$ (1,825,157)	\$ (768,835)	\$ 16,043,267

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Fund Net Assets (continued)

Year Ended June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating income (loss) brought forward	\$ 17,749,714	\$ (1,390,602)	\$ 2,502,500	\$ (224,353)	\$ (1,825,157)	\$ (768,835)	\$ 16,043,267
Nonoperating Revenues (Expenses):							
Interest income - cash and investments	411,251	915,340	1,026,770	6,530,606	1,307,947	849,731	11,041,645
Net increase in fair value of investments	-	-	-	-	2,709,418	161,507	2,870,925
Contribution from State	15,000,000	25,000,000	-	-	-	-	40,000,000
Interest expense	-	(3,520)	(4,190,199)	-	-	(907,655)	(5,101,374)
Trustee fees	-	-	(7,056)	(70,770)	(11,110)	-	(88,936)
Amortization of deferred bond issuance costs	-	-	(122,067)	(100,378)	-	(18,002)	(240,447)
Insurance expense	-	-	(125,163)	-	-	-	(125,163)
Arbitrage rebate	-	-	-	(124,101)	-	-	(124,101)
Other (expenses) revenues	-	-	(35,600)	-	-	38,083	2,483
Net nonoperating revenues (expenses)	15,411,251	25,911,820	(3,453,315)	6,235,357	4,006,255	123,664	48,235,032
Income (loss) before transfers	33,160,965	24,521,218	(950,815)	6,011,004	2,181,098	(645,171)	64,278,299
Net Operating Transfers	-	-	-	-	-	(1,563)	(1,563)
Change in net assets	33,160,965	24,521,218	(950,815)	6,011,004	2,181,098	(646,734)	64,276,736
Fund Net Assets, July 1, 2007	116,917,780	103,182,835	8,359,104	41,295,246	597,700	42,414,587	312,767,252
Fund Net Assets, June 30, 2008	\$ 150,078,745	\$ 127,704,053	\$ 7,408,289	\$ 47,306,250	\$ 2,778,798	\$ 41,767,853	\$ 377,043,988

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities:							
Cash received from renters	\$ -	\$ 1,313,692	\$ 14,239,056	\$ -	\$ -	\$ 403,670	\$ 15,956,418
Cash received from borrowers:							
Principal repayments	382,863	17,804	-	1,443,461	734,519	332,266	2,910,913
Interest income	595,936	1,053,217	-	8,013,459	1,291,058	182,410	11,136,080
Cash received from net investment in financing lease	-	-	-	-	-	1,238,740	1,238,740
Cash received from sale of land	-	744,526	-	-	-	-	744,526
Cash received from conveyance taxes	19,204,010	-	-	-	-	-	19,204,010
Cash received for payments on mortgage-backed securities	-	-	-	17,674,276	-	-	17,674,276
Cash to borrower	-	-	-	-	(53,420,000)	-	(53,420,000)
Cash payments for grants	(2,356,000)	-	-	-	-	-	(2,356,000)
Cash payments for acquisition of mortgage-backed securities	-	-	-	(7,624,745)	-	-	(7,624,745)
Cash payments for issuance of loans receivable	(5,807,509)	(9,927,412)	-	-	-	-	(15,734,921)
Cash payments for interest	-	-	-	(10,558,721)	(2,807,797)	-	(13,366,518)
Cash payments to employees	(62,149)	(2,761,400)	(321,470)	(363,698)	(92,714)	(1,126,177)	(4,727,608)
Cash payments to suppliers	(92,710)	(2,684,975)	(7,504,778)	(366,922)	(251,553)	(2,299,337)	(13,200,275)
Cash (payments to) receipts from other funds	(1,425)	(226,664)	(90,889)	(26,958)	(58,611)	415,493	10,946
Other cash receipts (payments)	1,012	3,294,902	525,245	(10,570)	176,421	1,617,809	5,604,819
Net cash provided by (used in) operating activities	<u>11,864,028</u>	<u>(9,176,310)</u>	<u>6,847,164</u>	<u>8,179,582</u>	<u>(54,428,677)</u>	<u>764,874</u>	<u>(35,949,339)</u>
Cash Flows from Noncapital Financing Activities:							
Principal paid on revenue bond maturities and redemptions	-	-	-	(14,355,000)	-	-	(14,355,000)
Arbitrage rebate paid	-	-	-	(699,805)	-	-	(699,805)
Interest paid to the Department of Budget and Finance	-	-	-	-	-	(1,137)	(1,137)
Cash received from borrower	-	-	-	-	-	3,073,648	3,073,648
Operating transfers out	-	-	-	-	-	(1,563)	(1,563)
Net cash (used in) provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(15,054,805)</u>	<u>-</u>	<u>3,070,948</u>	<u>(11,983,857)</u>
Cash Flows from Capital and Related Financing Activities:							
Principal paid on revenue bond maturities and redemptions	-	-	(2,310,000)	-	(1,124,519)	(435,000)	(3,869,519)
Other financing source - new bond issuance	-	-	-	-	53,420,000	-	53,420,000
Issuance of notes receivable	-	(4,054,552)	-	-	-	-	(4,054,552)
Principal paid on mortgage loans	-	-	-	-	-	(35,170)	(35,170)
Interest paid on revenue bonds	-	-	(4,209,575)	-	-	(911,818)	(5,121,393)
Principal payments on notes payable	-	(43,067)	-	-	-	-	(43,067)
Payments of interest	-	(3,520)	-	-	-	-	(3,520)
Payments for acquisition of property and equipment	-	(57,623,658)	(2,122,912)	-	-	-	(59,746,570)
Proceeds from sale of property and equipment	-	36,678,210	-	-	-	-	36,678,210
Contributions from State	15,000,000	25,000,000	-	-	-	-	40,000,000
Net cash provided by (used in) capital and related financing activities	<u>15,000,000</u>	<u>(46,587)</u>	<u>(8,642,487)</u>	<u>-</u>	<u>52,295,481</u>	<u>(1,381,988)</u>	<u>57,224,419</u>
Subtotal carried forward	<u>\$ 26,864,028</u>	<u>\$ (9,222,897)</u>	<u>\$ (1,795,323)</u>	<u>\$ (6,875,223)</u>	<u>\$ (2,133,196)</u>	<u>\$ 2,453,834</u>	<u>\$ 9,291,223</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

Statement of Cash Flows (continued)

Year Ended June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Subtotal brought forward	\$ 26,864,028	\$ (9,222,897)	\$ (1,795,323)	\$ (6,875,223)	\$ (2,133,196)	\$ 2,453,834	\$ 9,291,223
Cash Flows from Investing Activities:							
Purchases of investments	-	-	-	(35,442,611)	(29,470,687)	-	(64,913,298)
Proceeds from maturities of investments	-	-	-	35,172,885	30,371,251	2,258	65,546,394
Receipts of interest	463,089	566,202	1,108,301	3,675,071	1,229,983	849,638	7,892,284
Net decrease in restricted deposits and funded reserves	-	-	-	-	-	(14,401)	(14,401)
Net cash provided by investing activities	463,089	566,202	1,108,301	3,405,345	2,130,547	837,495	8,510,979
Net increase (decrease) in cash and cash equivalents	27,327,117	(8,656,695)	(687,022)	(3,469,878)	(2,649)	3,291,329	17,802,202
Cash and Cash Equivalents, July 1, 2007	61,224,090	88,020,961	34,227,018	6,660,648	12,721	28,438,750	218,584,188
Cash and Cash Equivalents, June 30, 2008	\$ 88,551,207	\$ 79,364,266	\$ 33,539,996	\$ 3,190,770	\$ 10,072	\$ 31,730,079	\$ 236,386,390

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

Statement of Cash Flows (continued)

Year Ended June 30, 2008

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities:							
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:							
Operating income (loss)	\$ 17,749,714	\$ (1,390,602)	\$ 2,502,500	\$ (224,353)	\$ (1,825,157)	\$ (768,835)	\$ 16,043,267
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Net increase in fair value of mortgage-backed securities	-	-	-	(2,400,063)	-	-	(2,400,063)
Depreciation	-	108,525	4,676,729	804	-	153,415	4,939,473
Provision for losses	-	44,577	106,004	-	-	-	150,581
Changes in assets and liabilities:							
Mortgage loans receivable	(5,424,646)	(9,909,608)	-	1,443,461	(52,685,481)	222,393	(66,353,881)
Notes and loans receivable	-	-	-	-	-	-	-
Accrued interest receivable on mortgages, notes and loans	(464,418)	9,876	-	-	-	35,676	(418,866)
Tenant receivables	-	(2,373)	(18,845)	-	-	9,458	(11,760)
Other receivables	-	99,032	150	-	(930)	64,018	162,270
Due from other funds	(35)	(189,820)	-	95,232	(57,623)	(263,857)	(416,103)
Due from State of Hawaii	-	1,512,576	-	-	-	-	1,512,576
Inventories	-	(3,355,142)	-	-	-	-	(3,355,142)
Prepaid expenses and other assets	-	-	(61,477)	1,271	-	7,116	(53,090)
Net investment in lease financing	-	-	-	-	-	547,118	547,118
Investments in mortgage-backed securities	-	-	-	10,049,531	-	-	10,049,531
Accounts payable	-	108,959	(501,742)	(62,415)	-	7,159	(448,039)
Accrued interest payable	-	-	-	(328,252)	-	-	(328,252)
Accrued lease rent payable	-	696,800	-	-	-	-	696,800
Other accrued expenses	4,803	354,061	78,597	50,509	141,502	(76,675)	552,797
Due to other funds	(1,390)	(36,844)	(90,889)	(122,190)	(988)	686,144	433,843
Security deposits	-	44,349	91,443	-	-	141,744	277,536
Deferred income	-	3,796	64,694	-	-	-	68,490
Deferred refunding costs	-	-	-	200,790	-	-	200,790
Deferred commitment fees	-	-	-	(524,743)	-	-	(524,743)
Deferred gain on sale of units and land	-	(153,474)	-	-	-	-	(153,474)
Estimated future costs of land sold	-	2,879,002	-	-	-	-	2,879,002
Net cash provided by (used in) operating activities	<u>\$ 11,864,028</u>	<u>\$ (9,176,310)</u>	<u>\$ 6,847,164</u>	<u>\$ 8,179,582</u>	<u>\$ (54,428,677)</u>	<u>\$ 764,874</u>	<u>\$ (35,949,339)</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2008

	<u>Assets</u>	<u>Private Purpose Trust</u>
Cash		\$ 203,484
Total assets		<u>\$ 203,484</u>
 <u>Liabilities and Net Assets</u> 		
Liabilities		<u>\$ 185,608</u>
Total liabilities		185,608
Net Assets --		
Held in trust		<u>17,876</u>
Total liabilities and net assets		<u>\$ 203,484</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

1. Organization and Significant Accounting Policies

a. General

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

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

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

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

The financial statements of the Corporation are intended to present the financial position, changes in financial position, and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

1. Organization and Significant Accounting Policies (continued)

a. General (continued)

State of Hawaii as of June 30, 2008, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation's financial activities.

b. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues. The Corporation does employ an indirect cost allocation system.

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

1. Organization and Significant Accounting Policies (continued)

b. Government-Wide and Fund Financial Statements (continued)

financial statements. Since by definition their assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities as obligations of the government, their funds are not incorporated into the government-wide statements.

c. Measurement Focus and Basis of Accounting

i. Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Interest expense of approximately \$18,482,000 was included as direct function expenses during the year ended June 30, 2008.

ii. Governmental Fund Financial Statements

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

ii. Governmental Fund Financial Statements (continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation, which is recorded as an expenditure when utilized or paid. The amount of unmatured long-term indebtedness related to accumulated vacation at June 30, 2008 has been reported in the government-wide financial statements.

iii. Proprietary Funds and Fiduciary Fund

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

Each proprietary fund has the option under Governmental Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Corporation has elected to not apply FASB statements after the applicable date.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Corporation's enterprise funds are interest income, rental income, land sales and conveyance tax revenues. Interest income from investments are reported as nonoperating income.

d. Fund Accounting

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

GASB Statement 34 sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

i. Governmental Funds

General Fund – The General Fund is the general operating fund of the Corporation. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Federal Grant Program Fund – The Federal Grant Program Fund is used to account for all financial activities that are funded by federal grants. Substantially all of the fund's activity relates to providing affordable housing to residents of the State of Hawaii.

ii. Proprietary Funds

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

ii. Proprietary Funds (continued)

The other funds include the Fee Simple Residential Revolving Fund, Rental Assistance Revolving Fund, Housing Finance Revolving Fund, Kekuilani Gardens Project, Disbursing Fund, Pineapple Workers and Retirees Housing Assistance Fund, Grant-in-aid Fund, Hamakua and Waialua.

The Corporation reports the following as major proprietary funds:

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

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

Hawaii Rental Housing System Revenue Bond Fund accounts for special funds to account for housing projects or systems of housing projects financed from the proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State of Hawaii.

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

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

iii. Fiduciary Fund

The private-purpose trust fund accounts for net assets held in a trustee capacity for others.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

1. Organization and Significant Accounting Policies (continued)

e. Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and proprietary funds financial statements. Capital assets are defined by the Corporation as land and those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

Land improvements	\$ 100,000
Building and building improvements	\$ 100,000
Equipment	\$ 5,000

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

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

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

	<u>Governmental Activities</u>	<u>Proprietary Fund and Business-Type Activities</u>
Building and building improvements	25 years	10 – 40 years
Equipment	7 years	1 – 10 years

f. Deferred Revenues

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

1. Organization and Significant Accounting Policies (continued)

g. Cash and Cash Equivalents

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

h. Investments

Investments in U.S. government securities, certificates of deposit and money market funds with maturities of one year or less when purchased are stated at cost. Non-participating investment contracts, generally repurchase agreements, are reported at cost. All other investments are reported at fair market value.

i. Inventories

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

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

1. Organization and Significant Accounting Policies (continued)

j. Interfund Receivables and Payables

During the course of operations, transactions occur between funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as “due to and from other funds.” Interfund receivables and payables between funds (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within business-type activities are eliminated in the accompanying statement of net assets. See Note 18 for details of interfund transactions, including receivables and payables at year end.

k. Amortization

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

l. Vacation

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 wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$145,000. The change in accumulated unpaid vacation during the year is approximately as follows:

<u>Balance at</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>June 30, 2008</u>
\$ 502,976	\$ 277,183	\$ 187,131	\$ 593,028

m. 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 benefits provided to the funds.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

1. Organization and Significant Accounting Policies (continued)

n. Post Retirement Health Care and Life Insurance Benefits

As of June 30, 2008, the Corporation adopted GASB Statement No. 45, “*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*”. This statement establishes standards of accounting and financial reporting for other postemployment benefit (OPEB) expenses, liabilities or assets.

o. Reservations of Fund Balances

General fund balances are reserved for continuing appropriations, which are comprised of encumbrances. Encumbrances represent outstanding commitments, which generally are liquidated in the subsequent fiscal year.

p. 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.

q. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. 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 financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

2. 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 accompanying Required

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

2. Budgeting and Budgetary Control (continued)

Supplementary Information – Budgetary Comparison Schedule are estimates as compiled by the Corporation and reviewed by the 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 Hawaii Revised Statutes and other specific appropriation acts in various Session Laws of Hawaii.

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 has a legally appropriated annual budget. The final legally adopted budget in the accompanying Required Supplementary Information – Budgetary Comparison Schedule represents the original appropriations, transfers and other legally authorized legislative and executive changes.

To the extent not expended or encumbered, General Fund 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 accompanying Required Supplementary Information – Budgetary Comparison Schedule.

A comparison of both the original budget and the final budget to the actual revenues and expenditures of the general and certain special revenue funds are presented in the accompanying Required Supplementary Information – Budgetary Comparison Schedule. Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with U.S. 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 U.S. 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 U.S. GAAP for the General Fund for the year ended June 30, 2008 is set forth in the Required Supplementary Information.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

3. Deposits

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. Cash is pooled with funds from other State agencies and departments and deposited with approved financial institutions or invested in the State Treasury Investment Pool. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account.

At June 30, 2008, a portion of the State Treasury Investment Pool was invested in auction rate securities. Due to ongoing issues in the credit market of the United States, particularly related to auction rate securities, the State Treasury Investment Pool recorded a decrease in fair value related to its investments in auction rate securities. The change in fair value amounts to approximately \$5.9 million, which is recorded against interest income in the accompanying financial statements.

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.

At June 30, 2008, total cash reported in the Statement of Net Assets consisted of the following:

State pool and petty cash	\$ 198,986,515
Cash in bank (book balance)	<u>2,576,245</u>
	201,562,760
Cash and cash equivalents held by Trustee	34,823,630
Deposits held in trust	<u>5,717</u>
Total Cash	<u>\$ 236,392,107</u>

The bank balance of cash in bank was approximately \$2,625,000, of which \$200,000 was covered by federal depository insurance and \$2,425,000 was covered by collateral held by the pledging financial institution's trust department or agent in the Corporation's name.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

4. Investments

Investments at June 30, 2008 are summarized by maturity (in years) as follows:

	0 - 1	1 - 5	5 - 10	10 - 20	>20	Fair Value
Government sponsored enterprises	\$ -	\$ -	\$ 5,485,171	\$ 1,055,458	\$ -	\$ 6,540,629
Mortgage-backed securities	4,695,097	11,834,675	59,589,459	60,378,949	-	136,498,180
Repurchase agreements	-	-	-	-	108,287,731	108,287,731
Other fixed income	1,398,207	26,901,817	-	-	-	28,300,024
Guarantee investment contracts	-	-	-	-	103,494	103,494
Total investments	\$ 6,093,304	\$ 38,736,492	\$ 65,074,630	\$ 61,434,407	\$ 108,391,225	\$ 279,730,058

Investments summarized in the table above are reflected on the accompanying statement of net assets as follows:

Investments held by trustees under revenue bond programs	\$ 273,182,373
Investments – non current	<u>6,547,685</u>
Total investments	<u>\$ 279,730,058</u>

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

Credit Risk – the Revenue Bond Funds’ trust indentures authorize the trustees to invest in certificates of deposit, money market funds, U.S. government or agency obligations, and repurchase agreements. The Corporation has no investment policy that would further limit its investment decisions. As of June 30, 2008, all investments are rated AA to AAA by Moody’s, Fitch and Standard & Poors.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

4. Investments (continued)

Concentration of Credit Risk – the Corporation places no limit on the amount the Corporation may invest in any one issuer. More than 5 percent of the Corporation’s investments are in the Federal National Mortgage Association, the Societe Generale, the First American Government Obligation Fund, and the U.S. Treasury. These investments are 42 percent, 30 percent, 10 percent, and 9 percent, respectively, of the Corporation’s total investments.

Custodial Risk - for an investment, custodial risk is the risk that, in the event of the failure of the counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation’s investments that are uninsured and unregistered are held by the Corporation’s trust agent in the Corporation’s name. The repurchase agreements are collateralized with securities held by the pledging financial institution’s collateral agent but not in the Corporation’s name. The underlying securities for repurchase agreements are required to be U. S. government or agency obligations of an equal or greater market value. The Corporation monitors the market value of these securities and obtains additional collateral when appropriate.

5. Mortgage Loans and Notes and Loans Receivable

Mortgage loans and other notes and loans receivable at June 30, 2008 are comprised of the following:

	Mortgage Loans	Notes and Loans
	<hr/>	<hr/>
Mortgage loans bearing interest at 0.0% to 13.5%, maturing at various dates through 2059	\$ 129,631,221	\$ –
Promissory notes bearing interest at 4.72%, maturing in 2065	–	29,054,552
Promissory notes bearing interest at 5% to 6%, maturing in 2009	–	11,863,626
	<hr/>	<hr/>
	129,631,221	40,918,178
Less current maturities	7,739,317	–
	<hr/>	<hr/>
	<u>\$ 121,891,904</u>	<u>\$ 40,918,178</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

5. Mortgage Loans and Notes and Loans Receivable (continued)

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.

The promissory notes are collateralized by a second mortgage on the improvements of Kukui Gardens (see Note 14).

6. Net Investment in Financing Lease

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, 2008:

Total minimum lease payments to be received	\$ 22,048,055
Less unearned interest income	<u>(7,015,765)</u>
Net investment in direct financing lease	15,032,290
Less current portion	<u>(570,486)</u>
	<u><u>\$ 14,461,804</u></u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

6. Net Investment in Financing Lease (continued)

The future approximate minimum lease payments to be received through 2013 and in five-year increments thereafter are as follows:

Year ending June 30,	
2009	\$ 1,232,000
2010	1,235,000
2011	1,232,000
2012	1,232,000
2013	1,230,000
2014 – 2018	6,136,000
2019 – 2023	6,107,000
2024 – 2026	3,644,055
	<u>\$ 22,048,055</u>

7. 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, 2008, the following debt service reserves and mortgage loan reserves required by the indentures were included in assets held by trustees under Revenue Bond Programs in the Single Family Mortgage Purchase Revenue Bond Fund.

Debt service reserve requirements	\$ 20,015,000
Mortgage loan reserve requirements	<u>1,430,000</u>
	<u>\$ 21,445,000</u>

At June 30, 2008, approximately \$39.6 million and \$7.9 million of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

7. Revenue Bond Funds – Reserve Requirements (continued)

Under the trust indenture agreement between the Corporation and the trustee for the Hawaii Rental Housing System Revenue Bond Fund, the Corporation is required to provide net revenues (as defined in the trust indenture agreement) together with lawfully available funds of at least 1.25 times the aggregate debt service on outstanding bonds during the bond year. Additionally, the Corporation is to provide net revenues (as defined in the trust indenture agreement) of at least 1.10 times the aggregate debt service on outstanding bonds during the bond year. At June 30, 2008, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 5.22 times the aggregate debt service on outstanding bonds during the year, respectively, and net revenues (as defined in the trust indenture agreement) of 1.23 times the aggregate debt service on outstanding bonds during the year, respectively.

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, 2008.

8. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated-- Equipment	\$ 175,834	\$ 272,430	\$ -	\$ 448,264
Less accumulated depreciation for-- Equipment	15,223	43,844	-	59,067
Governmental-type activities capital assets, net	<u>\$ 160,611</u>	<u>\$ 228,586</u>	<u>\$ -</u>	<u>\$ 389,197</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

8. Capital Assets (continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 20,273,924	\$ 23,260,576	\$ (80,555)	\$ 43,453,945
Construction in progress	836,500	-	(836,500)	-
Total capital assets not being depreciated	<u>21,110,424</u>	<u>23,260,576</u>	<u>(917,055)</u>	<u>43,453,945</u>
Capital assets being depreciated:				
Building and improvements	142,406,688	39,637,622	(36,810,586)	145,233,724
Equipment	1,792,612	-	-	1,792,612
Total capital assets being depreciated	<u>144,199,300</u>	<u>39,637,622</u>	<u>(36,810,586)</u>	<u>147,026,336</u>
Less accumulated depreciation for:				
Building and improvements	76,431,938	4,919,952	(40,566)	81,311,324
Equipment	1,741,118	19,521	-	1,760,639
Total accumulated depreciation	<u>78,173,056</u>	<u>4,939,473</u>	<u>(40,566)</u>	<u>83,071,963</u>
Business-type activities capital assets, net	<u>\$ 87,136,668</u>	<u>\$ 57,958,725</u>	<u>\$ (37,687,075)</u>	<u>\$ 107,408,318</u>

Current year depreciation expense was charged to function as follows:

Governmental activities--	
Low income housing service and assistance	\$ 43,844
Business-type activities:	
Housing development program	\$ 261,940
Single-family mortgage loan program	804
Rental housing programs	4,676,729
Total depreciation expense – business-type activities	<u>\$ 4,939,473</u>

At June 30, 2008, capital assets for the proprietary funds consisted of the following:

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Total
Land	\$ 16,186,850	\$ 26,194,595	\$ 1,072,500	\$ 43,453,945
Buildings and improvements	132,871,212	7,101,287	5,261,225	145,233,724
Equipment	1,507,952	204,257	80,403	1,792,612
	<u>150,566,014</u>	<u>33,500,139</u>	<u>6,414,128</u>	<u>190,480,281</u>
Less accumulated depreciation	75,514,295	5,783,253	1,774,415	83,071,963
Net capital assets	<u>\$ 75,051,719</u>	<u>\$ 27,716,886</u>	<u>\$ 4,639,713</u>	<u>\$ 107,408,318</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

9. Mortgage and Notes Payable

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 (USDA) Farmers Home Administration, now known as the USDA – Rural Development (RD). The mortgage loan bears interest at 7.25 percent and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$11,059 and matures on December 1, 2046. At June 30, 2008, the balance outstanding on the mortgage loan was \$5,024,327.

Kekuilani also entered into an interest credit and rental assistance agreement in December 1996 with the USDA – RD, which reduces Kekuilani’s principal and interest payments. During the period, Kekuilani realized approximately \$256,000 of interest credit reducing the interest expense from approximately \$367,000 to \$111,000.

In addition, Kekuilani entered into a mortgage agreement in December 1996 in the amount of \$696,267 with the Rental Housing Trust Fund. The mortgage loan bears interest at 1 percent and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$1,475 and matures on January 1, 2047. At June 30, 2008, the balance outstanding on the mortgage loan was \$561,264.

The Dwelling Unit Revolving Fund also has three mortgage notes payable to the USDA – RD. 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, including interest at 1 percent, due in October 2027. The notes are secured by property and rental receipts. At June 30, 2008, the balance outstanding on the mortgage note was \$262,039.

Notes payable activity during the year was as follows:

	Balance at July 1, 2007	Addition	Reductions	Balance at June 30, 2008	Less Current Portion	Long- Term Portion
Mortgage payable	\$ 5,620,761	\$ -	\$ 35,170	\$ 5,585,591	\$ 37,024	\$ 5,548,567
Notes payable	305,106	-	43,067	262,039	13,475	248,564
Total	<u>\$ 5,925,867</u>	<u>\$ -</u>	<u>\$ 78,237</u>	<u>\$ 5,847,630</u>	<u>\$ 50,499</u>	<u>\$ 5,797,131</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

9. Mortgage and Notes Payable (continued)

The approximate debt service requirement of notes payable through 2013 and in five-year increments thereafter to maturity are as follows:

Year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 50,000	\$ 116,000	\$ 166,000
2010	52,000	113,000	165,000
2011	54,000	111,000	165,000
2012	58,000	114,000	172,000
2013	60,000	111,000	171,000
2014-2018	345,000	517,000	862,000
2019-2023	442,000	432,000	874,000
2024-2028	552,000	313,000	865,000
2029-2033	693,000	148,000	841,000
2034-2038	965,000	12,000	977,000
2039-2043	1,355,000	6,000	1,361,000
2044-2047	1,221,630	2,000	1,223,630
	<u>\$ 5,847,630</u>	<u>\$ 1,995,000</u>	<u>\$ 7,842,630</u>

10. Revenue Bonds Payable

Through June 30, 2008, approximately \$2,183,318,000 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.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

10. Revenue Bonds Payable (continued)

Revenue bonds payable at June 30, 2008 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds:

1997 Series A:	
Term bonds maturing annually through 2031 (5.00% to 5.75%)	<u>\$ 9,580,000</u>
1997 Series B:	
Serial bonds maturing annually through 2009 (4.90% to 5.00%)	5,160,000
Term bonds maturing in 2010 through 2018 (5.45%)	<u>29,405,000</u>
	<u>34,565,000</u>
1998 Series A:	
Serial bonds maturing annually through 2014 (4.85% to 5.25%)	7,755,000
Term bonds maturing annually through 2031 (5.35% to 5.40%)	<u>30,785,000</u>
	<u>38,540,000</u>
1998 Series B:	
Term bonds maturing in 2019 through 2029 (5.30%)	<u>11,085,000</u>
1998 Series C:	
Term bonds maturing in 2019 through 2021 (5.35%)	<u>4,060,000</u>
2000 Series A:	
Term bonds maturing in 2021 through 2028 (6.275%)	<u>25,000,000</u>
2002 Series A:	
Serial bonds maturing annually through 2014 (4.05% to 4.80%)	3,080,000
Term bonds maturing in 2010 through 2034 (4.40% to 5.38%)	18,575,000
Placed bonds maturing in 2023 through 2034 (5.38%)	<u>3,525,000</u>
	<u>25,180,000</u>
2002 Series B:	
Term bonds maturing in 2026 through 2028 (5.25%)	<u>1,810,000</u>
2005 Series A:	
Term bonds maturing in 2027 through 2037 (5.00%)	<u>6,655,000</u>
Single Family Mortgage Purchase revenue bonds subtotal carried forward	<u>\$ 156,475,000</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

10. Revenue Bonds Payable (continued)

Single Family Mortgage Purchase revenue bonds subtotal brought forward	<u>\$ 156,475,000</u>
2005 Series B:	
Serial bonds maturing annually through 2016 (3.10% to 3.90%)	10,490,000
Term bonds maturing in 2012 through 2027 (3.70% to 4.30%)	<u>33,180,000</u>
	<u>43,670,000</u>
Total Single Family Mortgage Purchase revenue bonds	<u>\$ 200,145,000</u>
Hawaii Rental Housing System revenue bonds:	
2004 Series A:	
Serial bonds maturing in 2009 through 2013 (2.60% to 3.70%)	\$ 10,670,000
Term bonds maturing in 2014 through 2034 (3.80% to 4.75%)	<u>67,455,000</u>
	<u>78,125,000</u>
2004 Series B-	
Auction rate securities maturing July 1, 2033 (3.06%)	<u>21,425,000</u>
Total Hawaii Rental Housing System revenue bonds	<u>\$ 99,550,000</u>
Multifamily Housing revenue bonds:	
1999 Series (Manana Gardens Project) – term bond maturing annually through 2035 (6.30%)	\$ 3,480,000
2000 Series (Sunset Villas Project) – term bonds maturing annually through 2036 (5% to 5.75%)	25,340,000
2002 Series (Hale Hoaloha Project) – mortgage installment bonds maturing annually through 2028 (6.75% until 2012 and 7.75% thereafter)	1,598,061
2005 Series (Kauhale Olu Project):	
Mortgage Installment bonds maturing in 2036 (6.375%)	5,469,355
2007 Series (Kukui Gardens Project):	
Mortgage Installment bonds maturing annually through 2042 (2.45%)	45,000,000
2008 Series (Kahului Town Terrace Project):	
Mortgage Installment bonds maturing annually through 2043 (4.29%)	<u>8,420,000</u>
Total Multifamily Housing revenue bonds	<u>\$ 89,307,416</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

10. Revenue Bonds Payable (continued)

University of Hawaii Faculty Housing Program revenue bonds -- 1995 Series -- Term bonds maturing annually from 2008 through 2026 (5.65% and 5.70%)	<u>\$ 13,820,000</u>
Total Revenue Bonds:	
Revenue Bonds	402,822,416
Less deferred refunding costs (difference between reacquisition price and net carrying value of old debt)	<u>2,712,311</u>
Total revenue bonds	400,110,105
Less current portion	<u>15,737,553</u>
	<u>\$ 384,372,552</u>

Interest on the fixed-rate Single Family Mortgage Purchase, Hawaii Rental Housing System, Multifamily Housing, and University of Hawaii Faculty Housing Program revenue bonds is payable semi-annually. The Hawaii Rental Housing System 2004 Refunding Series B bonds are auction rate securities with interest rates reset weekly based on the results of a Dutch auction process. In the event the auction process fails due to insufficient demand for the securities, the interest rate on the bonds is reset to a multiple of an index defined in the Indenture, up to a maximum interest rate of 12 percent.

The Single Family Mortgage Purchase and Hawaii Rental Housing System revenue bonds with designated maturity dates, the Multifamily Housing revenue bonds and the University of Hawaii Faculty Housing Program revenue bonds may be redeemed at the option of the Corporation commencing in 2001 for the Single Family Mortgage Purchase 1991 Series, 2004 for the Single Family Mortgage Purchase 1994 Series, 2007 for the Single Family Mortgage Purchase 1997 Series, subject to a redemption premium which ranges from 2 percent to zero; 2008 for the Single Family Mortgage Purchase 1998 Series, subject to a redemption premium that ranges from 1.5 percent to zero; 2010 for the Single Family Mortgage Purchase 2000 Series, and 2014 for the Single Family Mortgage Purchase 2002 Series, 2005 for the Hawaii Rental Housing System 2004 Series, 2010 for the Multifamily Housing 1999 Series, 2011 for the 2000 Series, subject to a redemption premium which ranges from 2 percent to zero; and 2005 for the University of Hawaii Faculty Housing Program 1995 Series subject to redemption premiums that range 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).

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

10. Revenue Bonds Payable (continued)

During February 2008, the auction process for the Hawaii Rental Housing System 2004 Refunding Series B bonds began to fail. Due to ongoing issues in the credit markets of the United States, particularly related to auction rate securities, management expects the auctions for these bonds to continue to fail. Accordingly, management is planning to refinance the bonds into fixed or variable rate securities. Management intends to cover any increased debt service costs through rent increases and existing reserves, if necessary, as provided for in the Indenture.

During the year ended June 30, 2008, early redemptions totaled \$8,615,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2007	Additions	Reductions	Balance at June 30, 2008
Single Family Mortgage Purchase	\$ 214,500,000	\$ -	\$ 14,355,000	\$ 200,145,000
Hawaii Rental Housing System	101,860,000	-	2,310,000	99,550,000
Multifamily Housing	37,011,935	53,420,000	1,124,519	89,307,416
University of Hawaii Faculty Housing Program	14,255,000	-	435,000	13,820,000
	367,626,935	53,420,000	18,224,519	402,822,416
Less deferred refunding amount	2,985,042	-	272,731	2,712,311
Total	<u>\$ 364,641,893</u>	<u>\$ 53,420,000</u>	<u>\$ 17,951,788</u>	<u>\$ 400,110,105</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

10. Revenue Bonds Payable (continued)

The approximate annual debt service requirements through 2013 and in five-year increments thereafter to maturity for revenue bonds are as follows:

Year ending June 30:	Principal	Interest	Total
2009	\$ 15,738,000	\$ 19,396,000	\$ 35,134,000
2010	11,316,000	18,791,000	30,107,000
2011	10,475,000	18,325,000	28,800,000
2012	45,864,000	17,204,000	63,068,000
2013	12,415,000	15,725,000	28,140,000
2014 – 2018	63,503,000	69,304,000	132,807,000
2019 – 2023	69,826,000	52,729,000	122,555,000
2024 – 2028	87,234,000	31,960,000	119,194,000
2029 – 2033	60,821,000	12,395,000	73,216,000
2034 – 2038	20,905,000	2,595,000	23,500,000
2039 – 2043	4,725,416	629,700	5,355,116
	<u>\$ 402,822,416</u>	<u>\$ 259,053,700</u>	<u>\$ 661,876,116</u>

In order to ensure the exclusion of interest on the Corporation's Hawaii Rental Housing System 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, 2008, the Corporation determined that \$2,757,205 of rebates was due to the U. S. Treasury.

11. Conduit Debt Obligations

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

As of June 30, 2008, there were six series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of \$89,307,416 reported as Multifamily Housing Revenue bonds.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

12. Leases

a. Lessee

The Corporation leases land, buildings and improvements under various noncancellable operating leases expiring at various dates through 2056. Included in these leases is a noncancellable land lease that expires in 2031, with rent renegotiations scheduled for July 1, 2006, 2016 and 2026. In October 2008, the Corporation and the lessor agreed to new lease rent amounts that are effective retroactively to July 1, 2006. The new agreement calls for average annual lease rent payments of \$385,000 through the next rent negotiation period on July 1, 2016. In accordance with the lease agreement, for the period July 1, 2006 through October 2008, the Corporation continued to pay its previously effective rent of \$57,600 per year until the new rent was negotiated. Accordingly, as of June 30, 2008, the Corporation has accrued in the accompanying financial statements, approximately \$696,800 in back lease rent due to the lessor.

The minimum rental commitments under operating leases through 2013 and in five-year increments thereafter, with consideration of a minimum annual rent increase are as follows:

Year ending June 30,	
2009	\$ 769,000
2010	817,000
2011	830,000
2012	843,000
2013	857,000
2014 – 2018	4,680,000
2019 – 2023	5,054,000
2024 – 2028	5,314,000
2029 – 2033	4,899,000
2034 – 2038	3,857,000
2039 – 2043	4,367,000
2044 – 2048	4,629,000
2049 – 2053	5,240,000
2054 – 2056	3,144,000
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	\$ 45,300,000

Rent expense for the year ended June 30, 2008 totaled approximately \$1,183,000.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

12. Leases (continued)

b. Lessor

The Corporation leases land with a carrying value of approximately \$25,866,000 to various developers and home buyers. The leases expire at various dates through December 2072. Lease rental income for the year ended June 30, 2008 was approximately \$1,268,000.

As discussed in Note 14, the Corporation's lease related to Kukui Gardens was prepaid via a promissory note. The promissory note does not have fixed repayment terms. Accordingly, the minimum amounts to be received are excluded from the following table.

The future minimum lease rent from these operating leases at June 30, 2008 is as follows:

Year ending June 30:	
2009	\$ 355,000
2010	311,000
2011	310,000
2012	307,000
2013	307,000
2014 – 2018	1,652,000
2019 – 2023	1,529,000
2024 – 2027	1,137,000
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	\$ 5,908,000
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13. Commitments and Contingencies

a. Loan Guarantee

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, 2008, the outstanding balance of mortgage loans that have been sold to the ERS which are covered by the loan guarantee was approximately \$32,000. At June 30, 2008, notes and loans receivables did not include any delinquent loans purchased back from the ERS.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

13. Commitments and Contingencies (continued)

b. Construction Contracts

At June 30, 2008, the Dwelling Unit Revolving Fund had outstanding commitments to expend approximately \$19,200,000 for land development and the construction and renovation of housing projects.

The Fiduciary Fund had outstanding construction contract commitments of approximately \$203,000 at June 30, 2008.

c. Loan Commitments

At June 30, 2008, the Rental Housing Trust Fund had aggregate outstanding loan commitments in the amount of \$494,998.

d. Development Costs

The Kapolei development project primarily consists of eight residential villages and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2008, all but remnant residential parcels and 42 acres of business mixed-use land have been developed and sold. The estimated future cost of land sold is recorded as a liability on the accompanying statement of net assets and relates primarily to the completion of certain infrastructure improvements at this project. This liability represents amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands – the Leiali`i project located in the West Maui area and the Lai`o`pua project located in North Kona. As large portions of these projects are located on public trust (“ceded”) land owned by the State of Hawaii, and subject to lawsuits seeking to prevent the Corporation’s sale or transfer of this land, these projects have been delayed indefinitely. As of June 30, 2008, the Corporation has remaining development rights related to the second phase of the Leiali`i project and 57 acres of the Lai`o`pua project. Development costs related to the Leiali`i project were approximately \$19.5 million at June 30, 2008. Management believes that the future revenues from these projects will meet or exceed the aggregate of the development costs at June 30, 2008 and the remaining costs to be incurred. Also, the Corporation has other development costs and dwelling units of approximately \$2.6 million at June 30, 2008.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

13. Commitments and Contingencies (continued)

e. Torts

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

f. 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.

g. 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 Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave at June 30, 2008 amounted to approximately \$1,620,000.

h. Deferred Compensation Plan

In 1984, the State established a deferred compensation plan, which 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.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

13. Commitments and Contingencies (continued)

i. Litigation

In November 1994, the Office of Hawaiian Affairs (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 Hawaii Revised Statutes. 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 Hawaii Revised Statutes 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, 2008.

In the event that OHA is not granted the injunctive and declaratory relief it seeks, OHA requests for a timely re-appraisal 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.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

13. Commitments and Contingencies (continued)

i. Litigation (continued)

In response to the above claims, the State Department of 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 presently 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.

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 Hawaii Revised Statutes, for occupation by the State on certain ceded lands, as more fully described below.

In December, 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit Hawaiian's claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and Corporation's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court. Those appeals are now pending trial to determine the sufficiency of the proceeds paid to OHA by the Corporation and the State from the sale of ceded lands at issue has not been scheduled.

The ultimate outcome of appeal cannot presently be determined. 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 statement of net assets.

It has been alleged but without certainty 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 presently be determined. Accordingly, no provision for any liability, if any, that may result from the resolution of this matter has been made in the statement of net assets.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

13. Commitments and Contingencies (continued)

i. Litigation (continued)

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, which the United States acquired, by exchange for ceded lands after 1898 was conveyed by the United States to the State of Hawaii. 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, which are to be held by the State as a public trust under Section 5.

In 1979, the State legislature (the "Legislature") adopted HRS Chapter 10 ("Chapter 10"), which, as amended in 1980, specified, among other things, that OHA expend 20 percent of all funds derived by the State from the Ceded Lands for the betterment of Native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("Yamasaki"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public trust lands.

In 1990, in response to Yamasaki, the Legislature adopted Act 304, Session Laws of Hawaii 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20 percent of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991.

Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies paid 20 percent of "revenues" to OHA on a quarterly basis.

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 and 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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

13. Commitments and Contingencies (continued)

i. Litigation (continued)

June 16, 1980, and (c) the lands under Act 304, Session Laws of Hawaii 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 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, Session Laws of Hawaii, 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, which 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.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

13. Commitments and Contingencies (continued)

i. Litigation (continued)

On September 12, 2001 the Hawaii Supreme Court concluded by holding that Act 304 was effectively repealed by its own terms, and that there was no judicial management standard, by which to determine whether OHA was entitled to the revenues it sought because the repeal of Act 304 revived the law which the court in Yamasaki had previously concluded was insufficiently clear to establish how much OHA was entitled to receive. The Supreme Court dismissed this case for lack of justiciability. Immediately thereafter, agencies ceased paying OHA any receipts from the ceded lands.

The Legislature took no action during the 2002 and 2003 legislative sessions to establish a new mechanism for establishing how much OHA was to receive. On January 23, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring receipts from the ceded lands to OHA. During the 2003 legislative session, the Legislature appropriated moneys from the various funds into which the ceded lands receipts had been deposited and directed the agencies to pay them to OHA. During the 2004 legislative session, the Legislature did not appropriate any moneys from the various funds. OHA continues to pursue its claims for a portion of the revenues from the ceded lands.

OHA et al. v. HHA et al., Civil No. 95-2682-07 (First Circuit)

On July 27, 1995, OHA filed suit against the Hawaii Housing Authority 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 Authority for rental housing projects. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal.

The State's potential liability, if any, therefore, 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, if any, 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.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

13. Commitments and Contingencies (continued)

i. Litigation (continued)

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 statement of net assets of the Corporation.

14. Kukui Gardens

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

To assist in financing the acquisition and redevelopment of the Project, the State contributed \$25 million to DURF during December 2007. Additionally, the Multifamily Revenue Bond Fund issued \$45 million of revenue bonds to provide conduit financing to EAH for their acquisition of the Project's improvements and operating cash, as well as to provide capital for rental operations and the planned renovation of the apartment units. Accordingly, the Multifamily Revenue Bond Fund has both notes receivable and revenue bonds payable of \$45 million related to the Project on the accompanying statement of net assets as of June 30, 2008.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

14. Kukui Gardens (continued)

Additionally, EAH executed three promissory notes to DURF in an aggregate amount of \$29,055,000, including approximately \$4,055,000 related to cash advanced from DURF to EAH and \$25 million related to the terms of the land lease. Additionally, DURF recorded \$25 million of deferred income on the accompanying statement of net assets related to this transaction. The deferred income will be amortized to rental income on a straight-line basis and the notes receivable will be reduced as cash is collected. Deferred income at June 30, 2008 related to the Project was approximately \$24,776,000. Management believes that the \$224,000 of rental income recognized during 2008 related to the Project is realizable. The notes bear interest at 4.72% and are for a term of 58 years, with a final maturity date of December 17, 2065. Repayment of the notes is distributed into three periods as follows: (1) December 18, 2007 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

15. Retirement Plan

All eligible employees of the State and Counties are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (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 for ERS. That report may be obtained from them.

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.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

15. Retirement Plan (continued)

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 required is the entry age normal actuarial cost method. Under this method, the total employer contributions to the ERS is comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the closed period ending June 30, 2029.

The Corporation's contributions for the fiscal years 2008, 2007 and 2006 of approximately \$388,000, \$313,000 and \$1,896,000, respectively, were equal to the required contributions for each year.

16. Post Retirement Health Care and Life Insurance Benefits

The Corporation contributes to the Employers Union Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are as follows:

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

16. Post Retirement Health Care and Life Insurance Benefits (continued)

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

The Corporation contributed approximately \$238,000, \$152,000 and \$137,000, respectively for the fiscal years 2008, 2007 and 2006.

Annual OPEB Cost and Net OPEB Obligation

It is the State's policy that measurement of the actuarial valuation and the annual required contribution (ARC) are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Corporation. The state allocates the ARC to the various departments and agencies based upon a systematic methodology. The Corporation's contribution for the year ended June 30, 2008 was \$237,658, which represented 36% of the Corporation's share of the ARC for postretirement healthcare and life insurance benefits of \$661,152.

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2008:

Balance at June 30, 2007	\$	-
Additions		661,152
Deletions		<u>(237,658)</u>
Balance at June 30, 2008	\$	<u>423,494</u>

The State's CAFR includes the required footnote disclosure and required supplementary information on the State's post-retirement health care and life insurance benefit plans.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

17. Related Party Transactions

Amounts due from other State of Hawaii Departments include approximately \$475,000 of miscellaneous advances previously made to other departments and approximately \$20,369,000 of amounts due from the Department of Hawaiian Home Lands (DHHL) related to a previous agreement to transfer certain land and development rights to DHHL. Pursuant to this agreement, DHHL was required to commence 15 annual \$2.2 million payments to the Corporation in December 2004. Effective at that time, the Corporation recorded the sale of the land and development rights at the net present value of the estimated future cash flow from DHHL using an imputed interest rate of approximately 3.3 percent. As of June 30, 2008, amounts due from DHHL include approximately \$20,038,000 of principal, net of approximately \$3,861,000 of imputed interest, and approximately \$331,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately \$687,000 during the year ended June 30, 2008.

The Rental Assistance Revolving Fund provides rent subsidies to certain lessees of the Corporation's various projects. Total rent subsidies provided to lessees of the Corporation's various projects approximated \$957,000 during the year ended June 30, 2008. These amounts have been recorded by the Corporation as rental income in the Hawaii Rental Housing System Revenue Bond Fund. In addition, the Corporation relocated its offices to the Pohulani building in September 1992. During the year ended June 30, 2008, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately \$1,042,000, which was allocated as office rental expense to various funds of the Corporation. In addition, the State Department of Accounting and General Services (DAGS) incurred \$885,165 in rent to the Hawaii Rental Housing System Revenue Bond Fund for leased space in the Pohulani building. The term of the lease with DAGS is from September 1992 through August 2022. The minimum annual rental is determined by multiplying the previous year's minimum annual rent by one hundred three percent (103%).

18. Segment Information

In addition to the revenue bond funds reported as major proprietary funds, the Corporation has also issued a revenue bond through the University of Hawaii Faculty Housing Program Revenue Bond Fund to provide interim and permanent financing for the construction or rehabilitation of affordable housing projects. Investors in the revenue bond rely solely on the revenue generated by the individual activities for repayment.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2008

18. Segment Information (continued)

Condensed Statement of Net Assets, Activities and Cashflows (\$ in thousands)

Assets:	
Cash	\$ 474
Investment in financing lease	15,032
Receivables	28
Other assets	245
Total assets	<u>\$ 15,779</u>
Liabilities:	
Bonds payable	\$ 13,820
Other liabilities	218
Total liabilities	<u>14,038</u>
Net Assets -	
Unrestricted	<u>1,741</u>
Total liabilities and net assets	<u>\$ 15,779</u>
Revenues – Interest	\$ 692
Expenses – Operating expenses	<u>34</u>
Operating income	<u>658</u>
Nonoperating (Expenses) Income:	
Interest expense	(791)
Other	19
Total nonoperating expenses	<u>(772)</u>
Change in net assets	(114)
Net Assets at July 1, 2007	<u>1,855</u>
Net Assets at June 30, 2008	<u>\$ 1,741</u>
Net Cash Provided by (Used in):	
Operating activities	\$ 1,257
Capital and related financing activities	<u>(1,232)</u>
Net increase in cash and cash equivalents	25
Cash and Cash Equivalents at July 1, 2007	<u>449</u>
Cash and Cash Equivalents at June 30, 2008	<u>\$ 474</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2008

19. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2008 is as follows:

Due from	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Multifamily Housing Revenue Bond Fund	Nonmajor – Proprietary
Single Family	\$ -	\$ -	\$ -	\$ (232,141)
Hawaii Rental Housing System	-	-	-	(102,977)
Nonmajor – Proprietary	35	628,056	352,378	(310,233)
TOTAL	\$ 35	\$ 628,056	\$ 352,378	\$ (645,351)

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

20. Contribution from State

During the year ended June 30, 2008, the State contributed \$40 million to the Corporation. Of the \$40 million, \$15 million was for the purpose of assisting with the financing of various housing projects and \$25 million was to assist with the purchase of Kukui Gardens. The Corporation expended approximately \$2.4 million of to finance the development of the Kahikolu `Ohana O Wai`anae Project (Project), a transitional and emergency housing project.

21. Subsequent Events

On July 1, 2008, the Corporation redeemed \$5,075,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund.

Required Supplementary Information
Other Than Management's Discussion and Analysis

Hawaii Housing Finance and Development Corporation

Required Supplementary Information
 Budgetary Comparison Schedule - Major Governmental Fund
 Year Ended June 30, 2008

	General Fund		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues --			
State allotted appropriations	\$ 101,657	\$ 101,657	\$ 101,657
Expenditures:			
Low income housing services	961,043	961,043	961,043
Capital outlay	507,809	507,809	507,809
Personnel services	101,657	101,657	101,657
Excess of revenues over expenditures	<u>\$ (1,468,852)</u>	<u>\$ (1,468,852)</u>	(1,468,852)
Reconciliation to GAAP Fund Balance:			
Add: Reserve for encumbrances included in budgetary expenditures			181,729
Fund Balance, July 1, 2007			<u>1,468,852</u>
Fund Balance, June 30, 2008			<u>\$ 181,729</u>

See accompanying independent auditor's report.

Supplementary Information

Hawaii Housing Finance and Development Corporation

Combining Statement of Net Assets - Nonmajor Other Enterprise Funds
June 30, 2008

	University of Hawaii Faculty Housing Program	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
	Revenue Bond Fund										
Assets											
Current Assets:											
Cash	\$ 474,054	\$ 53,790	\$ 26,791,127	\$ 3,005,674	\$ 29,184	\$ 1,009,033	\$ 193,751	\$ 136,644	\$ -	\$ 36,822	\$ 31,730,079
Receivables:											
Mortgage loans	-	-	-	61,844	-	-	-	-	463	1,580	63,887
Accrued interest	2,446	291	757,286	31,591	-	-	-	-	1,851	1,314	794,779
Tenant receivables, less allowance for doubtful accounts	-	-	-	-	24,234	-	-	-	-	-	24,234
Other	25,507	2,733	-	-	1,575	-	-	-	-	-	29,815
	<u>27,953</u>	<u>3,024</u>	<u>757,286</u>	<u>93,435</u>	<u>25,809</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,314</u>	<u>2,894</u>	<u>912,715</u>
Due from other funds	-	-	58	2,326,171	-	-	-	-	-	-	2,326,229
Internal balances	-	-	-	47,346	-	6,270	-	-	-	-	53,616
Net investment in financing lease	570,486	-	-	-	-	-	-	-	-	-	570,486
Prepaid expenses and other assets	-	-	105,179	-	-	-	-	-	-	-	105,179
Deposits held in trust	-	5,717	-	-	-	-	-	-	-	-	5,717
Deferred bond issuance costs	18,002	-	-	-	-	-	-	-	-	-	18,002
Total current assets	<u>1,090,495</u>	<u>62,531</u>	<u>27,653,650</u>	<u>5,472,626</u>	<u>54,993</u>	<u>1,015,303</u>	<u>193,751</u>	<u>136,644</u>	<u>2,314</u>	<u>39,716</u>	<u>35,722,023</u>
Investments	-	-	6,540,629	7,056	-	-	-	-	-	-	6,547,685
Mortgage Loans, net of current portion	-	-	2,249,985	1,192,145	-	-	-	-	159	4,066	3,446,355
Restricted Deposits and Funded Reserves	-	-	-	-	590,430	-	-	-	-	-	590,430
Net Investment in Financing Lease, net of current portion	14,461,804	-	-	-	-	-	-	-	-	-	14,461,804
Deferred Bond Issuance Costs, net of current portion	226,492	-	-	-	-	-	-	-	-	-	226,492
Capital Assets, less accumulated depreciation	-	-	-	-	4,639,713	-	-	-	-	-	4,639,713
Total assets	<u>\$ 15,778,791</u>	<u>\$ 62,531</u>	<u>\$ 36,444,264</u>	<u>\$ 6,671,827</u>	<u>\$ 5,285,136</u>	<u>\$ 1,015,303</u>	<u>\$ 193,751</u>	<u>\$ 136,644</u>	<u>\$ 2,473</u>	<u>\$ 43,782</u>	<u>\$ 65,634,502</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Net Assets - Nonmajor Other Enterprise Funds (continued)
June 30, 2008

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Liabilities and Net Assets											
Current Liabilities:											
Accounts payable	\$ -	\$ 3,852	\$ -	\$ 825	\$ 50,210	\$ 122,192	\$ -	\$ -	\$ -	\$ -	\$ 177,079
Accrued expenses:											
Interest	199,546	-	-	-	-	-	-	-	-	-	199,546
Other	-	7,142	19,458	158,514	-	-	-	-	-	-	185,114
Due to other funds	18,546	-	-	2,006,973	-	883,111	-	-	25,933	37,017	2,971,580
Due to State of Hawaii	-	-	-	-	-	10,000	-	-	-	-	10,000
Security deposits	-	5,717	-	880,151	31,871	-	-	-	-	-	917,739
Mortgage note payable	-	-	-	-	37,024	-	-	-	-	-	37,024
Revenue bonds payable, less deferred refunding cost	460,000	-	-	-	-	-	-	-	-	-	460,000
Total current liabilities	678,092	16,711	19,458	3,046,463	119,105	1,015,303	-	-	25,933	37,017	4,958,082
Mortgage Payable, net of current portion	-	-	-	-	5,548,567	-	-	-	-	-	5,548,567
Revenue Bonds Payable, net of current portion	13,360,000	-	-	-	-	-	-	-	-	-	13,360,000
Commitments and Contingencies											
Net Assets -											
Invested in capital assets, net of related debt	-	-	-	-	(945,878)	-	-	-	-	-	(945,878)
Restricted by legislation and contractual agreements	-	-	-	-	590,430	-	-	-	-	-	590,430
Unrestricted	1,740,699	45,820	36,424,806	3,625,364	(27,088)	-	193,751	136,644	(23,460)	6,765	42,123,301
Total net assets	1,740,699	45,820	36,424,806	3,625,364	(382,536)	-	193,751	136,644	(23,460)	6,765	41,767,853
Total liabilities and net assets	\$ 15,778,791	\$ 62,531	\$ 36,444,264	\$ 6,671,827	\$ 5,285,136	\$ 1,015,303	\$ 193,751	\$ 136,644	\$ 2,473	\$ 43,782	\$ 65,634,502

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Revenues and Expenses - Nonmajor Other Enterprise Funds
Year Ended June 30, 2008

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Operating Revenues:											
Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease	\$ 691,622	\$ -	\$ 81,176	\$ 65,288	\$ -	\$ -	\$ -	\$ -	\$ 38	\$ 207	\$ 838,331
Rental	-	-	-	-	362,341	-	-	-	-	-	362,341
Other	-	7,810	40,364	1,295,965	9,652	-	200,000	-	25	-	1,553,816
Total operating revenues	<u>691,622</u>	<u>7,810</u>	<u>121,540</u>	<u>1,361,253</u>	<u>371,993</u>	<u>-</u>	<u>200,000</u>	<u>-</u>	<u>63</u>	<u>207</u>	<u>2,754,488</u>
Operating Expenses:											
Personnel services	11,631	-	57,168	1,037,660	20,857	-	4,761	-	-	-	1,132,077
Depreciation	-	-	-	-	153,415	-	-	-	-	-	153,415
Housing assistance payments	-	-	1,369,618	-	-	-	-	-	-	-	1,369,618
Administration	838	27	69,364	240,691	166,693	-	-	-	-	-	477,613
Professional services	20,673	13,000	20,318	67,594	4,210	-	-	-	7,000	7,001	139,796
Provision for losses	-	-	-	125,858	-	-	-	-	-	-	125,858
Repairs and maintenance	1,010	-	1,865	5,334	19,104	-	-	-	-	-	27,313
Utilities	-	-	-	-	62,940	-	-	-	-	-	62,940
Capital expenditures	-	-	180	603	-	-	-	-	-	-	783
Other	16	-	4	2,925	29,477	-	1,488	-	-	-	33,910
Total operating expenses	<u>34,168</u>	<u>13,027</u>	<u>1,518,517</u>	<u>1,480,665</u>	<u>456,696</u>	<u>-</u>	<u>6,249</u>	<u>-</u>	<u>7,000</u>	<u>7,001</u>	<u>3,523,323</u>
Operating income (loss)	<u>657,454</u>	<u>(5,217)</u>	<u>(1,396,977)</u>	<u>(119,412)</u>	<u>(84,703)</u>	<u>-</u>	<u>193,751</u>	<u>-</u>	<u>(6,937)</u>	<u>(6,794)</u>	<u>(768,835)</u>
Nonoperating Revenues (Expenses):											
Interest income - cash and investments	-	-	810,296	24,426	14,452	-	-	557	-	-	849,731
Net increase in fair value of investments	-	-	161,507	-	-	-	-	-	-	-	161,507
Interest expense	(791,270)	(861)	(93)	(183)	(115,248)	-	-	-	-	-	(907,655)
Amortization of deferred bond issuance costs	(18,002)	-	-	-	-	-	-	-	-	-	(18,002)
Other revenues	38,083	-	-	-	-	-	-	-	-	-	38,083
Total nonoperating (expenses) revenues	<u>(771,189)</u>	<u>(861)</u>	<u>971,710</u>	<u>24,243</u>	<u>(100,796)</u>	<u>-</u>	<u>-</u>	<u>557</u>	<u>-</u>	<u>-</u>	<u>123,664</u>
(Loss) income before operating transfers	<u>(113,735)</u>	<u>(6,078)</u>	<u>(425,267)</u>	<u>(95,169)</u>	<u>(185,499)</u>	<u>-</u>	<u>193,751</u>	<u>557</u>	<u>(6,937)</u>	<u>(6,794)</u>	<u>(645,171)</u>
Operating Transfers Out											
Change in net assets	<u>\$ (113,735)</u>	<u>\$ (6,078)</u>	<u>\$ (425,267)</u>	<u>\$ (95,169)</u>	<u>\$ (185,499)</u>	<u>\$ -</u>	<u>\$ 193,751</u>	<u>\$ 557</u>	<u>\$ (8,500)</u>	<u>\$ (6,794)</u>	<u>\$ (646,734)</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Changes in Fund Net Assets - Nonmajor Other Enterprise Funds
Year Ended June 30, 2008

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Net Assets, July 1, 2007	\$ 1,854,434	\$ 51,898	\$ 36,850,073	\$ 3,720,533	\$ (197,037)	\$ -	\$ -	\$ 136,087	\$ (14,960)	\$ 13,559	\$ 42,414,587
Change in Net Assets	(113,735)	(6,078)	(425,267)	(95,169)	(185,499)	-	193,751	557	(8,500)	(6,794)	(646,734)
Net Assets, June 30, 2008	\$ 1,740,699	\$ 45,820	\$ 36,424,806	\$ 3,625,364	\$ (382,536)	\$ -	\$ 193,751	\$ 136,644	\$ (23,460)	\$ 6,765	\$ 41,767,853

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Cash Flows - Nonmajor Other Enterprise Funds
Year Ended June 30, 2008

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Cash Flows from Operating Activities:											
Cash received from renters	\$ -	\$ -	\$ -	\$ -	\$ 403,670	\$ -	\$ -	# \$ -	\$ -	\$ -	\$ 403,670
Cash received from borrowers:											
Principal repayments	-	-	-	329,010	-	-	-	-	1,563	1,693	332,266
Interest income	-	-	114,291	67,849	-	-	-	-	63	207	182,410
Cash received from net investment in financing lease	1,238,740	-	-	-	-	-	-	-	-	-	1,238,740
Cash payments to employees	(10,492)	-	(57,168)	(1,037,660)	(20,857)	-	-	-	-	-	(1,126,177)
Cash payments to suppliers	(22,537)	(17,374)	(1,592,975)	(378,930)	(244,993)	(29,072)	(6,249)	-	(7,000)	(207)	(2,299,337)
Cash receipts from (payments to) other funds	11,844	49,288	5,885	(3,513)	-	345,052	-	-	6,937	-	415,493
Other cash receipts	39,342	7,810	40,364	1,320,641	9,652	-	200,000	-	-	-	1,617,809
Net cash provided by (used in) operating activities	<u>1,256,897</u>	<u>39,724</u>	<u>(1,489,603)</u>	<u>297,397</u>	<u>147,472</u>	<u>315,980</u>	<u>193,751</u>	<u>-</u>	<u>1,563</u>	<u>1,693</u>	<u>764,874</u>
Cash Flows from Noncapital Financing Activities:											
Cash received from borrower	-	-	3,073,648	-	-	-	-	-	-	-	3,073,648
Interest paid to the Department of Budget and Finance	-	(861)	(93)	(183)	-	-	-	-	-	-	(1,137)
Operating transfers out	-	-	-	-	-	-	-	-	(1,563)	-	(1,563)
Net cash provided by (used in) noncapital financing activities	<u>-</u>	<u>(861)</u>	<u>3,073,555</u>	<u>(183)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,563)</u>	<u>-</u>	<u>3,070,948</u>
Cash Flows from Capital and Related Financing Activities:											
Principal paid on revenue bond maturities and redemptions	(435,000)	-	-	-	-	-	-	-	-	-	(435,000)
Principal paid on mortgage loans	-	-	-	-	(35,170)	-	-	-	-	-	(35,170)
Interest paid	(796,570)	-	-	-	(115,248)	-	-	-	-	-	(911,818)
Net cash used in capital and related financing activities	<u>(1,231,570)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,418)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,381,988)</u>
Cash Flows from Investing Activities:											
Proceeds from maturities of investments	-	-	-	2,258	-	-	-	-	-	-	2,258
Receipts of interest	-	(93)	810,296	24,426	14,452	-	-	557	-	-	849,638
Net decrease in restricted deposits and funded reserves	-	-	-	-	(14,401)	-	-	-	-	-	(14,401)
Net cash provided by investing activities	<u>-</u>	<u>(93)</u>	<u>810,296</u>	<u>26,684</u>	<u>51</u>	<u>-</u>	<u>-</u>	<u>557</u>	<u>-</u>	<u>-</u>	<u>837,495</u>
Net increase (decrease) in cash and cash equivalents	<u>25,327</u>	<u>38,770</u>	<u>2,394,248</u>	<u>323,898</u>	<u>(2,895)</u>	<u>315,980</u>	<u>193,751</u>	<u>557</u>	<u>-</u>	<u>1,693</u>	<u>3,291,329</u>
Cash and Cash Equivalents, July 1, 2007	<u>448,727</u>	<u>15,020</u>	<u>24,396,879</u>	<u>2,681,776</u>	<u>32,079</u>	<u>693,053</u>	<u>-</u>	<u>136,087</u>	<u>-</u>	<u>35,129</u>	<u>28,438,750</u>
Cash and Cash Equivalents, June 30, 2008	<u>\$ 474,054</u>	<u>\$ 53,790</u>	<u>\$ 26,791,127</u>	<u>\$ 3,005,674</u>	<u>\$ 29,184</u>	<u>\$ 1,009,033</u>	<u>\$ 193,751</u>	<u>\$ 136,644</u>	<u>\$ -</u>	<u>\$ 36,822</u>	<u>\$ 31,730,079</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Cash Flows - Nonmajor Other Enterprise Funds (continued)
 Year Ended June 30, 2008

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Cash Flows from Operating Activities:											
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:											
Operating income (loss)	\$ 657,454	\$ (5,217)	\$ (1,396,977)	\$ (119,412)	\$ (84,703)	\$ -	\$ 193,751	\$ -	\$ (6,937)	\$ (6,794)	\$ (768,835)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:											
Depreciation	-	-	-	-	153,415	-	-	-	-	-	153,415
Changes in assets and liabilities:											
Mortgage loans receivables	-	-	-	219,137	-	-	-	-	1,563	1,693	222,393
Accrued interest receivable on mortgages, notes and loans	-	-	33,115	2,561	-	-	-	-	-	-	35,676
Tenant receivables	-	-	-	-	9,458	-	-	-	-	-	9,458
Other receivables	39,342	-	-	24,676	-	-	-	-	-	-	64,018
Due from other funds	11,844	50,000	5,885	(393,527)	-	61,941	-	-	-	-	(263,857)
Prepaid expenses and other assets	-	-	7,116	-	-	-	-	-	-	-	7,116
Net investment in lease financing	547,118	-	-	-	-	-	-	-	-	-	547,118
Deposits held in trust	-	-	-	-	33,292	-	-	-	-	-	33,292
Accounts payable	-	(1,200)	-	-	37,431	(29,072)	-	-	-	-	7,159
Other accrued expenses	1,139	(3,147)	(138,742)	64,075	-	-	-	-	-	-	(76,675)
Due to other funds	-	(712)	-	390,014	-	283,111	-	-	6,937	6,794	686,144
Security deposits	-	-	-	109,873	(1,421)	-	-	-	-	-	108,452
Net cash provided by (used in) operating activities	<u>\$ 1,256,897</u>	<u>\$ 39,724</u>	<u>\$ (1,489,603)</u>	<u>\$ 297,397</u>	<u>\$ 147,472</u>	<u>\$ 315,980</u>	<u>\$ 193,751</u>	<u>\$ -</u>	<u>\$ 1,563</u>	<u>\$ 1,693</u>	<u>\$ 764,874</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Reconciliation of Cash and Short-Term Investments

June 30, 2008

The Corporation's cash and short-term investments consists of the following as of June 30, 2008:

Equity in State Treasury investment pool - Government Wide	\$ 198,986,515
Equity in State Treasury investment pool - Fiduciary Funds	203,484
Cash in banks	2,576,245
Cash and cash equivalents held by trustees	34,823,630
Deposits held in trust	<u>5,717</u>
	<u>\$ 236,595,591</u>

Total cash and short-term investments are in agreement with the State Comptroller's central accounting records as of June 30, 2008, as reconciled below:

	<u>Appropriation symbol</u>	<u>June 30, 2008</u>
Cash in State Treasury		
Special Funds	S-02-800-B	203,484
	S-07-375-B	693,048
	S-08-314-B	300,000
	S-08-316-B	193,751
	S-08-320-B	75,177
	S-08-321-B	22,872
	S-08-325-B	36,822
	S-08-339-B	200,000
	S-08-374-B	53,273
	S-08-375-B	78,817,376
	S-08-376-B	2,789,313
	S-08-377-B	474,054
	S-08-378-B	26,791,127
Trust Funds	T-08-930-B	<u>88,551,207</u>
Total cash held in State Treasury, as reported by State Comptroller's accounting records carried forward		<u>\$ 199,201,504</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Reconciliation of Cash and Short-Term Investments

June 30, 2008

	<u>June 30, 2008</u>
Subtotal brought forward	<u>\$ 199,201,504</u>
Reconciling items:	
Journal vouchers not recorded by DAGS	(5,688)
Disbursing amount	177
Other	<u>(5,994)</u>
	<u>(11,505)</u>
Cash and short-term investments held outside State Treasury:	
Cash in bank	2,576,245
Cash held by trustees	34,823,630
Deposits held in trust	<u>5,717</u>
	<u>37,405,592</u>
Cash and short-term investments on statement of net assets	<u><u>\$ 236,595,591</u></u>

See accompanying independent auditor's report.

SECTION II

COMPLIANCE AND INTERNAL CONTROL



A Hawaii Limited Liability Partnership

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

The Auditor
State of Hawaii

Board of Directors
Hawaii Housing Finance and Development Corporation

We have audited the financial statements of the Hawaii Housing Finance and Development Corporation (the Corporation) as of and for the year ended June 30, 2008, and have issued our report thereon dated March 27, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing opinions on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item 08-01.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that

might be significant deficiencies or material weaknesses. However, of the significant deficiencies described above, we consider item 08-01 to be a material weakness.

Compliance and Other Matters

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

This report is intended solely for the information and use of the management and Board of Directors of the Corporation, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 27, 2009



A Hawaii Limited Liability Partnership

**Independent Auditor's Report on Compliance with
Requirements Applicable to Each Major Program and on
Internal Control over Compliance in Accordance with
OMB Circular A-133**

The Auditor
State of Hawaii

Board of Directors
Hawaii Housing Finance and Development Corporation

Compliance

We have audited the compliance of Hawaii Housing Finance and Development Corporation (Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2008. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the use of the management and the Board of Directors of the Corporation, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 27, 2009

Hawaii Housing Finance and Development Corporation

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2008

<u>Federal Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Housing and Urban Development:</u>		
HOME Investment Partnership Program	14.239	<u>\$ 2,854,400</u>
Total federal expenditures		<u><u>\$ 2,854,400</u></u>

The accompanying notes are an integral part of this schedule.

Hawaii Housing Finance and Development Corporation

Notes to the Schedule of Expenditures of Federal Awards
Year ended June 30, 2008

1. Basis of Presentation

The accompanying schedule of expenditures of the federal awards includes the federal grant activity of the Hawaii Housing Finance and Development Corporation, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule, the Corporation provided federal awards to subrecipients as follows:

Federal Grantor/Program Title	CFDA Number	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development-- HOME Investment Partnership Program	14.239	<u>\$ 2,756,782</u>

Hawaii Housing Finance and Development Corporation

Schedule of Findings and Questioned Costs
 Year ended June 30, 2008

Section I – Summary of Auditor’s Results

Financial Statements

Type of auditors’ report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes None reported
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? Yes None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.239	HOME Investment Partnership Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

Hawaii Housing Finance and Development Corporation

Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2008

Section II – Financial Statement Findings

Finding No.: 08-01 Financial Reporting

Criteria: In order to prepare complete and accurate financial statements, the Corporation's accounting records must accurately reflect all significant accounting transactions. Additionally, transactions should be recorded in a timely manner to ensure that the information is relevant to financial statement users.

Condition, cause, and context: Due to the nature of the Corporation's activities, a small number of transactions have significant effects on the financial statements. These transactions generally relate to either: (1) new projects that need to be fully understood and properly reflected on the financial statements, or (2) ongoing activities that involve significant estimates. Also, these transactions typically require multiple skill sets, including accounting, development, finance, legal, etc. Without a formalized risk assessment process, the Corporation does not have a clear means to address the financial reporting issues related to these matters.

Effect: During December 2007, the Corporation entered into a new project known as Kukui Gardens. This transaction involved the issuance of debt and a contribution from the State to acquire certain land and improvements. The improvements were sold and the Corporation leased the land to a third party, receiving promissory notes as consideration. Although portions of this transaction were recorded in the general ledger on a timely basis, the audit process identified that the transaction was not completely and accurately recorded in the general ledger. In order to complete the accounting for this transaction, it was necessary for the audit team to accumulate additional documents and have discussions with multiple members of management.

Also, the Corporation's financial statements reflect ongoing estimates related to the sufficiency of certain liabilities and the realizability of certain assets. The most significant of these estimates are the \$32.8 million of estimated costs to complete the Kapolei project and the realizability of \$19.5 million of development costs related to the Leialii project. For these examples, management annually updates project status reports, but these reports generally roll forward stale-dated information and do not document certain key issues, such as management's conclusions as to the sufficiency of the estimates to complete the Kapolei project or the realizability of development costs related to the Leialii project. In order to complete the auditing of these estimates, it was necessary for the audit team to have discussions with management to obtain sufficient support related to the representations included in these estimates.

Hawaii Housing Finance and Development Corporation

Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2008

Section II – Financial Statement Findings

Recommendation: We recommend that management convert its existing monitoring processes into a more formalized risk assessment process that monitors the Corporation's financial reporting risks as they change (due to changes in operations) and documents management's conclusions on the status of key issues on a periodic basis. This process should be lead by a person with financial expertise and should have a means of identifying new issues, prioritizing existing matters, and removing items that have been resolved. Management already conducts the meetings necessary to formalize the risk assessment process, so the key to implementation of this recommendation is formal documentation that directly supports new transactions and significant estimates included in the financial statements. The overall documentation should identify key issues, monitoring intervals, personnel responsibilities (and any necessary outside support), and reporting deadlines. Documentation related to specific issues should include management's conclusions, or best available estimates, and should identify ranges of estimation as well as all relevant supporting information.

Management Response: Management has reviewed the KMH recommendations regarding the development of a more formalized risk assessment process to ensure that financial reporting related to changes in operations and/or management's conclusions are accurately documented in a timely manner.

Management understands that complete and timely accounting records are the foundation for comprehensive and correct financial statements and that due to the nature of the Corporation's activities, a small number of transactions have significant effects. Management is committed to implementing the recommendation by making the necessary changes to assure that management actions and documentation include recognition of key issues, monitoring intervals, personnel responsibilities, and reporting deadlines.

At a minimum, the formal risk assessment program will include the following:

- Development of a written program guideline to provide Management a method/approach to address risk assessments;
- Identification of all matters that Management feels are at greater risk as to outcome such that a formal review program may benefit the issue and its conclusion;
- Maintain records supporting estimates, reviews and conclusions in the respective branches/sections as necessary with references in the write-ups of facts, issues, concerns, conclusions and recommendations; and
- If necessary, submit conclusions and/or questions to financial auditors requesting additional guidance.

Hawaii Housing Finance and Development Corporation

Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2008

Section III – Federal Award Findings and Questioned Costs

No audit federal award findings and questioned costs that were required to be reported in accordance with section 510(a) of Circular A-133 were noted during our testing.

Section IV – Summary Schedule of Prior Audit Findings

Financial Statement Findings:

No audit financial statement findings that were required to be reported in accordance with section 510(a) of Circular A-133 were noted during our prior year testing.

Federal Award Findings and Questioned Costs:

No audit federal award findings and questioned costs that were required to be reported in accordance with section 510(a) of Circular A-133 were noted during our prior year testing.