

**State of Hawai'i
Hawaii Housing Finance and
Development Corporation
Financial and Compliance Audit
June 30, 2010**

**Submitted by
The Auditor
State of Hawai'i**

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PART I
Financial Statements

Report of Independent Auditors

The Auditor
State of Hawai'i

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the "Corporation") as of and for the year ended June 30, 2010, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 remaining fund information of the State of Hawai'i 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 Hawai'i as of June 30, 2010, 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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the Neighborhood Stabilization Program and Low Income Housing Tax Credit funds 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 July 26, 2011 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The combining and individual non-major fund financial statements and reconciliation of cash and short-term investments are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose 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 also not a required part of the basic financial statements. The combining and individual non-major fund financial statements, reconciliation of cash and short-term investments, and schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Accuity LLP

Honolulu, Hawai'i
July 26, 2011

State of Hawai'i

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis

June 30, 2010

The management of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the "Corporation") offers readers of the Corporation's financial statements this narrative overview and analysis of their financial activities for the fiscal year ended ("FYE") June 30, 2010. This document should be read in conjunction with the audited financial statements. All amounts presented in tables, unless otherwise indicated, are expressed in thousands of dollars.

Introduction

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

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

The Corporation is administratively attached to the State Department of Business, Economic Development and Tourism. The Corporation's Board of Directors consists of nine members, six of whom are public members appointed by the Governor, and confirmed by the State Senate. Public members are appointed from each of the counties of Honolulu, Hawai'i, Maui and 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.

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, 2010. 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:

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 present budgetary comparison statements, which are required.

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- The basic financial statements also include a "Notes to Financial Statements" section that explains some of the information in the government-wide and fund financial statements and provides more detailed data.
- The "Notes to Financial Statements" are followed by a "Supplementary Information" section, which presents combining information on non-major funds, which is not required.

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

Fund Financial Statements

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

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

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.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information. The combining financial statements of the non-major funds and reconciliation of cash and short term investments are presented as supplementary information.

Supplementary information also includes the Schedule of Expenditures of Federal Awards (“SEFA”). The SEFA reports federal awards to the Corporation on the cash basis of accounting for the year ended June 30, 2010.

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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 statements. As indicated below, as of June 30, 2010, the Corporation’s total net asset balance was approximately \$439,012,000, an increase of \$45,352,000 (or 11.5%) from the previous year.

Government-Wide Condensed Statement of Net Assets
June 30, 2010 and 2009
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2010	2009	2010	2009	2010	2009	
Current assets	\$ 36	\$ 26,240	\$ 240,182	\$ 249,075	\$ 240,218	\$ 275,315	-12.7%
Assets held by trustee	-	-	334,846	287,376	334,846	287,376	16.5%
Capital assets	351	1,464	107,468	109,367	107,819	110,831	-2.7%
Other assets	-	-	311,772	224,776	311,772	224,776	38.7%
Total assets	\$ 387	\$ 27,704	\$ 994,268	\$ 870,594	\$ 994,655	\$ 898,298	10.7%
Current liabilities	\$ 36	\$ 240	\$ 84,906	\$ 99,485	\$ 84,942	\$ 99,725	-14.8%
Long-term liabilities	-	-	470,701	404,913	470,701	404,913	16.2%
Total liabilities	36	240	555,607	504,398	555,643	504,638	10.1%
Net assets							
Invested in capital assets, net of related debt	351	1,464	7,363	7,449	7,714	8,913	-13.5%
Restricted	-	-	335,255	287,835	335,255	287,835	16.5%
Unrestricted	-	26,000	96,043	70,912	96,043	96,912	-0.9%
Total net assets	351	27,464	438,661	366,196	439,012	393,660	11.5%
Total liabilities and net assets	\$ 387	\$ 27,704	\$ 994,268	\$ 870,594	\$ 994,655	\$ 898,298	10.7%

Current assets decreased by approximately \$35,097,000 (or 12.7%) during 2010 primarily related to a decrease in receivables from the State of approximately \$26,200,000, an increase in cash of approximately \$2,000,000, and a decrease in receivables of approximately \$5,500,000.

Assets held by trustee result from the trust indentures of the revenue bond funds requiring cash and investments to be held by a trustee. These assets increased by approximately \$47,470,000 (or 16.5%) during 2010 due primarily to the issuance of new bonds related to the Single Family Mortgage Revenue Bond System. 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 increased by approximately \$47,420,000 (or 16.5%) during 2010.

Capital assets decreased by approximately \$3,012,000 (or 2.7%) during 2010 primarily due to depreciation expense of \$5,400,000 net of increases as a result of various renovation projects at the Corporation’s properties.

Other assets increased by approximately \$86,996,000 (or 38.7%) during 2010 primarily due to an increase of approximately \$20,800,000 of new mortgage loans issued by the Multi-Family Housing Revenue Bond Fund (related to the Franciscan Vistas project), \$26,000,000 of interim loans issued by the Dwelling Unit Revolving Fund (related to the Kukui Garden’s project), and \$37,116,000 of new mortgage loans issued by the Rental Housing Trust Fund. Of the approximately \$37,116,000 of loans issued by the Rental Housing Trust Fund, approximately \$14,525,000 related to the Franciscan Vistas Ewa project, \$9,633,000 related to the Lahaina Honokawai Villa project, \$5,774,000 related to the Koloa Hale project, \$3,566,000 related to the Ainakea Senior Residences project, and \$3,073,000 related to the Kahului Terrace project.

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Current liabilities decreased by approximately \$14,783,000 (or 14.8%) during 2010 primarily due to a decrease in the current portion of revenue bonds payable of approximately \$9,200,000.

Long-term liabilities increased by approximately \$65,788,000 (or 16.2%) primarily due to the issuance of \$20,800,000 in revenue bonds in the Multi Family Revenue Bond Fund (related to the Franciscan Vistas Ewa project) and a net increase of \$43,930,000 in the Single Family Revenue Bond Fund, net of a \$56,070,000 decrease. The decrease is a result of \$6,130,000 of regularly scheduled maturities and \$49,940,000 in early redemptions.

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.”

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, 2010 and 2009
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2010	2009	2010	2009	2010	2009	
Revenues							
Program revenues							
Charges for services	\$ -	\$ -	\$ 38,665	\$ 38,784	\$ 38,665	\$ 38,784	-0.3%
Operating grants and contributions	18,440	6,674	13,887	23,505	32,327	30,179	7.1%
General revenues							
State allotted appropriations, net of lapses	-	26,116	-	-	-	26,116	-100.0%
Net increase (decrease) in fair value of equity in cash and cash equivalents and investments in State Treasury	-	-	9,847	(9,540)	9,847	(9,540)	-203.2%
Total revenues	<u>18,440</u>	<u>32,790</u>	<u>62,399</u>	<u>52,749</u>	<u>80,839</u>	<u>85,539</u>	-5.5%
Expenses							
Governmental activities							
Expenditures	19,553	6,897	-	-	19,553	6,897	183.5%
Business-type activities							
Rental assistance program	-	-	1,584	1,581	1,584	1,581	0.2%
Housing development program	-	-	6,005	6,759	6,005	6,759	-11.2%
Multi-family mortgage loan programs	-	-	3,558	5,706	3,558	5,706	-37.6%
Single-family mortgage loan program	-	-	10,063	12,315	10,063	12,315	-18.3%
Rental housing program	-	-	18,160	19,229	18,160	19,229	-5.6%
Others	-	-	1,402	1,629	1,402	1,629	-13.9%
Total government-wide expenses	<u>19,553</u>	<u>6,897</u>	<u>40,772</u>	<u>47,219</u>	<u>60,325</u>	<u>54,116</u>	11.5%
Net change before transfers	<u>(1,113)</u>	<u>25,893</u>	<u>21,627</u>	<u>5,530</u>	<u>20,514</u>	<u>31,423</u>	-34.7%
Transfers	<u>(26,000)</u>	-	<u>50,838</u>	<u>(17,110)</u>	<u>24,838</u>	<u>(17,110)</u>	-245.2%
Change in net assets	<u>(27,113)</u>	<u>25,893</u>	<u>72,465</u>	<u>(11,580)</u>	<u>45,352</u>	<u>14,313</u>	216.9%
Net assets							
Beginning of year	<u>27,464</u>	<u>1,571</u>	<u>366,196</u>	<u>377,776</u>	<u>393,660</u>	<u>379,347</u>	3.8%
End of year	<u>\$ 351</u>	<u>\$ 27,464</u>	<u>\$ 438,661</u>	<u>\$ 366,196</u>	<u>\$ 439,012</u>	<u>\$ 393,660</u>	11.5%

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Governmental Activities

For the fiscal year ended June 30, 2010, total net assets of the governmental activities decreased by approximately \$27,113,000, from \$27,464,000 in 2009 to \$351,000 in 2010. The decrease is primarily due to the transfer of \$26,000,000 for the Kukui Gardens project that was allotted last year to the Dwelling Unit Revolving Fund.

Business-type Activities

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

For the fiscal year ending June 30, 2010, business-type activities increased the Corporation's net assets by approximately \$72,465,000 after transfers of \$50,838,000. Key elements of this increase are as follows:

- Operating grants and contributions decreased by \$9,618,000 (or 40.9%) to \$13,887,000 in 2010 from \$23,505,000 in 2009 primarily due to contributions, a decrease in fair value of mortgage backed securities of approximately \$2,577,000 and a decrease in earnings from interest income of approximately \$6,806,000.
- Transfers increased net assets by \$50,838,000. Included in this amount is the \$26,000,000 related to the Kukui Gardens project as previously mentioned in the Governmental Activities. A General Obligation Bond Fund infusion of \$10,000,000 into the Dwelling Unit Revolving Fund in accordance with Act 123, SLH 2008 as amended by Act 158, SLH 2008, and an infusion of \$15,000,000 into the Rental Housing Trust Fund in accordance with Act 123, SLH 2007 comprised the remainder of the transfers.

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.

Governmental Funds

At June 30, 2010, the Corporation's governmental funds reported no ending fund balance, a decrease of approximately \$26,000,000 in comparison to the combined \$26,000,000 fund balance at June 30, 2009. The decrease was due to the transfer of \$26,000,000 to the Kukui Gardens project in 2010.

The governmental funds consist of three major funds and several non-major funds. The three major funds are (1) Neighborhood Stabilization Program ("NSP"), (2) Low Income Housing Tax Credit Fund ("LIHTC"), and (3) General Obligation Bond Fund.

- The *Neighborhood Stabilization Program Fund* was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment through the purchase and redevelopment of foreclosed and abandoned homes and residential properties. The fund had no ending fund balance at June 30, 2010 as all revenues recognized were expended.

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- The *Low Income Housing Tax Credit Program Fund* is a major financing tool for non-profit and for-profit developers to construct or rehabilitate affordable rental housing. Under the program, HHFDC awards federal and state tax credits that may be used to obtain a dollar-for-dollar offset (tax credit) in income tax liability for 10 years or may be syndicated to generate substantial project equity. The fund had no ending fund balance at June 30, 2010 as all revenues recognized were expended.
- As previously mentioned above, the *General Obligation Bond Fund* decreased by \$ 26,000,000 in 2010 due to a transfer to the Kukui Gardens project.

Proprietary Funds

The proprietary funds consist of five major and several non-major funds. The five major funds are the: (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 approximately \$30,844,000 in 2010, compared to \$5,879,000 in 2009. The 2010 increase in net assets consisted of conveyance tax collections of approximately \$10,190,000, interest income of \$1,166,000 and fair value adjustments of approximately \$4,223,000, less operating expenses of approximately \$572,000. As previously mentioned, a \$15,000,000 infusion was also made into the Rental Housing Trust Fund.

Conveyance taxes increased by approximately \$3,054,000 (or 42.8%) to \$10,190,000 in 2010 from \$7,136,000 in 2009, due to an increase in real estate activity compared to last year. Interest income on cash balances remained relatively constant.

- 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 \$39,252,000 in 2010, which was due primarily to a \$26,000,000 infusion of cash for the Kukui Gardens project, another infusion of \$10,000,000 into the fund, and a \$4,116,000 increase in the fair value of the fund's equity in cash and cash equivalents and investments in State Treasury. The \$26,000,000 was used to acquire a portion of an affordable rental housing complex in order to preserve its status as affordable.
- 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 loss before transfers of approximately \$2,013,000 in 2010, which was a decrease in losses of approximately \$793,000 (or 28.3%) from the loss before transfers of \$2,806,000 in 2009. The decrease in the loss before transfers is due to a decrease in operating expenses as operating revenues remained relatively unchanged in 2010.
- 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 approximately \$4,681,000, as a result of operating and interest income of \$399,000 and \$5,059,000, respectively, offset by arbitrage rebates of \$496,000 and amortization of bond issuance costs of \$282,000.

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- 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. Net assets in the fund decreased by approximately \$860,000 which represented an increase in the change in net assets of approximately \$170,000. This change was primarily due to a decrease in the fair value of investments of approximately \$27,000, a decrease in interest income from investments of approximately \$153,000, a decrease in interest income on mortgage loans of approximately \$672,000, and a decrease in interest expense of \$694,000.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2010, the Corporation had invested approximately \$107,819,000 (net of accumulated depreciation of \$93,317,000) in a broad range of capital assets. This amount represents a decrease of approximately \$3,012,000 (or 2.7%) over the prior year, primarily due to depreciation expense of \$5,400,000 net of increases as a result of various renovation projects at the Corporation’s properties.

Corporation’s Capital Assets
June 30, 2010 and 2009
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2010	2009	2010	2009	2010	2009	
Land	\$ -	\$ -	\$ 43,378	\$ 43,387	\$ 43,378	\$ 43,387	0.0%
Construction in progress	-	1,000	-	-	-	1,000	-100.0%
Buildings and improvements	-	-	154,824	151,964	154,824	151,964	1.9%
Equipment	568	568	2,366	1,824	2,934	2,392	22.7%
Total	568	1,568	200,568	197,175	201,136	198,743	1.2%
Accumulated depreciation	(217)	(104)	(93,100)	(87,808)	(93,317)	(87,912)	6.1%
Total capital assets, net	\$ 351	\$ 1,464	\$ 107,468	\$ 109,367	\$ 107,819	\$ 110,831	-2.7%

Debt Administration

Through June 30, 2010, approximately \$2.34 billion of revenue bonds have been issued. The revenue bonds are payable solely from the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the various bond indentures. Revenue bonds payable, net of premiums and deferred charges, increased by approximately \$56,376,000 to approximately \$468,341,000 at June 30, 2010 from \$411,965,000 at June 30, 2009. During the year ended June 30, 2010, the Corporation issued \$20,800,000 in new bonds for the Multifamily Housing System, and \$100,000,000 for the Single Family System. Bond redemptions were approximately \$6,852,000 and \$56,070,000, respectively. Included in bond issuances and redemptions are the remarketed 2004 Series B Bonds of approximately \$1,517,000 and \$1,029,000 recorded in the Hawaii Rental Housing System Revenue Bond Fund.

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As of June 30, 2010, 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 20, 2010, the Corporation redeemed \$24,590,000 of outstanding revenue bonds from the Multifamily Revenue Bond Fund.

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.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 36,001	\$ 187,525,390	\$ 187,561,391
Cash in banks	-	2,645,658	2,645,658
Receivables			
Mortgage loans	-	1,124,451	1,124,451
Notes and loans	-	11,767,243	11,767,243
Accrued interest	-	11,093,791	11,093,791
Tenant receivables, less allowance for doubtful accounts of \$2,025,913	-	137,238	137,238
Other receivables, less allowance for doubtful accounts of \$1,758	-	2,169,401	2,169,401
	-	26,292,124	26,292,124
Due from other governments	42,087	-	42,087
Internal balances	(42,287)	42,287	-
Inventories – development in progress and dwelling units	-	23,237,292	23,237,292
Prepaid expenses and other assets	-	323,551	323,551
Deposits held in trust	-	5,717	5,717
Deferred bond issuance costs	-	110,522	110,522
Total current assets	35,801	240,182,541	240,218,342
Assets held by Trustees under revenue bond programs			
Cash and cash equivalents	-	29,054,400	29,054,400
Investments	-	305,791,372	305,791,372
	-	334,845,772	334,845,772
Other receivables	-	760,402	760,402
Due from other State departments	-	15,494,131	15,494,131
Investments	-	7,010,336	7,010,336
Mortgage loans, net of allowance for loan losses of \$187,568	-	225,853,004	225,853,004
Notes and loans, net of current portion	-	60,599,752	60,599,752
Restricted deposits and funded reserves	-	409,406	409,406
Deferred bond insurance costs, net of current portion	-	1,645,083	1,645,083
Capital assets, net	350,517	107,468,480	107,818,997
Total assets	\$ 386,318	\$ 994,268,907	\$ 994,655,225

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Statement of Net Assets
June 30, 2010

	Governmental Activities	Business-Type Activities	Total
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$ 35,801	\$ 1,183,846	\$ 1,219,647
Accrued expenses			
Interest	-	6,635,973	6,635,973
Other	-	2,260,098	2,260,098
Due to other State departments, net	-	3,410,475	3,410,475
Security deposits	-	2,167,907	2,167,907
Note payable	-	13,471	13,471
Mortgage payable	-	41,135	41,135
Revenue bonds payable, net	-	7,497,450	7,497,450
Deferred income	-	24,187,162	24,187,162
Deferred fees	-	249,262	249,262
Deferred gain on sale of units and land	-	1,778,049	1,778,049
Estimated future costs of development	-	35,481,891	35,481,891
Total current liabilities	<u>35,801</u>	<u>84,906,719</u>	<u>84,942,520</u>
Noncurrent liabilities			
Deferred fees	-	324,410	324,410
Arbitrage rebate payable	-	3,840,757	3,840,757
Note payable	-	223,562	223,562
Mortgage payable	-	5,468,410	5,468,410
Revenue bonds payable, net	-	460,843,652	460,843,652
Total noncurrent liabilities	<u>-</u>	<u>470,700,791</u>	<u>470,700,791</u>
Total liabilities	35,801	555,607,510	555,643,311
Commitments and contingencies			
Net assets			
Invested in capital assets, net of related debt	350,517	7,363,166	7,713,683
Restricted by legislation and contractual agreements	-	335,255,178	335,255,178
Unrestricted	-	96,043,053	96,043,053
Total net assets	<u>350,517</u>	<u>438,661,397</u>	<u>439,011,914</u>
Total liabilities and net assets	<u>\$ 386,318</u>	<u>\$ 994,268,907</u>	<u>\$ 994,655,225</u>

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

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Statement of Activities
Year Ended June 30, 2010

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs						
Governmental activities						
Low income housing service and assistance program	\$ 19,553,155	\$ -	\$ 18,439,614	\$ (1,113,541)	\$ -	\$ (1,113,541)
Total governmental activities	19,553,155	-	18,439,614	(1,113,541)	-	(1,113,541)
Business-type activities						
Rental assistance program	1,583,978	67,896	727,905	-	(788,177)	(788,177)
Housing development program	6,004,765	2,582,469	2,558,108	-	(864,188)	(864,188)
Multi-family mortgage loan program	3,558,523	12,844,735	1,478,335	-	10,764,547	10,764,547
Single-family mortgage loan program	10,063,037	5,660,749	9,082,687	-	4,680,399	4,680,399
Rental housing program	18,159,868	15,901,186	39,434	-	(2,219,248)	(2,219,248)
Others	1,401,656	1,608,044	732	-	207,120	207,120
Total business-type activities	40,771,827	38,665,079	13,887,201	-	11,780,453	11,780,453
Total	\$ 60,324,982	\$ 38,665,079	\$ 32,326,815	(1,113,541)	11,780,453	10,666,912
General revenues						
Net transfers						
Net increase in fair value of equity in cash and cash equivalents and investments in State Treasury				(26,000,000)	50,838,073	24,838,073
Total general revenues and transfers				(26,000,000)	9,846,663	9,846,663
Change in net assets				(27,113,541)	72,465,189	45,351,648
Net assets						
Beginning of year				27,464,058	366,196,208	393,660,266
End of year				\$ 350,517	\$ 438,661,397	\$ 439,011,914

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Balance Sheet
June 30, 2010

	Neighborhood Stabilization Program Fund	Low Income Housing Tax Credit Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ 100	\$ -	\$ 35,901	\$ 36,001
Due from other governments	10,577	-	-	31,510	42,087
Total assets	<u>\$ 10,577</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 67,411</u>	<u>\$ 78,088</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ -	\$ -	\$ -	\$ 35,801	\$ 35,801
Due to other funds	10,577	100	-	31,610	42,287
Total liabilities	<u>10,577</u>	<u>100</u>	<u>-</u>	<u>67,411</u>	<u>78,088</u>
Total liabilities and fund balances	<u>\$ 10,577</u>	<u>\$ 100</u>	<u>\$ -</u>	<u>\$ 67,411</u>	<u>\$ 78,088</u>

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
Year Ended June 30, 2010

Total fund balances – governmental funds		\$	-
Amount 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	\$	567,704	
Accumulated depreciation		<u>(217,187)</u>	
Total capital assets			<u>350,517</u>
Net assets of governmental activities		\$	<u>350,517</u>

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

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Statement of Revenues, Expenditures and Change in Fund Balances
Year Ended June 30, 2010

	Neighborhood Stabilization Program Fund	Low Income Housing Tax Credit Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Intergovernmental revenue	\$ 7,844,845	\$ 8,138,162	\$ -	\$ 2,456,607	\$ 18,439,614
Total revenue	7,844,845	8,138,162	-	2,456,607	18,439,614
Expenditures					
Programs	7,777,891	8,138,162	-	2,111,258	18,027,311
Personnel services	60,103	-	-	64,963	125,066
Administration	6,851	-	-	276,395	283,246
Professional services	-	-	-	3,991	3,991
Total expenditures	7,844,845	8,138,162	-	2,456,607	18,439,614
Other financing uses					
Transfers out	-	-	(26,000,000)	-	(26,000,000)
Change in fund balances	-	-	(26,000,000)	-	(26,000,000)
Fund balances					
Beginning of year	-	-	26,000,000	-	26,000,000
End of year	\$ -	\$ -	\$ -	\$ -	\$ -

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Governmental Funds
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Change in Fund Balances to the Statement of Activities
Year Ended June 30, 2010

Net change in fund balances – total governmental funds \$ (26,000,000)

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	\$ (1,000,000)	
Depreciation expense	<u>(113,541)</u>	
		<u>(1,113,541)</u>

Change in net assets – governmental activities		<u>\$ (27,113,541)</u>
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The accompanying notes are an integral part of these financial statements.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Budgetary Comparison Statement – Neighborhood Stabilization Program Fund
Year Ended June 30, 2010

	Original and Final Budgets	Budgetary Actual
Revenues		
Intergovernmental revenue	<u>\$ 7,844,845</u>	<u>\$ 7,844,845</u>
Expenditures		
Program	7,777,891	7,777,891
Personnel services	60,103	60,103
Administration	<u>6,851</u>	<u>6,851</u>
Excess of revenues over expenditures	<u>\$ -</u>	-
Fund balance		
Beginning of year		<u>-</u>
End of year		<u>\$ -</u>

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Budgetary Comparison Statement – Low Income Housing Tax Credit Fund
Year Ended June 30, 2010

	Original and Final Budgets	Budgetary Actual
Revenues		
Intergovernmental revenue	\$ 8,138,162	\$ 8,138,162
Expenditures		
Program	<u>8,138,162</u>	<u>8,138,162</u>
Excess of revenues over expenditures	<u>\$ -</u>	-
Fund balance		
Beginning of year		<u>-</u>
End of year		<u>\$ -</u>

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

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Net Assets
June 30, 2010**

	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
Assets							
Current assets							
Equity in cash and cash equivalents and investments in State Treasury	\$ 72,500,915	\$ 84,287,218	\$ -	\$ -	\$ -	\$ 30,737,257	\$ 187,525,390
Cash in banks	-	404,058	2,049,517	-	-	192,083	2,645,658
Receivables							
Mortgage loans	404,648	-	-	565,217	153,227	1,359	1,124,451
Notes and loans	-	11,767,243	-	-	-	-	11,767,243
Accrued interest	3,873,081	3,893,688	-	2,180,968	339,640	806,414	11,093,791
Tenant receivables, less allowance for doubtful accounts of \$2,025,913	-	50,971	54,494	-	-	31,773	137,238
Other receivables, less allowance for doubtful accounts of \$1,758	-	2,071,070	-	-	95,599	2,732	2,169,401
Total receivables	4,277,729	17,782,972	54,494	2,746,185	588,466	842,278	26,292,124
Due from other funds	-	607,275	-	-	571,125	3,222,877	4,401,277
Due from other State departments	-	2,173,129	-	-	-	-	2,173,129
Inventories – development in progress and dwelling units	-	23,237,292	-	-	-	-	23,237,292
Prepaid expenses and other assets	-	200,200	397	6,377	-	116,577	323,551
Deposits held in trust	-	-	-	-	-	5,717	5,717
Deferred bond issuance costs	-	-	58,241	52,281	-	-	110,522
Total current assets	76,778,644	128,692,144	2,162,649	2,804,843	1,159,591	35,116,789	246,714,660
Assets held by Trustees under revenue bond programs							
Cash and cash equivalents	-	-	26,142,685	2,911,464	251	-	29,054,400
Investments	-	-	26,142,685	276,757,593	29,033,779	-	305,791,372
Other receivables	-	-	760,402	-	-	-	760,402
Due from other State departments	-	15,494,131	-	-	-	-	15,494,131
Investments	-	-	-	-	-	7,010,336	7,010,336
Mortgage loans, net of allowance for loan losses of \$187,568	110,804,059	442,889	-	3,332,104	107,922,992	3,350,960	225,853,004
Notes and loans, net of current portion	-	60,599,752	-	-	-	-	60,599,752
Restricted deposits and funded reserves	-	-	-	-	-	409,406	409,406
Deferred bond insurance costs, net of current portion	-	-	751,926	893,157	-	-	1,645,083
Capital assets, net	-	27,864,677	75,131,094	541	-	4,472,168	107,468,480
Total assets	\$ 187,582,703	\$ 233,093,593	\$ 104,948,756	\$ 286,699,702	\$ 138,116,613	\$ 50,359,659	\$ 1,000,801,026

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

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Net Assets
June 30, 2010**

	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
Liabilities and Net Assets							
Current liabilities							
Accounts payable	\$ -	\$ 46,658	\$ 813,595	\$ 37,072	\$ -	\$ 286,521	\$ 1,183,846
Accrued expenses	-	-	2,209,887	3,637,912	788,174	-	6,635,973
Interest	47,557	1,415,701	152,963	266,900	38,008	338,969	2,260,098
Other	188	-	597,602	220,768	-	3,540,432	4,358,990
Due to other funds	-	5,573,604	-	-	-	10,000	5,583,604
Due to other State departments	-	86,813	990,878	-	-	1,090,216	2,167,907
Security deposits	-	13,471	-	-	-	-	13,471
Note payable	-	-	-	-	-	41,135	41,135
Mortgage payable	-	-	2,405,000	4,485,000	607,450	-	7,497,450
Revenue bonds payable, net	-	24,045,886	141,276	249,262	-	-	24,187,162
Deferred income	-	-	-	-	-	-	249,262
Deferred fees	-	-	-	-	-	-	1,778,049
Deferred gain on sale of units and land	-	1,778,049	-	-	-	-	1,778,049
Estimated future costs of development	-	35,481,891	-	-	-	-	35,481,891
Total current liabilities	47,745	68,442,073	7,311,201	8,896,914	1,433,632	5,307,273	91,438,838
Noncurrent liabilities							
Deferred fees	-	-	-	324,410	-	-	324,410
Arbitrage rebate payable	-	-	-	3,840,757	-	-	3,840,757
Note payable	-	223,562	-	-	-	-	223,562
Mortgage payable	-	-	-	-	-	5,468,410	5,468,410
Revenue bonds payable, net	-	-	92,763,903	232,640,980	135,438,769	-	460,843,652
Total noncurrent liabilities	-	223,562	92,763,903	236,806,147	135,438,769	5,468,410	470,700,791
Total liabilities	47,745	68,665,635	100,075,104	245,703,061	136,872,401	10,775,683	562,139,629
Commitments and contingencies							
Net assets							
Invested in capital assets, net of related debt	-	27,627,644	(19,227,642)	541	-	(1,037,377)	7,363,166
Restricted by legislation and contractual agreements	-	-	26,142,685	279,669,057	29,034,030	409,406	335,255,178
Unrestricted	187,534,958	136,800,314	(2,041,391)	(238,672,957)	(27,789,818)	40,211,947	96,043,053
Total net assets	187,534,958	164,427,958	4,873,652	40,996,641	1,244,212	39,583,976	438,661,397
Total liabilities and net assets	\$ 187,582,703	\$ 233,093,593	\$ 104,948,756	\$ 286,699,702	\$ 138,116,613	\$ 50,359,659	\$ 1,000,801,026

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

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2010**

	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 and mortgage-backed securities	\$ 1,166,042	\$ 2,568,108	\$ -	\$ 5,660,618	\$ 1,240,758	\$ 130,478	\$ 10,756,004
Net increase in fair value of mortgage-backed securities	-	-	-	4,023,863	-	-	4,023,863
Conveyance tax	10,190,108	-	-	-	-	-	10,190,108
Sales of land	-	85,100	-	-	-	-	85,100
Rental	-	2,074,815	14,741,396	-	-	404,381	17,220,592
Other	1,009	422,554	728,442	131	242,689	1,572,486	2,967,311
Total operating revenues	11,357,159	5,140,577	15,469,838	9,684,612	1,483,447	2,107,345	45,242,978
Operating expenses							
Cost of land sold	-	16,586	-	-	-	-	16,586
Programs	-	1,246,965	7,287,949	-	-	-	8,534,914
Personnel services	115,995	2,516,701	213,649	453,378	62,825	1,209,026	4,571,574
Depreciation	-	172,161	5,062,063	804	-	161,355	5,396,383
Housing assistance payments	-	-	-	-	-	1,440,089	1,440,089
Administration	32,065	919,193	3,897	231,424	16,159	331,335	1,534,073
Provision for losses	-	175,573	-	-	-	14,671	190,244
Loan servicing fees	-	-	-	16,153	-	-	16,153
Professional services	28,204	231,413	55,230	72,547	36,317	123,142	546,853
Insurance	-	-	119,759	7,498	-	18,493	145,750
Repairs and maintenance	574	164,948	1,121	8,110	955	115,964	291,672
Utilities	-	-	-	5,119	-	82,177	87,296
Capital expenses	89	77,549	145,986	-	98	2,172	225,894
Trustee fees	-	-	5,217	41,010	4,035	-	50,262
Interest expense	-	-	4,432,241	8,449,112	2,856,624	-	15,737,977
Grant expenses	394,927	-	-	-	-	-	394,927
Other	-	483,676	45,939	-	8,544	16,123	554,282
Total operating expenses	571,854	6,004,765	17,373,051	9,285,155	2,985,557	3,514,547	39,734,929
Operating income (loss) carried forward	10,785,305	(864,188)	(1,903,213)	399,457	(1,502,110)	(1,407,202)	5,508,049

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

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2010**

	Operating income (loss) brought forward	\$ 10,785,305	\$ (864,188)	\$ (1,903,213)	\$ 399,457	\$ (1,502,110)	\$ (1,407,202)	\$ 5,508,049
	Nonoperating revenues (expenses)							
	Interest income	836,182	-	39,376	5,058,767	669,578	450,159	7,054,062
	Net increase in the fair value of equity in cash and cash equivalents and investments in State Treasury	4,222,944	4,116,086	-	-	-	1,507,633	9,846,663
	Net increase (decrease) in fair value of other investments	-	-	-	-	(27,425)	282,665	255,240
	Interest expense	-	-	-	-	-	(110,626)	(110,626)
	Amortization of deferred bond insurance costs	-	-	(113,191)	(281,601)	-	-	(394,792)
	Arbitrage rebate	-	-	-	(495,880)	-	-	(495,880)
	Other expenses	-	-	(35,600)	-	-	-	(35,600)
	Total nonoperating revenues (expenses)	5,059,126	4,116,086	(109,415)	4,281,286	642,153	2,129,831	16,119,067
	Income (loss) before transfers	15,844,431	3,251,898	(2,012,628)	4,680,743	(859,957)	722,629	21,627,116
	Transfers in	15,000,000	36,000,000	-	-	-	-	51,000,000
	Transfers out	-	-	-	-	-	(161,927)	(161,927)
	Change in net assets	30,844,431	39,251,898	(2,012,628)	4,680,743	(859,957)	560,702	72,465,189
	Net assets							
	Beginning of year	156,690,527	125,176,060	6,886,280	36,315,898	2,104,169	39,023,274	366,196,208
	End of year	\$ 187,534,958	\$ 164,427,958	\$ 4,873,652	\$ 40,996,641	\$ 1,244,212	\$ 39,583,976	\$ 438,661,397

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2010**

	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 tenants	\$ -	\$ 1,489,463	\$ 14,860,697	\$ -	\$ -	\$ 433,389	\$ 16,783,549
Cash received from borrowers							
Principal repayments	768,662	6,193,226	-	814,798	6,602,882	71,381	14,450,949
Interest income	964,226	1,782,887	-	7,856,983	1,264,242	350,302	12,218,640
Cash received from sale of land	-	57,221	-	-	-	-	57,221
Cash received from conveyance taxes	10,190,108	-	-	-	-	-	10,190,108
Cash received for payments on mortgage-backed securities	-	-	-	16,299,771	-	-	16,299,771
Cash payments for issuance of loans receivable	(37,115,697)	(41,084,740)	-	-	(20,800,000)	-	(99,000,437)
Interest payments	-	-	(3,970,229)	(9,594,211)	(2,848,180)	-	(16,412,620)
Payments to employees	(102,587)	(2,516,701)	(213,649)	(453,378)	(62,825)	(1,209,025)	(4,558,165)
Payments to suppliers	(65,387)	(879,807)	(8,298,802)	(317,309)	(80,151)	(1,909,273)	(11,550,729)
Cash receipts from (payments to) other funds	-	1,642,602	(27,519)	4,097	(145,741)	175,670	1,649,109
Other cash receipts (payments)	(393,917)	(159,163)	709,462	131	245,107	1,563,545	1,965,165
Net cash provided by (used in) operating activities	(25,754,592)	(33,475,012)	3,059,960	14,610,882	(15,824,666)	(524,011)	(57,907,439)
Cash flows from noncapital financing activities							
Principal paid on revenue bond maturities and redemptions	-	-	-	(56,070,000)	-	-	(56,070,000)
Proceeds from new bond issuance	-	-	-	99,726,300	-	-	99,726,300
Transfers in	15,000,000	36,000,000	-	-	-	-	51,000,000
Transfers out	-	-	-	-	-	(161,927)	(161,927)
Net cash provided by (used in) noncapital financing activities	15,000,000	36,000,000	-	43,656,300	-	(161,927)	94,494,373
Subtotal carried forward	(10,754,592)	2,524,988	3,059,960	58,267,182	(15,824,666)	(685,938)	36,586,934

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2010**

	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	(10,754,592)	2,524,988	3,059,960	58,267,182	(15,824,666)	(685,938)	36,586,934
Cash flows from capital and related financing activities							
Principal paid on revenue bond maturities and redemptions	-	-	(1,855,000)	-	(7,037,882)	-	(8,892,882)
Proceeds from new bond issuance	-	-	-	-	20,800,000	-	20,800,000
Principal paid on mortgage loans	-	-	-	-	-	(17,864)	(17,864)
Interest payments	-	-	-	-	-	(110,626)	(110,626)
Principal payments on notes payable	-	(13,337)	-	-	-	-	(13,337)
Purchase of capital assets	-	-	(3,404,065)	-	-	(110,520)	(3,514,585)
Net cash provided by (used in) capital and related financing activities	-	(13,337)	(5,259,065)	-	13,762,118	(239,010)	8,250,706
Cash flows from investing activities							
Purchase of investments	-	-	-	(148,730,957)	(253,916)	-	(148,984,873)
Proceeds from maturities of investments	-	-	-	88,129,432	1,646,788	3,028	89,779,248
Interest received	836,182	-	-	5,058,767	669,578	450,160	7,014,687
Change in fair value of equity in cash and cash equivalents and investments in State Treasury	4,222,944	4,116,086	-	-	-	1,507,633	9,846,663
Net increases in restricted deposits and funded reserves	-	-	-	-	-	49,922	49,922
Net cash provided by (used in) investing activities	5,059,126	4,116,086	-	(55,542,758)	2,062,450	2,010,743	(42,294,353)
Net increase (decrease) in cash and cash equivalents	(5,695,466)	6,627,737	(2,199,105)	2,724,424	(98)	1,085,795	2,543,287
Cash and cash equivalents							
Beginning of year	78,196,381	78,063,539	30,391,307	187,040	349	29,843,545	216,682,161
End of year	\$ 72,500,915	\$ 84,691,276	\$ 28,192,202	\$ 2,911,464	\$ 251	\$ 30,929,340	\$ 219,225,448

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

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2010**

	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	\$ 10,785,305	\$ (864,188)	\$ (1,903,213)	\$ 399,457	\$ (1,502,110)	\$ (1,407,202)	\$ 5,508,049
Operating income (loss)	-	-	-	(4,023,863)	-	-	(4,023,863)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	-	172,161	5,062,063	804	-	161,355	5,396,383
Net increase in fair value of mortgage-backed securities	-	175,573	-	-	-	14,671	190,244
Depreciation	-	16,586	-	-	-	-	16,586
Loss on sale of assets	-	-	-	-	-	-	-
Changes in assets and liabilities							
Mortgage loans receivables	(36,347,035)	(34,891,514)	-	814,798	(14,197,118)	71,382	(84,549,487)
Accrued interest receivable	(201,816)	(775,221)	-	2,196,365	23,484	219,824	1,462,636
Tenant receivables	-	(190,484)	175,857	-	-	(35,981)	(50,608)
Other receivables	-	(98,041)	26,959	-	10,962	-	(60,120)
Due from other funds	-	28,154	-	-	(145,741)	-	(594,074)
Due from other State departments	-	1,614,448	-	-	-	-	1,614,448
Inventories – development in progress and dwelling units	-	(570,988)	-	-	-	-	(570,988)
Prepaid expenses and other assets	-	-	60,598	348	-	1,329	62,275
Investments	-	-	-	16,299,771	-	-	16,299,771
Accounts payable	-	(440,145)	(705,753)	(4,718)	-	135,186	(1,015,430)
Accrued interest payable	-	-	462,012	(1,342,525)	8,444	-	(872,069)
Other accrued expenses	13,408	222,177	(34,488)	68,922	(22,587)	74,766	322,198
Due to other funds	(4,454)	-	(27,519)	4,097	-	652,157	624,281
Security deposits	-	1,142	(15,474)	-	-	64,989	50,657
Deferred income	-	(396,010)	(41,082)	-	-	-	(437,092)
Deferred refunding costs	-	-	-	524,766	-	-	524,766
Deferred fees	-	-	-	(327,340)	-	-	(327,340)
Deferred gain on sale of units and land	-	(27,880)	-	-	-	-	(27,880)
Estimated future costs of development	-	2,549,218	-	-	-	-	2,549,218
Net cash provided by (used in) operating activities	\$ (25,754,592)	\$ (33,475,012)	\$ 3,059,960	\$ 14,610,882	\$ (15,824,666)	\$ (524,011)	\$ (57,907,439)

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Fiduciary Fund – Private Purpose Trust Fund
Statement of Fiduciary Net Assets
June 30, 2010

	Private Purpose Trust Fund
Assets	
Equity in cash and cash equivalents and investments in State Treasury	\$ 203,484
Liabilities and Net Assets	
Liabilities	\$ 185,608
Net assets – held in trust	17,876
Total liabilities and net assets	\$ 203,484

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

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Notes to Financial Statements
June 30, 2010

1. Organization and Summary of Significant Accounting Policies

Financial Reporting Entity

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

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

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

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

The financial statements of the Corporation 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 Hawai'i (the "State") 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 Hawai'i as of June 30, 2010, 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.

Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net assets and the statement of activities, report information 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

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Notes to Financial Statements
June 30, 2010

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 employs an indirect cost allocation system. The Corporation provides certain administrative services to its various funds. The cost of these services is allocated to the funds based on estimates of benefits provided to the funds.

Net 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 financial statements. Since by definition the fiduciary fund's 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, its funds are not incorporated into the government-wide statements.

Measurement Focus and Basis of Accounting

Government-Wide Financial Statements

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

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal year 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.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Notes to Financial Statements
June 30, 2010

Expenditures generally are recorded when a liability is incurred. 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, 2010 has been reported in the government-wide financial statements.

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.

The proprietary funds have the option under Governmental Accounting Standards Board ("GASB") Statement No. 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 is reported as nonoperating income.

Fund Accounting

The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Corporation uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate 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.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

Governmental Funds

- **Home Program Fund** – The Home Program Fund is used to account for all financial activities that are funded by the federal grants. Substantially all of the fund's activity relates to providing affordable housing to residents of the State of Hawai‘i.
- **National Foreclosure Mitigation Counseling Fund** – The National Foreclosure Mitigation Counseling Fund ("NFMF") is used to account for all financial activities funded by the related federal grant. Substantially all of the fund's activity relates to providing foreclosure intervention counseling and legal assistance.
- **General Obligation Bond Fund** – The General Obligation Bond Fund is used to account for the transfers of the proceeds of the State's general obligation bonds allotted to the Corporation for subsequent use by the Corporation's other funds.

State of Hawai‘i
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Notes to Financial Statements
June 30, 2010

- **Neighborhood Stabilization Program** – The Neighborhood Stabilization Program Fund (“NSP”) is used to account for all financial activities funded by the related federal grant. Substantially all of the fund’s activity relates to providing targeted emergency assistance to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight.
- **Low Income Housing Grants in Lieu of Tax Credit Allocations Fund** – The Low Income Housing Grants in Lieu of Tax Credit Allocations (“Section 1602”) Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund’s activities relate to designated housing credit agencies making subawards to developers of qualified low-income housing buildings. Section 1602 funds are in “exchange” for Low-Income Housing Tax Credits. The purpose of the cash assistance is to pay the developer’s costs for construction or acquisition and rehabilitation of rental housing for low-income families and individuals.
- **Tax Credit Assistance Program** – The Tax Credit Assistance Program (“TCAP”) Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund’s activities relate to providing funds directly to designated state housing credit agencies for award to affordable rental housing developments that have been allocated Low Income Housing Tax Credits and are in need of additional gap equity funding.

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.

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

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.

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Notes to Financial Statements
June 30, 2010

- Dwelling Unit Revolving Fund accounts for state funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing mortgage and interim financing, rental income, sales proceeds and interest earnings from the financing and investment of such funds.
- Hawaii Rental Housing System Revenue Bond Fund accounts for 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 Hawai'i.
- Single Family Mortgage Purchase Revenue Bond Fund accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, 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.

Fiduciary Fund

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

Equity in Cash and Cash Equivalents and Investments in State Treasury

The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

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

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Corporation. However, as these funds are held in the State cash pool, the Corporation does not manage these investments and the types of investments and related interest rate, credit, and custodial risks are not determinable at the Corporation's level. The risk disclosures of the State's cash pool are included in the State's Comprehensive Annual Financial Report ("CAFR") which may be obtained from the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

Cash and short-term investments held outside of the State Treasury are primarily held in a financial institution outside of the State of Hawai'i.

In March 2011, DAGS informed state agencies participating in the State Treasury Investment Pool that the State's investments in auction rate securities would be adjusted as of and for the year ended June 30, 2010 and that each participating State agency would be allocated a portion of the adjustment. The Corporation's total allocated adjustment for fiscal 2010 amounted to an increase of approximately \$9,847,000.

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Notes to Financial Statements
June 30, 2010

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

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, which approximates fair market value. Non-participating investment contracts, generally repurchase agreements, are reported at cost, which approximates fair market value. All other investments are reported at fair market value.

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 (Hawai'i), and Leiali'i (Maui). Costs included in developments in progress relate to the infrastructure construction for these master planned communities. Units available for sale include constructed units, developed lots and repurchased units available for sale.

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

Interfund Receivables and Payables

During the course of operations, transactions occur between funds that may result in amounts owed between funds. Those related to transactions for goods and services are classified as "due to and from other funds." Interfund receivables and payables between funds (noncurrent portion) are reported as "advances from and to other funds." See Note 16 for details of interfund transactions, including receivables and payables at year end.

Capital Assets

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

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

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

State of Hawai'i
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Notes to Financial Statements
June 30, 2010

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

	Governmental Activities	Proprietary Funds and Business Type Activities
Building and building improvements	25 years	10-40 years
Equipment	7 years	1-10 years

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.

Amortization

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

Accrued 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 proprietary funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$204,000. Accrued vacation, which is included in other accrued expenses in the statement of net assets, changed during 2010 as follows:

Balance at July 1, 2009	Additions	Reductions	Balance at June 30, 2010
\$ 677,023	\$ 271,247	\$ 298,433	\$ 649,837

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 Hawai'i ("ERS"). Accumulated sick leave at June 30, 2010 amounted to approximately \$1,823,000.

Post Retirement Health Care and Life Insurance Benefits

The Corporation accounts for its post-retirement health care and life insurance benefits in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which establishes standards of accounting and financial reporting for other postemployment benefit ("OPEB") expenses, liabilities or assets.

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Notes to Financial Statements
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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.

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.

Deficit Balances

The Kekuilani Gardens Project Fund and Hamakua Fund have net deficits as of June 30, 2010. Rental increases at the Kekuilani Gardens Project, effective July 1, 2010, are expected to assist the project in eliminating the deficit. It is anticipated that subsidies from the State are necessary to liquidate the Hamakua Fund's deficit.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides clearer fund balance classifications that can be more consistently applied and clarifies the existing governmental fund type definitions. This Statement also establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds and provides for additional classifications such as restricted, committed, assigned, and unassigned fund balance. The provisions of this Statement are effective for the fiscal year beginning after June 15, 2010. Fund balance reclassifications made to conform to the provisions of this Statement will be applied retroactively by restating the fund balance for all prior periods presented.

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting of certain financial instruments and external investment pools. These provisions are effective for the Corporation for periods beginning after June 15, 2010. The Corporation has not yet determined the effect this Statement will have on the Corporation's financial statements.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2011. Management does not expect that this Statement will have a material effect on the financial statements.

State of Hawai'i
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In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The provisions of this Statement are effective for periods beginning after December 15, 2011. The Corporation has not yet determined the effect this Statement will have on the Corporation's financial statements.

2. Budgeting and Budgetary Control

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during the fiscal year. Amounts reflected as budgeted revenues in the statement of revenues and expenditures – budget and actual (budgetary basis) – are those estimates as compiled and reviewed by the State of Hawai'i, Department of Budget and Finance.

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

All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2009 – 2010 biennial budget. The Neighborhood Stabilization Program and Low Income Housing Tax Credit funds have a legally appropriated annual budget.

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

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Corporation. During the fiscal year ended June 30, 2010, there were no expenditures in excess of available appropriations at the legal level of budgetary control.

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

The Corporation's annual budget is prepared on the budgetary basis of accounting with several differences from the GAAP preparation of the statement of revenues, expenditures and changes in fund balances, principally related to (1) encumbrance of purchase orders and contract obligations, (2) accrued revenues and expenditures, and (3) unbudgeted programs (federal award programs). However, for the year ended June 30, 2010, there were no differences between the budgetary amounts and the amounts presented in accordance with GAAP.

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3. Deposits

At June 30, 2010, total cash and cash equivalents reported in the statement of net assets consisted of the following:

	Governmental	Business-Type	Total
Equity in cash and cash equivalents and investments in State Treasury	\$ 36,001	\$ 187,525,390	\$ 187,561,391
Cash in banks (book balance)	-	2,645,658	2,645,658
Deposits held in trust	-	5,717	5,717
Cash and cash equivalents held by Trustee	-	29,054,400	29,054,400
Total cash	<u>\$ 36,001</u>	<u>\$ 219,231,165</u>	<u>\$ 219,267,166</u>

The bank balance of cash in bank was approximately \$2,630,000, of which \$500,000 was covered by federal depositary insurance and \$2,130,000 was covered by collateral held by the pledging financial institution's trust department or agent in the Corporation's name.

4. Investments

Investments at June 30, 2010 are summarized by maturity (in years) as follows:

	Less than 1	Greater than 1 and up to 5	Greater than 5 and up to 10	Greater than 10 and up to 20	Greater than 20	Fair Value
Mortgage-backed securities	\$ -	\$ 240,201	\$ 7,008,889	\$ 23,180,598	\$ 90,946,257	\$ 121,375,945
Repurchase agreements	-	-	-	-	61,240,445	61,240,445
Guaranteed investment contracts	-	-	-	-	103,208	103,208
U.S. treasury bills	130,082,110	-	-	-	-	130,082,110
Total investments	<u>\$ 130,082,110</u>	<u>\$ 240,201</u>	<u>\$ 7,008,889</u>	<u>\$ 23,180,598</u>	<u>\$ 152,289,910</u>	<u>\$ 312,801,708</u>

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

Investments held by trustees under revenue bond programs	\$ 305,791,372
Investments – noncurrent	<u>7,010,336</u>
Total investments	<u>\$ 312,801,708</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, 2010, all investments are rated Aaa or AAAM by Moody's, Fitch and Standard & Poor's.

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- **Concentration of Credit Risk** – The Corporation has no limit on the amount the Corporation may invest in any one issuer. As of June 30, 2010, the Corporation’s investments were in the U.S. Treasury, the Federal National Mortgage Association, the Societe Generale, and other issuers. These investments are 42%, 39%, 14%, and 5%, 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 notes and loans receivable at June 30, 2010 comprised the following:

	Mortgage Loans	Notes and Loans
Mortgage loans bearing interest up to 13.5%, maturing at various dates through 2069	\$ 227,165,023	\$ -
Promissory notes bearing interest up to 4.72%, maturing in 2065	-	60,599,752
Promissory notes bearing interest up to 6%, maturing in 2011	-	11,767,243
Allowance for loan losses	<u>(187,568)</u>	<u>-</u>
	226,977,455	72,366,995
Less: Current portion	<u>(1,124,451)</u>	<u>(11,767,243)</u>
	<u>\$ 225,853,004</u>	<u>\$ 60,599,752</u>

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 13).

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6. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	Balance at July 1, 2009	Additions	Disposals	Balance at June 30, 2010
Governmental activities				
Depreciable assets				
Equipment	\$ 567,704	\$ -	\$ -	\$ 567,704
Accumulated depreciation				
Equipment	(103,646)	(113,541)	-	(217,187)
Construction in progress	1,000,000	-	(1,000,000)	-
Governmental activities capital assets, net	<u>\$ 1,464,058</u>	<u>\$ (113,541)</u>	<u>\$ (1,000,000)</u>	<u>\$ 350,517</u>
Business-type activities				
Depreciable assets				
Building and improvements	\$ 151,963,734	\$ 2,984,786	\$ (124,260)	\$ 154,824,260
Equipment	1,824,049	542,319	-	2,366,368
	153,787,783	3,527,105	(124,260)	157,190,628
Accumulated depreciation				
Building and improvements	(86,028,942)	(5,199,900)	(12,522)	(91,241,364)
Equipment	(1,778,837)	(196,483)	116,669	(1,858,651)
	<u>(87,807,779)</u>	<u>(5,396,383)</u>	<u>104,147</u>	<u>(93,100,015)</u>
	65,980,004	(1,869,278)	(20,113)	64,090,613
Land	43,386,859	73,008	(82,000)	43,377,867
Business-type activities capital assets, net	<u>\$ 109,366,863</u>	<u>\$ (1,796,270)</u>	<u>\$ (102,113)</u>	<u>\$ 107,468,480</u>

Depreciation expense for the year ended June 30, 2010 was charged to functions as follows:

Governmental activities		
Low income housing service and assistance		<u>\$ 113,541</u>
Business-type activities		
Housing development program		\$ 333,516
Single-family mortgage loan program		804
Rental housing program		<u>5,062,063</u>
Total depreciation expense – business-type activities		<u>\$ 5,396,383</u>

At June 30, 2010, capital assets for the proprietary funds consisted of the following:

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Total
Buildings and improvements	\$ 141,912,330	\$ 7,489,177	\$ 5,422,753	\$ 154,824,260
Equipment	2,081,186	204,257	80,925	2,366,368
	143,993,516	7,693,434	5,503,678	157,190,628
Less: Accumulated depreciation	(85,048,731)	(5,947,274)	(2,104,010)	(93,100,015)
	58,944,785	1,746,160	3,399,668	64,090,613
Land	16,186,850	26,118,517	1,072,500	43,377,867
Net capital assets	<u>\$ 75,131,635</u>	<u>\$ 27,864,677</u>	<u>\$ 4,472,168</u>	<u>\$ 107,468,480</u>

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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, 2010, the following debt service reserves and mortgage loan reserves were required by the indentures under Revenue Bond Programs in the Single Family Mortgage Purchase Revenue Bond Fund.

Debt service reserve requirements	\$ 23,814,000
Mortgage loan reserve requirements	<u>944,000</u>
	<u>\$ 24,758,000</u>

At June 30, 2010, approximately \$30,613,000 and \$1,873,000 of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively, and are included in assets held by trustees in the statement of net assets.

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, 2010, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 4.54 times the aggregate debt service on outstanding bonds during the year and net revenues (as defined in the trust indenture agreement) of 1.23 times the aggregate debt service on outstanding bonds during the year.

The trust indenture agreement also requires that the mortgage loan reserves for these Revenue Bond Funds be funded from other than bond proceeds and, accordingly, the reserves have been funded by commitment fees at June 30, 2010.

8. Mortgage and Note 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 annual interest at 7.25% 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, 2010, the balance outstanding on the mortgage loan was \$4,975,777.

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 \$361,000 to \$105,000.

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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 annual interest at 1% and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$1,475 and matures on December 5, 2046. At June 30, 2010, the balance outstanding on the mortgage loan was \$533,768.

The Dwelling Unit Revolving Fund (“DURF”) also has one mortgage note payable to the USDA – RD. The note was originated in October 1994, and is payable in monthly installments of \$1,315, including annual interest at 1%, due in October 2026. The note is collateralized by property and rental receipts. At June 30, 2010, the balance outstanding on the mortgage note was \$237,033.

Mortgage and note payable activity during the year was as follows:

	Balance at July 1, 2009	Addition	Reductions	Balance at June 30, 2010	Less Current Portion
Mortgage payable	\$ 5,527,409	\$ -	\$ (17,864)	\$ 5,509,545	\$ 41,135
Note payable	250,370	-	(13,337)	237,033	13,471
Total	<u>\$ 5,777,779</u>	<u>\$ -</u>	<u>\$ (31,201)</u>	<u>\$ 5,746,578</u>	<u>\$ 54,606</u>

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

Year ending June 30,	Principal	Interest	Total
2011	\$ 54,000	\$ 367,000	\$ 421,000
2012	57,000	365,000	422,000
2013	60,000	362,000	422,000
2014	62,000	360,000	422,000
2015	65,000	357,000	422,000
2016 – 2020	378,000	1,732,000	2,110,000
2021 – 2025	490,000	1,620,000	2,110,000
2026 – 2030	587,000	1,464,000	2,051,000
2031 – 2035	785,000	1,246,000	2,031,000
2036 – 2040	1,097,000	934,000	2,031,000
2041 – 2045	1,544,000	487,000	2,031,000
2046 – 2047	567,000	33,000	600,000
	<u>\$ 5,746,000</u>	<u>\$ 9,327,000</u>	<u>\$ 15,073,000</u>

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9. Revenue Bonds Payable

Through June 30, 2010, approximately \$2.34 billion of revenue bonds have been issued. The revenue bonds are payable from and collateralized by the revenues and other monies and assets of the revenue bond funds and other assets of the Corporation pledged under the indentures.

Revenue bonds payable at June 30, 2010 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds

1997 Series A	
Term bonds maturing annually through 2031 (5.75%)	\$ 4,605,000
1997 Series B	
Term bonds maturing annually through 2018 (5.45%)	15,220,000
1998 Series A	
Serial bonds maturing annually through 2013 (5.05% to 5.25%)	4,575,000
Term bonds maturing in 2014 through 2018 (5.35%)	7,355,000
Placed bonds maturing in 2019 through 2029 (5.40%)	<u>18,525,000</u>
	30,455,000
1998 Series B	
Term bonds maturing in 2019 through 2028 (5.30%)	9,320,000
1998 Series C	
Term bonds maturing in 2019 through 2020 (5.35%)	3,415,000
2000 Series A	
Term bonds maturing in 2021 through 2027 (6.275%)	25,000,000
2002 Series A	
Serial bonds maturing annually through 2013 (4.45% to 4.80%)	1,595,000
Term bonds maturing annually through 2034 (5.3% to 5.375%)	11,185,000
Placed bonds maturing in 2023 through 2033 (5.38%)	2,995,000
Planned Amortization Class bonds maturing annually through 2033 (4.40%)	<u>855,000</u>
	16,630,000
2002 Series B	
Term bonds maturing in 2026 through 2028 (5.25%)	1,535,000
2005 Series A	
Term bonds maturing in 2026 through 2037 (5.00%)	4,075,000
2005 Series B	
Serial bonds maturing annually through 2015 (3.35% to 3.90%)	5,255,000
Term bonds maturing in 2016 through 2020 (4.125% to 4.30%)	12,270,000
Planned Amortization Class bonds maturing in 2012 through 2022 (3.70%)	<u>10,355,000</u>
	27,880,000
2009 Series A	
Term bonds maturing in 2041 (0.095%)	<u>100,000,000</u>
Total Single Family Mortgage Purchase revenue bonds	<u>\$ 238,135,000</u>

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Hawaii Rental Housing System revenue bonds

2004 Series A	
Serial bonds maturing annually through 2013 (3.00% to 3.70%)	\$ 7,010,000
Term bonds maturing in 2014 through 2034 (3.80% to 4.75%)	67,455,000
	<u>74,465,000</u>
2004 Series B	
Serial bonds maturing annually through 2030 (4.00% to 6.00%)	15,285,000
Term bonds maturing in 2031 through 2034 (6.50%)	5,590,000
	<u>20,875,000</u>
	<u>\$ 95,340,000</u>

Multifamily Housing revenue bonds

1999 Series (Manana Gardens Project)	
Term bond maturing annually through 2035 (6.30%)	\$ 3,380,000
2000 Series (Sunset Villas Project)	
Term bonds maturing annually through 2036 (5.00% to 5.75%)	24,590,000
2002 Series (Hale Hoaloha Project)	
Mortgage installment bonds maturing annually through 2018 (6.75% until 2012 and 7.75% thereafter)	1,514,000
2005 Series (Kauhale Olu Project)	
Mortgage installment bonds maturing in 2026 (6.375%)	5,314,352
2007 Series (Kukui Gardens Project)	
Mortgage installment bonds maturing annually through 2042 (1.16%)	45,000,000
2008 Series (Kahului Town Terrace Project)	
Mortgage installment bonds maturing annually through 2043 (4.25%)	1,947,867
2009 Series (Lokahi Kau Project)	
Mortgage installment bonds maturing annually through 2042 (0.25%)	33,500,000
2010 Series (Franciscan Vistas Ewa Project)	
Mortgage installment bonds maturing in 2051 (4.35%)	20,800,000
	<u>136,046,219</u>
Total Multifamily Housing revenue bonds	<u>\$ 136,046,219</u>

Interest on the fixed-rate Single Family Mortgage Purchase, Hawaii Rental Housing System, and Multifamily Housing revenue bonds is payable semi-annually.

The Single Family Mortgage Purchase and Hawaii Rental Housing System revenue bonds with designated maturity dates and the Multifamily Housing revenue bonds may be redeemed at the option of the Corporation commencing in 2007 for the Single Family Mortgage Purchase 1997 Series, subject to a redemption premium which ranges up to 2%; 2008 for the Single Family Mortgage Purchase 1998 Series, subject to a redemption premium that ranges up to 1.5%; 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, and 2011 for the 2000 Series, subject to a redemption premium which ranges up to 2%. 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).

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During the year ended June 30, 2010, early redemptions totaled \$49,940,000.

Revenue bonds activity during the year was as follows:

	Balance at July, 2009	Additions	Reductions	Balance at June 30, 2010
Single Family Mortgage Purchase	\$ 194,205,000	\$ 100,000,000	\$ (56,070,000)	\$ 238,135,000
Hawaii Rental Housing System	97,195,000	-	(1,855,000)	95,340,000
Multifamily Housing	122,284,101	20,800,000	(7,037,882)	136,046,219
	<u>413,684,101</u>	<u>120,800,000</u>	<u>(64,962,882)</u>	<u>469,521,219</u>
Add: Unamortized premium	584,745	-	(39,376)	545,369
Less: Deferred refunding amount	(2,303,730)	-	578,244	(1,725,486)
Total	<u>\$ 411,965,116</u>	<u>\$ 120,800,000</u>	<u>\$ (64,424,014)</u>	<u>468,341,102</u>
Less: Current portion				<u>(7,497,450)</u>
Total				<u>\$ 460,843,652</u>

The approximate annual debt service requirements through 2015 and in five-year increments thereafter to maturity for revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2011	\$ 7,497,000	\$ 8,830,000	\$ 16,327,000
2012	55,910,000	8,742,000	64,652,000
2013	8,882,000	8,219,000	17,101,000
2014	10,173,000	8,099,000	18,272,000
2015	9,655,000	8,006,000	17,661,000
2016 – 2020	51,493,000	37,531,000	89,024,000
2021 – 2025	67,300,000	32,742,000	100,042,000
2026 – 2030	75,917,000	25,857,000	101,774,000
2031 – 2035	40,482,000	15,809,000	56,291,000
2036 – 2040	7,314,000	5,530,000	12,844,000
2041 – 2045	114,098,000	4,717,000	118,815,000
2046 – 2050	-	4,524,000	4,524,000
2051 – 2055	20,800,219	1,810,000	22,610,219
	<u>\$ 469,521,219</u>	<u>\$ 170,416,000</u>	<u>\$ 639,937,219</u>

In order to ensure the exclusion of interest on the Corporation’s Hawaii Rental Housing System revenue bonds and Single Family Mortgage Purchase 2009 Series A 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, 2010, the Corporation determined that \$3,840,757 of rebates was due to the U.S. Treasury.

Interest expense of approximately \$15,849,000 was included as direct function expenses in the government-wide statement of activities during the year ended June 30, 2010.

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10. Conduit Debt Obligations

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

As of June 30, 2010, there were eight series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of \$136,046,219 reported as Multifamily Housing Revenue bonds.

11. Leases

Lessee

The Corporation leases land, buildings and improvements under various noncancellable operating leases expiring at various dates through 2056. The leases have scheduled rent increases at various times throughout their terms.

The minimum rental commitments under operating leases are as follows:

Year ending June 30,	
2011	\$ 845,000
2012	858,000
2013	872,000
2014	923,000
2015	938,000
2016 – 2020	4,921,000
2021 – 2025	5,208,000
2026 – 2030	5,580,000
2031 – 2035	4,076,000
2036 – 2040	4,076,000
2041 – 2045	4,367,000
2046 – 2050	4,891,000
2051 – 2055	5,240,000
2056	1,048,000
	<u>\$ 43,843,000</u>

Rent expense for the year ended June 30, 2010 totaled approximately \$852,000.

Lessor

The Corporation leases land with a carrying value of approximately \$25,872,000 to various developers and home buyers. The leases expire at various dates through 2082. Lease rental income for the year ended June 30, 2010 was approximately \$1,069,000.

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As discussed in Note 13, the Corporation’s lease related to Kukui Gardens was prepaid with a promissory note. The promissory note does not have fixed repayment terms. Accordingly, the minimum amounts to be received are excluded from the following table.

The future minimum lease rent from these operating leases at June 30, 2010 is as follows:

Year ending June 30,	
2011	\$ 434,000
2012	433,000
2013	430,000
2014	436,000
2015	454,000
2016–2020	2,366,000
2021–2025	2,103,000
2026–2030	2,108,000
2031–2035	295,000
2036–2040	74,000
2041–2082	24,000
	<u>\$ 9,157,000</u>

12. Commitments and Contingencies

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 Hawai‘i (“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, 2010, the outstanding balance of mortgage loans that have been sold to the ERS which are covered by the loan guarantee was approximately \$10,000. At June 30, 2010, notes and loan receivables did not include any delinquent loans purchased back from the ERS.

Construction Contracts

At June 30, 2010, the Dwelling Unit Revolving Fund and Housing Finance Revolving Fund had outstanding commitments to expend approximately \$39,066,000 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, 2010.

Loan Commitments

At June 30, 2010, the Rental Housing Trust Fund had aggregate outstanding loan commitments of approximately \$3,215,000.

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, 2010, all but remnant residential parcels and 42 acres of business mixed-use land have been developed and sold. The estimated future cost of development is recorded as a liability on the accompanying statement of net assets and relates primarily to the completion of certain infrastructure

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improvements at this project. This liability represents estimated amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands. The Villages of Leiali'i is in West Maui and is located on public trust ("ceded") land owned by the State of Hawai'i. Development of Leiali'i has been delayed due to lawsuits seeking to prevent the Corporation's sale or transfer of this land. As of June 30, 2010, the Corporation has remaining development rights for most of the Leiali'i project. Development costs related to Leiali'i were approximately \$19.9 million at June 30, 2010. Management believes that the future revenues from these projects will meet or exceed the development costs at June 30, 2010 and the remaining costs to be incurred on the project.

Development of the Villages of La'i'opua master planned community in West Hawai'i was also delayed due to the ceded land lawsuits. The Corporation subsequently transferred to the Department of Hawaiian Home Lands, all of its master developer rights, title and interest in La'i'opua except for approximately 200 acres, of which approximately 57 acres of land is ceded. The Corporation has embarked on the development of another master planned community on non-ceded land in West Hawai'i, named the Kamakana Villages at Keahuolu.

Also, the Corporation has other development costs and dwelling units of approximately \$2.6 million at June 30, 2010.

Torts and Litigation

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

Insurance

The State maintains certain insurance coverage to satisfy the bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2010, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Corporation's portion of the State's workers' compensation liability was not material at June 30, 2010.

13. Kukui Gardens

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

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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, 2010. The \$45 million note bears interest at a floating rate that resets simultaneously with adjustments to the related bonds and matures on January 1, 2042. The note includes monthly payments of principal and interest with principal payments that range from approximately \$8,000 to \$46,000 for the first 30 years of the loan. Any unpaid principal and accrued interest, together with any other expenses are due upon maturity.

Additionally, EAH executed three promissory notes to DURF in an aggregate amount of \$29,055,000, including approximately \$4,055,000 related to cash advanced from DURF to EAH and \$25 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, 2010 related to the Project was approximately \$24,020,000. The notes bear interest at 4.72% and are for a term of 58 years, with a final maturity date of December 17, 2065. Repayment of the notes is distributed into three periods as follows: (1) December 18, 2007 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

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

During the year ended June 30, 2010, DURF recognized approximately \$1.5 million of interest income related to the outstanding promissory notes. As of June 30, 2010, DURF has recorded approximately \$3.6 million of interest income receivable related to the outstanding promissory notes, which is due beginning on April 1, 2013.

14. Benefit Plans

Substantially all employees of the Corporation participate in the State's various employee benefit plans, including the Employees' Retirement System ("ERS") of the State of Hawai'i, post-employment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State's benefit plans, refer to the State of Hawai'i and ERS CAFRs. The State's CAFR can be found at the Department of Accounting and General Services ("DAGS") website. The ERS CAFR can be found at the ERS website: <https://www4.hawaii.gov/ers/default/htm>.

State of Hawai‘i
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Notes to Financial Statements
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Employees’ Retirement System

The ERS is a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

The Corporation’s contributions for the fiscal years 2010, 2009 and 2008 of approximately \$393,000, \$469,000 and \$388,000, respectively, were equal to the required contributions for each year.

Post-Retirement Health Care and Life Insurance Benefits

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (“EUTF”), an agent multiple-employer defined benefit plan. 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 based on date of hire.

The Corporation contributed approximately \$172,000, \$277,000 and \$238,000, respectively for the fiscal years 2010, 2009 and 2008.

Required Supplementary information and Disclosures

The State’s CAFR includes the required footnote disclosures and supplementary information on the State’s other postemployment benefit plan.

State Policy

The actuarial valuation of the EUTF does not provide other postemployment benefits (“OPEB”) information by department or agency. Accordingly, the State’s policy on the accounting and reporting for OPEB is to allocate a portion of the State’s Annual Required Contribution (“ARC”), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State’s CAFR. The basis for the allocation is the proportionate share of contributions made by each component unit and proprietary fund for retiree health benefits.

Allocated OPEB Cost

The following table shows the components of the annual OPEB cost that has been allocated to the Corporation for the year ended June 30, 2010:

Balance at June 30, 2009	\$ 887,282
Additions	466,199
Deletions	<u>-</u>
Balance at June 30, 2010	<u>\$ 1,353,481</u>

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

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15. Related Party Transactions

Amounts due from other State of Hawai'i departments include approximately \$506,000 of miscellaneous advances previously made to other departments and approximately \$17,162,000 of amounts due from the Department of Hawaiian Home Lands ("DHHL") related to a previous agreement to transfer certain land 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%. As of June 30, 2010, amounts due from DHHL include approximately \$17,162,000 of principal, net of approximately \$2,930,000 of imputed interest, and approximately \$293,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately \$586,000 during the year ended June 30, 2010.

The Rental Assistance Revolving Fund provides rent subsidies to certain lessees of the Corporation's various projects. Total rent subsidies provided to lessees of the Corporation's various projects approximated \$1,053,000 during the year ended June 30, 2010. 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, 2010, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately \$1,081,000, which was allocated as office rental expense to various funds of the Corporation. In addition, DAGS incurred approximately \$987,000 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 matures in August 2022 and the minimum annual rental is determined annually by negotiation within a range of 97% to 103% of the previous year's minimum rent.

16. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2010 is as follows:

Receivable Fund	Payable Fund	Amount
Dwelling Unit Revolving Fund	Other Non-major Enterprise Funds	\$ 607,275
Multi Family Housing Revenue Bond Fund	Other Non-major Enterprise Funds	571,125
Other Non-major Enterprise Funds	General Obligation Bond Fund	42,287
Other Non-major Enterprise Funds	Rental Housing Trust Fund	188
Other Non-major Enterprise Funds	Single Family Mortgage Revenue Bond Fund	220,768
Other Non-major Enterprise Funds	Hawaii Rental Housing System Revenue Bond Fund	597,602
Other Non-major Enterprise Funds	Other Non-major Enterprise Funds	<u>2,362,032</u>
		<u>\$ 4,401,277</u>

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

17. Subsequent Events

In July 2010, the Corporation defeased \$24.6 million of outstanding revenue bonds from the Multifamily Housing Revenue Bond Fund.

Supplementary Information

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2010

	Home Program Fund	National Foreclosure Mitigation Program Fund	Tax Credit Assistance Program Fund	Total Non-major Governmental Funds
Assets				
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ 35,801	\$ 100	\$ 35,901
Due from other governments	31,510	-	-	31,510
Total assets	<u>\$ 31,510</u>	<u>\$ 35,801</u>	<u>\$ 100</u>	<u>\$ 67,411</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ 35,801	\$ -	\$ 35,801
Due to other funds	31,510	-	100	31,610
Total liabilities	<u>31,510</u>	<u>35,801</u>	<u>100</u>	<u>67,411</u>
Total liabilities and fund balances	<u>\$ 31,510</u>	<u>\$ 35,801</u>	<u>\$ 100</u>	<u>\$ 67,411</u>

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Non-major Governmental Funds
Combining Statement of Revenues, Expenditures and Change in Fund Balances
Year Ended June 30, 2010

	Home Program Fund	National Foreclosure Mitigation Program Fund	Tax Credit Assistance Program Fund	Total Non-major Governmental Funds
Revenues				
Intergovernmental	\$ 2,203,644	\$ 252,963	\$ -	\$ 2,456,607
Expenditures				
Programs	2,111,258	-	-	2,111,258
Personnel services	63,681	1,282	-	64,963
Administration	24,714	251,681	-	276,395
Professional services	3,991	-	-	3,991
Total expenditures	2,203,644	252,963	-	2,456,607
Change in fund balance	-	-	-	-
Fund balances				
Beginning of year	-	-	-	-
End of year	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditors' report.

State of Hawai'i Hawaii Housing Finance and Development Corporation Non-major Enterprise Funds Combining Statement of Net Assets June 30, 2010

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekulani Gardens Project Fund	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua Fund	Waialua Fund	Total
Assets											
Current assets											
Equity in cash and cash equivalents and investments in State Treasury	\$ 505,831	\$ 65,177	\$ 25,440,893	\$ 3,729,337	\$ 45,349	\$ 954,919	\$ -	\$ -	\$ -	\$ 41,100	\$ 30,737,257
Cash in banks	-	-	-	-	-	9,636	-	-	-	-	192,083
Receivables	-	-	-	-	-	-	-	-	-	-	-
Mortgage loans	-	123	789,639	13,488	-	-	-	-	1,851	1,359	1,359
Accrued interest	-	-	-	-	-	-	-	-	-	1,313	806,414
Tenant receivables, less allowance for doubtful accounts of \$152,871	-	-	-	-	31,773	-	-	-	-	-	31,773
Other	-	2,732	-	-	-	-	-	-	-	-	2,732
	-	2,855	789,639	13,488	31,773	-	-	-	1,851	2,672	842,278
Due from other funds	-	-	-	3,210,397	-	12,480	-	-	-	-	3,222,877
Prepaid expenses and other assets	-	-	116,577	-	-	-	-	-	-	-	116,577
Deposits held in trust	-	5,717	-	-	-	-	-	-	-	-	5,717
Total current assets	505,831	73,749	26,347,109	6,953,222	77,122	977,035	-	137,098	1,851	43,772	35,116,789
Investments	-	-	7,008,889	1,447	-	-	-	-	-	-	7,010,336
Mortgage loans, net of allowance for loan losses of \$187,568	-	-	2,249,985	1,100,975	-	-	-	-	-	-	3,350,960
Restricted deposits and funded reserves	-	-	-	-	409,406	-	-	-	-	-	409,406
Capital assets, net	-	-	-	-	4,472,168	-	-	-	-	-	4,472,168
Total assets	\$ 505,831	\$ 73,749	\$ 35,605,993	\$ 8,055,644	\$ 4,958,696	\$ 977,035	\$ -	\$ 137,098	\$ 1,851	\$ 43,772	\$ 50,359,659
Liabilities and Net Assets											
Current liabilities											
Accounts payable	-	\$ 3,852	\$ -	\$ 825	\$ 164,809	\$ 117,035	\$ -	\$ -	\$ -	\$ -	\$ 286,521
Other accrued expenses	-	18,599	36,588	273,573	10,209	-	-	-	-	-	338,969
Due to other funds	-	-	474	2,621,731	-	850,000	-	28,675	-	39,552	3,540,432
Due to State of Hawaii	-	-	-	-	-	10,000	-	-	-	-	10,000
Security deposits	-	5,717	-	1,048,025	36,474	-	-	-	-	-	1,090,216
Mortgage payable	-	-	-	-	41,135	-	-	-	-	-	41,135
Total current liabilities	-	28,168	37,062	3,944,154	252,627	977,035	-	28,675	-	39,552	5,307,273
Mortgage payable, net of current portion	-	-	-	-	5,468,410	-	-	-	-	-	5,468,410
Total liabilities	-	28,168	37,062	3,944,154	5,721,037	977,035	-	28,675	-	39,552	10,775,683
Commitments and contingencies											
Net assets											
Invested in capital assets, net of related debt	-	-	-	-	(1,037,377)	-	-	-	-	-	(1,037,377)
Restricted by legislation and contractual agreements	-	-	-	-	409,406	-	-	-	-	-	409,406
Unrestricted	505,831	45,581	35,568,921	4,111,490	(134,370)	-	-	137,098	(26,824)	4,220	40,211,947
Total net assets	505,831	45,581	35,568,921	4,111,490	(762,341)	-	-	137,098	(26,824)	4,220	39,583,976
Total liabilities and net assets	\$ 505,831	\$ 73,749	\$ 35,605,993	\$ 8,055,644	\$ 4,958,696	\$ 977,035	\$ -	\$ 137,098	\$ 1,851	\$ 43,772	\$ 50,359,659

See accompanying independent auditors' report.

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2010**

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekulani Gardens Project Fund	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua Fund	Waialua Fund	Total
Operating revenues											
Interest on mortgages, notes, loans, and mortgage-backed securities	\$ -	\$ -	\$ 67,874	\$ 62,547	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ 56	\$ 130,478
Rental	-	-	-	404,381	-	-	-	-	-	-	404,381
Other	-	-	22	1,545,497	26,967	-	-	-	-	-	1,572,466
	-	-	67,896	1,608,044	431,348	-	-	-	1	56	2,107,345
Total operating revenues											
Operating expenses											
Personnel services	-	-	64,213	1,100,209	44,603	-	-	-	-	1	1,209,026
Depreciation	-	-	-	-	161,355	-	-	-	-	-	161,355
Housing assistance payments	-	-	1,440,089	-	-	-	-	-	-	-	1,440,089
Administration	2	1	69,241	205,028	57,063	-	-	-	-	-	331,335
Provision for losses	-	-	-	-	14,671	-	-	-	-	-	14,671
Professional services	1,110	-	9,005	75,356	37,271	-	-	200	-	200	123,142
Insurance	-	-	1,317	2,880	18,493	-	-	-	-	-	18,493
Repairs and maintenance	-	-	-	-	111,767	-	-	-	-	-	115,964
Utilities	-	-	-	-	82,177	-	-	-	-	-	82,177
Capital expenses	-	-	113	2,059	-	-	-	-	-	-	2,172
Other	-	-	-	9,975	-	-	6,148	-	-	-	16,123
	1,112	1	1,583,978	1,395,507	527,400	-	6,148	200	201	201	3,514,547
Total operating expenses	(1,112)	(1)	(1,516,082)	(212,537)	(96,052)	-	(6,148)	(199)	(145)	(145)	(1,407,202)
Operating income (loss)											
Nonoperating revenues (expenses)											
Interest income	4,129	188	445,240	369	58	-	-	175	-	-	450,159
Net increase in fair value of equity in cash and cash equivalents and investments in State Treasury	24,946	3,055	1,344,234	135,398	-	-	-	-	-	-	1,507,633
Net increase in fair value of other investments	-	-	282,665	-	-	-	-	-	-	-	282,665
Interest expense	-	-	-	-	(110,626)	-	-	-	-	-	(110,626)
	29,075	3,243	2,072,139	135,767	(110,568)	-	-	175	-	-	2,129,831
Total nonoperating revenues (expenses)	27,963	3,242	556,057	348,304	(206,620)	-	(6,148)	175	(199)	(145)	722,629
Income (loss) before transfers	27,963	3,242	556,057	348,304	(206,620)	-	(161,774)	175	(153)	(145)	(161,927)
Transfers out	-	-	-	-	(206,620)	-	(167,922)	175	(352)	(145)	560,702
Change in net assets											
Net assets											
Beginning of year	477,868	42,339	35,012,864	3,763,186	(555,721)	-	167,922	136,923	(26,472)	4,365	39,023,274
End of year	505,831	45,581	35,568,921	4,111,490	(762,341)	-	-	137,098	(26,824)	4,220	39,583,976

See accompanying independent auditors' report.

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Cash Flows
Year Ended June 30, 2010**

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekulani Gardens Project Fund	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua Fund	Waialua Fund	Total
Cash flows from operating activities											
Cash received from tenants	\$ -	\$ -	\$ -	\$ 58,082	\$ 375,307	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 433,389
Cash received from borrowers	-	-	-	70,409	-	-	-	-	-	819	71,381
Principal repayments	-	400	259,293	90,552	-	-	-	-	-	56	350,302
Interest income	-	-	(64,213)	(1,100,209)	(44,603)	-	-	-	-	-	(1,209,025)
Payments to employees	(1,112)	(1)	(1,508,488)	(230,714)	(162,410)	-	(6,148)	-	(200)	(200)	(1,909,273)
Payments to suppliers	-	-	404	155,450	-	19,473	-	-	199	144	175,670
Cash receipts from other funds	-	-	22	1,535,522	26,967	1,034	-	-	-	-	1,563,545
Other cash receipts	-	-	-	-	-	-	-	-	-	-	-
Net cash provided by (used in) operating activities	(1,112)	399	(1,312,982)	579,092	195,261	20,507	(6,148)	-	153	819	(524,011)
Cash flows from noncapital financing activities											
Transfers out	-	-	-	-	-	-	(161,774)	-	(153)	-	(161,927)
Net cash used in noncapital financing activities	-	-	-	-	-	-	(161,774)	-	(153)	-	(161,927)
Cash flows from capital and related financing activities											
Proceeds from maturities of investments	-	-	-	-	(17,864)	-	-	-	-	-	(17,864)
Principal payments on mortgage loans	-	-	-	-	(110,520)	-	-	-	-	-	(110,520)
Purchase of capital assets	-	-	-	-	(110,626)	-	-	-	-	-	(110,626)
Interest payments	-	-	-	-	-	-	-	-	-	-	-
Net cash used in capital and related financing activities	-	-	-	-	(239,010)	-	-	-	-	-	(239,010)
Cash flows from investing activities											
Proceeds from maturities of investments	4,129	189	445,240	3,027	-	-	-	-	-	-	3,028
Interest received	-	-	-	369	58	-	-	-	-	-	450,160
Change in fair value of equity in cash and cash equivalents and investments in State Treasury	24,946	3,055	1,344,234	135,398	-	-	-	-	-	-	1,507,633
Net increases in restricted deposits and funded reserves	-	-	-	-	49,922	-	-	-	-	-	49,922
Net cash provided by investing activities	29,075	3,244	1,789,475	138,794	49,980	-	-	-	-	-	2,010,743
Net increase (decrease) in cash and cash equivalents	27,963	3,643	476,493	717,886	6,231	20,507	(167,922)	175	-	819	1,085,795
Cash and cash equivalents											
Beginning of year	477,868	61,534	24,964,400	3,011,451	39,118	944,048	167,922	136,923	-	40,281	29,843,545
End of year	\$ 505,831	\$ 65,177	\$ 25,440,893	\$ 3,729,337	\$ 45,349	\$ 964,555	\$ -	\$ 137,098	\$ -	\$ 41,100	\$ 30,929,340

See accompanying independent auditors' report.

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Non-major Enterprise Funds
Combining Statement of Cash Flows
Year Ended June 30, 2010**

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekulani Gardens Project Fund	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua Fund	Wai'alea Fund	Total
Cash flows from operating activities											
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities	\$ (1,112)	\$ (1)	\$ (1,516,082)	\$ 212,537	\$ (96,052)	\$ -	\$ (6,148)	\$ -	\$ (199)	\$ (145)	\$ (1,407,202)
Operating income (loss)	-	-	-	-	161,355	-	-	-	-	-	161,355
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	-	-	-	-	14,671	-	-	-	-	-	14,671
Depreciation	-	-	-	-	-	-	-	-	-	-	-
Provision for losses	-	-	-	-	-	-	-	-	-	-	-
Changes in assets and liabilities	-	-	-	-	-	-	-	-	-	-	-
Mortgage loans receivables	-	400	191,419	70,409	-	-	-	153	-	820	71,382
Accrued interest receivable	-	-	-	28,005	-	-	-	-	-	-	219,824
Tenant receivables	-	-	-	(495,960)	(35,981)	-	-	-	-	-	(35,981)
Due from other funds	-	-	-	-	-	19,473	-	-	-	-	(476,487)
Prepaid expenses and other assets	-	-	1,329	-	-	-	-	-	-	-	1,329
Accounts payable	-	-	-	-	134,152	1,034	-	-	-	-	135,186
Other accrued expenses	-	-	9,948	54,609	10,209	-	-	-	-	-	74,766
Due to other funds	-	-	404	651,410	-	-	-	-	-	-	652,157
Security deposits	-	-	-	58,082	6,907	-	-	-	-	-	64,989
Net cash provided by (used in) operating activities	\$ (1,112)	\$ 399	\$ (1,312,982)	\$ 579,092	\$ 195,261	\$ 20,507	\$ (6,148)	\$ -	\$ 153	\$ 819	\$ (624,011)

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Reconciliation of Cash and Short-Term Investments
June 30, 2010

The Corporation’s cash and short-term investments consist of the following as of June 30, 2010:

Equity in State Treasury investment pool – Government-wide	\$ 187,561,391
Equity in State Treasury investment pool – Fiduciary Funds	203,484
Cash in banks	2,645,658
Cash and cash equivalents held by trustees	29,054,400
Deposits held in trust	5,717
	<u>\$ 219,470,650</u>

Total cash and short-term investments are in agreement with the State Comptroller’s central accounting records as of June 30, 2010, as reconciled below:

	Appropriation Symbol	Balance at June 30, 2010
Cash in State Treasury		
Special Funds	S-02-800-B	\$ 203,484
	S-07-375-B	301,122
	S-08-375-B	611,572
	S-09-375-B	213,337
	S-09-376-B	18,000
	S-10-213-B	35,801
	S-10-314-B	500,000
	S-10-320-B	63,353
	S-10-321-B	81,453
	S-10-325-B	41,100
	S-10-339-B	428,925
	S-10-374-B	66,691
	S-10-375-B	85,590,674
	S-10-376-B	3,268,228
	S-10-377-B	518,193
	S-10-378-B	26,107,046
Trust Funds	T-10-930-B	<u>74,593,651</u>
Total cash held in State Treasury, as reported by State Comptroller's accounting records		<u>192,642,630</u>

See accompanying independent auditors’ report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Reconciliation of Cash and Short-Term Investments
June 30, 2010

	Symbol	2010
Reconciling items		
Journal vouchers not recorded by DAGS		1,859
Journal vouchers not recorded on books		(4,569)
Fair value adjustment – cash held in State Treasury Investment Pool		(4,875,074)
Other		(171)
		<u>(4,877,955)</u>
Cash and short-term investments held outside State Treasury		
Cash in bank		2,645,858
Cash held by trustees		29,054,400
Deposits held in trust		5,717
		<u>31,705,975</u>
Cash and short-term investments on Statement of Net Assets		<u>\$ 219,470,650</u>

See accompanying independent auditors' report.

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development		
HOME Investment Partnership Program	14.239	\$ 2,203,644
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii – Neighborhood Stabilization Program	14.228	7,844,845 *
U.S. Department of Treasury		
Passed through The Neighborhood Reinvestment Corporation – National Foreclosure Mitigation Counseling	21.000	252,963
ARRA – Low Income Housing Grants in Lieu of Tax Credit Allocations	21.000	<u>8,138,162 *</u>
Total federal expenditures		<u>\$ 18,439,614</u>

*Denotes major federal program.

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

State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2010

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Hawai‘i, Hawaii Housing Finance and Development Corporation (the “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 of expenditures of federal awards, the Corporation provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
U.S. Department of Housing and Urban Development		
HOME Investment Partnership Program	14.239	\$ 2,110,550
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii – Neighborhood Stabilization Program	14.228	7,777,184
U.S. Department of Treasury		
National Foreclosure Mitigation Counseling	21.000	251,681
Low Income Housing Grants in Lieu of Tax Credit Allocations	21.000	<u>8,138,162</u>
Total federal expenditures		<u>\$ 18,277,577</u>

See accompanying independent auditors’ report.

PART II
Compliance and Internal Control



CERTIFIED PUBLIC ACCOUNTANTS

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

The Auditor
State of Hawai'i

The Board of Directors
Hawaii Housing Finance and Development Corporation

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawai'i, Hawaii Housing Finance and Development Corporation ("the Corporation") as of and for the year ended June 30, 2010, and have issued our report thereon dated July 26, 2011. 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 an opinion 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 deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in Finding No. 2010-01 of the accompanying schedule of finding and questioned costs, which we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the State Auditor, 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.

Accuity LLP

Honolulu, Hawai'i
July 26, 2011



CERTIFIED PUBLIC ACCOUNTANTS

**Report of Independent Auditors on Compliance with
Requirements That Could Have a Direct and Material Effect on
Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

The Auditor
State of Hawai'i

The Board of Directors
Hawaii Housing Finance and Development Corporation

Compliance

We have audited the State of Hawai'i, Hawaii Housing Finance and Development Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget ("OMB") Circular A-133, Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2010. The Corporation's major federal programs are identified in the summary of auditors' 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 programs 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. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance OMB Circular A-133 and which is described in the accompany schedule of findings and questioned costs as Finding No. 2010-02.

Internal Control Over Compliance

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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

The Corporation's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Corporation's responses, and accordingly, we express no opinion on the response.

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

Accuity LLP

Honolulu, Hawai'i
July 26, 2011

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None reported

Type of 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 OMB Circular A-133? Yes No

Identification of major programs:

CFDA

Number	Name of Federal Program
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – Neighborhood Stabilization Program
21.000	Low Income Housing Grants in Lieu of Tax Credit Allocations

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

Auditee qualified as low-risk auditee? Yes No

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

Section II – Financial Statement Findings

Finding No. 2010-01: Financial Reporting (Significant Deficiency)

Condition and Cause

As of June 30, 2010, the Corporation reported a liability for estimated future costs of development of \$35.5 million. This liability represents the Corporation's estimate of the costs to complete its development projects, primarily consisting of the Kapolei master development. As of June 30, 2010, the Corporation also reported a \$23.2 million balance for inventories of development in progress, \$19.9 million of which relates to its Leiali'i development on Maui. The estimates are material to the Corporation's and Dwelling Unit Revolving Fund's ("DURF") financial statements, and therefore, represent significant estimates. However, although an analysis was performed by management to determine the estimated future costs of development as of June 30, 2010, we noted the analysis used stale-dated information, such as a February 2007 appraisal for various lots in the Kapolei project, and could not be presented in an easily understandable manner. We also noted management did not perform an analysis of the realizability of the Leiali'i project inventory balance as of June 30, 2010.

Management indicated stale-dated information was used in the analysis performed for the estimated future costs of development and an updated analysis was not performed of the realizability of the Leiali'i inventory balance because final decisions have not been made on how the Kapolei and Leiali'i developments will proceed. Consequently, management is unable to utilize solid assumptions in determining the estimated balances, and management believes the cost of obtaining updated appraisals of the value of the land being developed outweighs the benefit of having current appraisals.

Criteria

In order to prepare complete and accurate financial statements, the Corporation must be able to support significant estimates reported in its financial statements, which requires a formal process for analyzing and documenting the calculation of significant estimates.

Effect

Without current formal analyses, management is unable to adequately support the \$35.5 million balance for estimated future costs of development and \$19.9 million balance for the Leiali'i development in progress at June 30, 2010.

Recommendation

As the Corporation hired a fiscal manager at the end of fiscal year 2010 with the ability to perform analyses of significant estimates reported in the Corporation's financial statements, we recommend that the Corporation's management perform complete and current analyses as of each year end to support significant estimates reported, including the estimated future costs of development liability and realizability of the Leiali'i development project. The documentation of the analyses should include management's assumptions of the expected future development plans for the projects, conclusions or best available estimates, ranges of estimation and all relevant supporting information.

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Management Response

HHFDC does not agree with this finding, as management firmly believes that the Villages of Kapolei analysis is sufficient and warrants no adjustment in the estimated future costs from the prior year given that there is no modification to the development concept or the build-out strategy.

With regard to the Villages of Leiali'i, this master planned project is still in the planning phase, so the scope of the project has not been determined and the final development plan will not be available until a developer proposal is selected through the Request for Proposal process. Therefore, a meaningful analysis is not feasible for this reporting period.

HHFDC would like to point out that Accuity's audit testing and procedures did not result in any adjustments to the financial statements related to this finding.

**State of Hawai‘i
Hawaii Housing Finance and Development Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

Section III – Federal Award Findings and Questioned Costs

		Questioned Cost
Finding No. 2010-02: Reporting		\$ <u> -</u>
Federal Agency:	United States Department of Housing and Urban Development	
CFDA Number and Title:	14.228 Community Development Block Grants/ State’s Program and Non-Entitlement Grants in Hawai‘i – Neighborhood Stabilization Program	
Award Year:	2010	
Award Number:	B-08-DN-15-0001	

Condition

During our testing of the Department of Housing and Urban Development (“HUD”) 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* (“Section 3 Report”), which is the annual report of activity for the Neighborhood Stabilization Program (“NSP”) projects, we noted that the reported amount of all construction contracts awarded did not agree to the supporting data submitted by the NSP subrecipients for fiscal year 2010. The report included a \$2 million construction contract that was not awarded until fiscal year 2011. The Corporation contacted HUD after we notified the program manager of the error and subsequently submitted a revised Section 3 Report for fiscal year 2010.

Criteria

The NSP’s reporting requirements are stated in 24 CFR Section 135.90 “Reporting”, which provides that each recipient submit the Section 3 Report annually.

Per Part 3L “Reporting” of the June 2010 *OMB Circular A-133 Compliance Supplement*, one of the objectives of federal reporting requirements is for reports of federal awards to be reported in accordance with governing requirements.

Effect

Inaccurate reporting of the program activity could affect future funding with this agency.

Cause

The fiscal specialist that prepared the Section 3 Report for fiscal year 2010 inadvertently included the \$2 million contract in question as it was awarded shortly after the end of fiscal year 2010, which was not identified by the reviewer.

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Recommendation

We recommend that the Corporation has already reported the error to HUD and submitted a revised Section 3 report, as instructed by HUD. We also recommend the preparation of the report be accompanied with a more detailed description of the individual items that sum to the reported amounts included in the Section 3 Report, allowing a reviewer to perform a more effective review of the accuracy of amounts reported.

Management Response

Management does not agree with the stated effect of this finding, as HHFDC received confirmation from HUD that the inadvertent inclusion of a contract for Fiscal Year 2010 does not affect future funding. The Section 3 Report has been corrected.

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2010**

The following is the status of the prior year finding as identified by the predecessor auditors.

Section IV – Summary Schedule of Prior Audit Findings

Financial Statement Finding

Finding No. 2009-01: Financial Reporting (Material Weakness)

During December 2007, the Corporation was involved with the purchase of the Kukui Gardens project. 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.

Also, the Corporation's financial statements reflected ongoing estimates related to the sufficiency of certain liabilities and the realizability of certain assets. The most significant of these estimates were the \$32.9 million of estimated costs to complete the Kapolei project and the realizability of \$19.7 million of development costs related to the Leialii project as of June 30, 2009. For these examples, management annually updated project status reports, but these reports generally rolled forward stale-dated information and did 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.

It was recommended 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 and documents management's conclusions on the status of key issues on a periodic basis. This process should be led 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. 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.

Status

Partially resolved. We did not note any unrecorded transactions during our audit of the Corporation's financial statements for the year ended June 30, 2010. Also, as the Corporation hired a fiscal manager at the end of fiscal 2010 with a background in the real estate development industry, it appears there is someone with the knowledge and ability to implement the recommendations previously made, including formalizing the process of preparing analyses of significant estimates reported in the financial statements. However, we noted that a comprehensive analysis was not performed for the estimated future costs of development and realizability of the Leialii project inventory balance as of June 30, 2010. See Finding No. 2010-01.

Management Response

Management believes that this material weakness has been resolved. As noted in the Status, there were no unrecorded transactions for the year ended June 30, 2010. Additionally, the hiring of a fiscal manager with a background in the real estate development industry has enabled Management to implement the previous recommendations.

See Management response to Finding No. 2010-01.