

**State of Hawai'i
Hawaii Housing Finance and
Development Corporation**
Financial and Compliance Audit
June 30, 2011

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, 2011, 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, 2011, 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.

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, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the Neighborhood Stabilization Program, Low Income Housing Tax Credit, and Tax Credit Assistance Program 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 January 27, 2012 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
January 27, 2012

State of Hawai'i

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis

June 30, 2011

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, 2011. 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, 2011. 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, the Corporation's major and non-major proprietary funds, which operate similar to business-type activities, and the Corporation's fiduciary fund. 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 are primarily supported by State or Federal appropriations or by Federal contributions.
- *Business-type activities* – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users.

Fund Financial Statements

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

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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.
 - 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, 2011.

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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, 2011, the Corporation’s total net asset balance was approximately \$497,958,000, an increase of \$58,946,000 (or 13.4%) from the previous year.

Government-Wide Condensed Statement of Net Assets
June 30, 2011 and 2010
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2011	2010	2011	2010	2011	2010	
Current assets	\$ 6,507	\$ 36	\$ 317,252	\$ 240,182	\$ 323,759	\$ 240,218	34.8%
Assets held by trustee	-	-	267,712	334,846	267,712	334,846	-20.0%
Capital assets	237	351	102,335	107,468	102,572	107,819	-4.9%
Other assets	9,862	-	340,270	311,772	350,132	311,772	12.3%
Total assets	\$ 16,606	\$ 387	\$ 1,027,569	\$ 994,268	\$ 1,044,175	\$ 994,655	5.0%
Current liabilities	\$ 7	\$ 36	\$ 131,987	\$ 84,906	\$ 131,994	\$ 84,942	55.4%
Long-term liabilities	-	-	414,223	470,701	414,223	470,701	-12.0%
Total liabilities	7	36	546,210	555,607	546,217	555,643	-1.7%
Net assets							
Invested in capital assets, net of related debt	237	351	29,683	7,363	29,920	7,714	287.9%
Restricted	9,862	-	242,363	335,255	252,225	335,255	-24.8%
Unrestricted	6,500	-	209,313	96,043	215,813	96,043	124.7%
Total net assets	16,599	351	481,359	438,661	497,958	439,012	13.4%
Total liabilities and net assets	\$ 16,606	\$ 387	\$ 1,027,569	\$ 994,268	\$ 1,044,175	\$ 994,655	5.0%

Current assets increased by approximately \$83,541,000 (or 34.8%) during 2011 primarily related to a decrease in notes and loans receivable of approximately \$5,590,000, an increase in cash and equivalents of approximately \$40,635,000, an increase in due from State of Hawaii of \$6,500,000, and an increase in mortgage loans receivable of approximately \$47,890,000.

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 decreased by approximately \$67,134,000 (or 20%) during 2011 due primarily to the defeasance of the Sunset Villas Revenue Bond related to the Multifamily Housing Revenue Bond Fund of approximately \$24,590,000 and a decrease of repurchase agreements and mortgage-backed securities of approximately \$23,857,000 and \$15,961,000, respectively, in the Single Family Mortgage Purchase Revenue Bond Fund. Restricted net assets, which represent resources that are subject to external restrictions on how they may be used, primarily include the assets held by trustee and decreased by approximately \$83,030,000 (or 24.8%) during 2011.

Capital assets decreased by approximately \$5,247,000 (or 4.9%) during 2011 primarily due to depreciation expense of \$5,868,000 net of increases as a result of various renovation projects at the Corporation’s properties.

Other assets increased by approximately \$38,360,000 (or 12.3%) during 2011 primarily due to an increase of approximately \$23,533,000 of new mortgage loans issued by the Multifamily Housing Revenue Bond Fund (related to the Kuhio Park Terrace and Ewa Villages Projects), \$6,735,000 in additional loans issued by the Dwelling Unit Revolving Fund for Kamakana Villages, Lokenani Hale and the Senior Residences at Iwilei, and \$9,862,000 in loans for the construction of low-income buildings in

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the Tax Credit Assistance Program Fund. Current liabilities increased by approximately \$47,052,000 (or 55.4%) during 2011 primarily due to an increase in the current portion of revenue bonds payable of approximately \$48,709,000.

Long-term liabilities decreased by approximately \$56,478,000 (or 12%) primarily due to the reclassification of \$50,864,000 of Multifamily Housing Revenue Bonds outstanding to current, principal payments of \$86,847,000, and offset by the issuance of \$80,815,000 of revenue bonds (relating to the Kuhio Park Terrace and Ewa Villages Projects).

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, 2011 and 2010
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2011	2010	2011	2010	2011	2010	
Revenues							
Program revenues							
Charges for services	\$ -	\$ -	\$ 40,562	\$ 38,665	\$ 40,562	\$ 38,665	4.9%
Operating grants and contributions	48,642	18,440	5,706	13,887	54,348	32,327	68.1%
General revenues							
State allotted appropriations, net of lapses	36,500	-	-	-	36,500	-	100%
Net increase in fair value of equity in cash and cash equivalents and investments in State Treasury	-	-	4,125	9,847	4,125	9,847	-58.1%
Total revenues	<u>85,142</u>	<u>18,440</u>	<u>50,393</u>	<u>62,399</u>	<u>135,535</u>	<u>80,839</u>	67.7%
Expenses							
Governmental activities							
Expenditures	38,894	19,553	-	-	38,894	19,553	98.9%
Business-type activities							
Rental assistance program	-	-	1,623	1,584	1,623	1,584	2.5%
Housing development program	-	-	5,368	6,005	5,368	6,005	-10.6%
Multi-family mortgage loan programs	-	-	2,699	3,558	2,699	3,558	-24.1%
Single-family mortgage loan program	-	-	6,594	10,063	6,594	10,063	-34.5%
Rental housing program	-	-	18,847	18,160	18,847	18,160	3.8%
Others	-	-	1,577	1,402	1,577	1,402	12.5%
Total expenses	<u>38,894</u>	<u>19,553</u>	<u>36,708</u>	<u>40,772</u>	<u>75,602</u>	<u>60,325</u>	25.3%
Net change before transfers	46,248	(1,113)	13,685	21,627	59,933	20,514	192.2%
Transfers	(30,000)	(26,000)	29,013	50,838	(987)	24,838	-104.0%
Change in net assets	<u>16,248</u>	<u>(27,113)</u>	<u>42,698</u>	<u>72,465</u>	<u>58,946</u>	<u>45,352</u>	30.0%
Net assets							
Beginning 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%
End of year	<u>\$ 16,599</u>	<u>\$ 351</u>	<u>\$ 481,359</u>	<u>\$ 438,661</u>	<u>\$ 497,958</u>	<u>\$ 439,012</u>	13.4%

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Governmental Activities

For the fiscal year ended June 30, 2011, total net assets of the governmental activities increased by approximately \$16,248,000, from \$351,000 in 2010 to \$16,599,000 in 2011. The increase is primarily due to program revenues of \$48,642,000 exceeding total expenses of \$38,894,000 and \$6,500,000 in State allotted appropriations that were not transferred to other funds as of June 30, 2011.

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, 2011, business-type activities increased the Corporation's net assets by approximately \$42,698,000 after transfers of \$29,013,000. Key elements of this increase are as follows:

- Total revenues of \$50,393,000 exceeded total expenses by \$13,685,000. Revenues primarily consisted of \$40,562,000 in charges for services for the 2011, while the \$36,708,000 in expenses primarily consisted of operating expenses for the Corporation's various business-type functions.
- Net transfers increased net assets by \$29,013,000. Included in this amount is the General Obligation Bond Fund's \$30,000,000 infusion into the Dwelling Unit Revolving Fund of \$20,000,000 and Rental Housing Trust Fund of \$10,000,000 as previously noted in Governmental Activities.

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, 2011, the Corporation's governmental funds reported total fund balances of \$16,362,000.

The governmental funds consist of four major funds and several non-major funds. The four major funds are the (1) Neighborhood Stabilization Program (NSP) Fund, (2) Low Income Housing Tax Credit (LIHTC) Fund, (3) TCAP Fund, and (4) 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, 2011 as all revenues recognized were expended.
- 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, 2011 as all revenues recognized were expended.

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- 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. The TCAP Fund had a fund balance of \$9,862,000 at June 30, 2011.
- The *General Obligation Bond Fund* is used to transfer proceeds from the State's issuance of general obligation bonds to the Corporation for subsequent use by the Corporation's other funds. As previously mentioned under Governmental Activities, the fund transferred a total of \$30,000,000 to the Dwelling Unit Revolving and Rental Housing Trust Funds during the fiscal year and had a fund balance of \$6,500,000 as of June 30, 2011.

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 \$25,668,000 in 2011, compared to an increase of \$30,844,000 in 2010. The 2011 increase in net assets consisted of conveyance tax collections of approximately \$11,990,000, loan interest income of \$1,361,000, fair value adjustments of approximately \$1,769,000, and \$684,000 of interest on investments, less operating expenses of approximately \$138,000. As previously mentioned, a \$10,000,000 infusion was also made into the Rental Housing Trust Fund.

Conveyance taxes increased by approximately \$1,800,000 (or 17.7%) to \$11,990,000 in 2011 from \$10,190,000 in 2010, due to an increase in real estate activity compared to last year. Interest income on cash balances remained relatively constant, however, the fair value adjustment related to the fund's share of the State Treasury Investment Pool decreased by approximately \$2,454,000 during 2011.

- 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 \$21,091,000 in 2011, which was due primarily to a \$20,000,000 infusion of cash from the General Obligation Bond Fund, and a \$1,724,000 increase in the fair value of the fund's equity in cash and cash equivalents and investments in State Treasury.
- 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 \$2,534,000 in 2011, which was an increase of approximately \$521,000 (or 25.9%) from the loss before transfers of \$2,013,000 in 2010. The increase in the loss before transfers is due to an increase in operating expenses as operating revenues remained relatively unchanged in 2011.

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- 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 decreased by approximately \$88,000, as a result of operating and nonoperating revenues of \$4,014,000 and \$2,211,000, respectively, offset by operating expenses of \$6,313,000.
- 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 \$167,000 which represented an increase in the change in net assets of approximately \$693,000. This change was primarily due to an increase in interest income on mortgage loans of approximately \$372,000, a decrease in interest expense of \$917,000, an increase in the fair value of investments of approximately \$45,000, offset by a decrease in interest income from investments of approximately \$202,000, and an increase in bond insurance expense of \$488,000.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2011, the Corporation had invested approximately \$102,572,000 (net of accumulated depreciation of \$99,298,000) in a broad range of capital assets. This amount represents a decrease of approximately \$5,247,000 (or 4.9%) over the prior year, primarily due to depreciation expense of \$5,981,000 net of increases as a result of various renovation projects at the Corporation’s properties.

Corporation’s Capital Assets
June 30, 2011 and 2010
(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2011	2010	2011	2010	2011	2010	
Land	\$ -	\$ -	\$ 43,355	\$ 43,378	\$ 43,355	\$ 43,378	-0.1%
Buildings and improvements	-	-	155,564	154,824	155,564	154,824	0.5%
Equipment	568	568	2,383	2,366	2,951	2,934	0.6%
Total	568	568	201,302	200,568	201,870	201,136	0.4%
Accumulated depreciation	(331)	(217)	(98,967)	(93,100)	(99,298)	(93,317)	6.4%
Total capital assets, net	\$ 237	\$ 351	\$ 102,335	\$ 107,468	\$ 102,572	\$ 107,819	-4.9%

Debt Administration

Through June 30, 2011, approximately \$2.42 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, decreased by approximately \$6,032,000 to approximately \$462,309,000 at June 30, 2011 from \$468,341,000 at June 30, 2010. During the year ended June 30, 2011, the Corporation issued \$80,815,000 in new bonds for the Multifamily Housing System. Bond redemptions were approximately \$41,185,000, \$2,405,000 and \$43,525,000 for the Single Family Mortgage Purchase, Hawaii Rental Housing System and Multifamily Housing Revenue Bond Funds, respectively.

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As of June 30, 2011, 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: AA+
- Moody’s Investors Service: Aaa
- Fitch Ratings: AAA

Currently Known Facts, Decisions or Conditions

- On July 20, 2011, the Corporation redeemed \$3,330,000 of outstanding revenue bonds from the Multifamily Housing Revenue Bond Fund.
- In December 2011, the Corporation issued \$50,000,000 of Single Family Mortgage Purchase Revenue Bonds related to its New Issue Bond Program. Proceeds from the sale of those bonds will be used to finance mortgage loans as well as to refund prior series of bonds that are at a higher interest rate.
- The Corporation is currently exploring options to expand the use of Public-Private Partnerships (PPP) to operate its affordable rental housing projects. A PPP is a contractual arrangement between public and private sector entities that pools together and shares the skills and resources, as well as the risks and rewards, of each sector to achieve the common goal of delivering a public service. Through PPPs, HHFDC expects to achieve a more cost-efficient and effective means of not just developing, but also managing, maintaining, and operating affordable rental housing projects.

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, 2011

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 7,362	\$ 220,773,540	\$ 220,780,902
Cash in banks	1,241	2,635,395	2,636,636
Receivables			
Mortgage loans	-	49,014,659	49,014,659
Notes and loans	-	6,177,433	6,177,433
Accrued interest	-	11,379,165	11,379,165
Tenant receivables, less allowance for doubtful accounts of \$2,077,045	-	82,720	82,720
Other receivables, less allowance for doubtful accounts of \$1,758	-	2,639,072	2,639,072
	-	69,293,049	69,293,049
Due from State	6,500,000	-	6,500,000
Due from other governments	84,818	-	84,818
Internal balances	(86,559)	86,559	-
Inventories – development in progress and dwelling units	-	24,037,563	24,037,563
Prepaid expenses and other assets	-	327,386	327,386
Deposits held in trust	-	5,717	5,717
Deferred bond issuance costs	-	92,495	92,495
Total current assets	<u>6,506,862</u>	<u>317,251,704</u>	<u>323,758,566</u>
Assets held by Trustees under revenue bond programs			
Cash and cash equivalents	-	36,009,409	36,009,409
Investments	-	231,702,772	231,702,772
	-	267,712,181	267,712,181
Other receivables	-	761,148	761,148
Due from other State departments	-	13,770,961	13,770,961
Investments	-	6,871,687	6,871,687
Mortgage loans, net of allowance for loan losses of \$187,568	-	249,386,240	249,386,240
Notes and loans, net of current portion	9,861,610	67,654,291	77,515,901
Restricted deposits and funded reserves	-	469,567	469,567
Deferred bond insurance costs, net of current portion	-	1,356,826	1,356,826
Capital assets, net	<u>236,977</u>	<u>102,334,637</u>	<u>102,571,614</u>
Total assets	<u>\$ 16,605,449</u>	<u>\$ 1,027,569,242</u>	<u>\$ 1,044,174,691</u>

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, 2011

	Governmental Activities	Business-Type Activities	Total
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$ 6,862	\$ 1,075,564	\$ 1,082,426
Accrued expenses			
Interest	-	5,393,146	5,393,146
Other	-	2,645,323	2,645,323
Due to other State departments, net	-	3,355,233	3,355,233
Security deposits	-	2,413,445	2,413,445
Note payable	-	13,062	13,062
Mortgage payable	-	43,402	43,402
Revenue bonds payable, net	-	56,206,432	56,206,432
Deferred income	-	23,729,387	23,729,387
Deferred fees	-	120,765	120,765
Deferred gain on sale of units and land	-	1,782,147	1,782,147
Estimated future costs of development	-	35,209,112	35,209,112
Total current liabilities	<u>6,862</u>	<u>131,987,018</u>	<u>131,993,880</u>
Noncurrent liabilities			
Deferred fees	-	203,646	203,646
Arbitrage rebate payable	-	2,281,129	2,281,129
Note payable	-	210,500	210,500
Mortgage payable	-	5,426,062	5,426,062
Revenue bonds payable, net	-	406,102,102	406,102,102
Total noncurrent liabilities	<u>-</u>	<u>414,223,439</u>	<u>414,223,439</u>
Total liabilities	6,862	546,210,457	546,217,319
Commitments and contingencies			
Net assets			
Invested in capital assets, net of related debt	236,977	29,683,158	29,920,135
Restricted by legislation and contractual agreements	9,861,610	242,362,628	252,224,238
Unrestricted	<u>6,500,000</u>	<u>209,312,999</u>	<u>215,812,999</u>
Total net assets	<u>16,598,587</u>	<u>481,358,785</u>	<u>497,957,372</u>
Total liabilities and net assets	<u>\$ 16,605,449</u>	<u>\$ 1,027,569,242</u>	<u>\$ 1,044,174,691</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, 2011

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs						
Governmental activities						
Low income housing service and assistance program	\$ 38,893,865	\$ -	\$ 48,641,935	\$ 9,748,070	\$ -	\$ 9,748,070
Total governmental activities	38,893,865	-	48,641,935	9,748,070	-	9,748,070
Business-type activities						
Rental assistance program	1,623,015	68,496	308,037	-	(1,246,482)	(1,246,482)
Housing development program	5,368,213	2,234,574	2,500,163	-	(633,476)	(633,476)
Multi-family mortgage loan program	2,698,414	15,268,074	1,168,654	-	13,738,314	13,738,314
Single-family mortgage loan program	6,594,057	4,829,241	1,672,039	-	(92,777)	(92,777)
Rental housing program	18,847,016	16,147,160	38,526	-	(2,661,330)	(2,661,330)
Others	1,577,409	2,014,608	18,612	-	455,811	455,811
Total business-type activities	36,708,124	40,562,153	5,706,031	-	9,560,060	9,560,060
Total	\$ 75,601,989	\$ 40,562,153	\$ 54,347,966	9,748,070	9,560,060	19,308,130
General revenues						
State allotted appropriations, net of lapses				36,500,000	-	36,500,000
Net transfers				(30,000,000)	29,012,798	(987,202)
Net increase in fair value of equity in cash and cash equivalents and investments in State Treasury				-	4,124,530	4,124,530
Total general revenues and transfers				6,500,000	33,137,328	39,637,328
Change in net assets				16,248,070	42,697,388	58,945,458
Net assets						
Beginning of year				350,517	438,661,397	439,011,914
End of year				\$ 16,598,587	\$ 481,358,785	\$ 497,957,372

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, 2011

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	Neighborhood Stabilization Program Fund	Low Income Housing Tax Credit Fund	Tax Credit Assistance Program Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ -	\$ -	\$ -	\$ 7,362	\$ 7,362
Cash in banks	252	560	429	-	-	1,241
Notes and loans receivable	-	-	9,861,610	-	-	9,861,610
Due from State	-	-	-	6,500,000	-	6,500,000
Due from other governments	34,104	-	-	-	50,714	84,818
Total assets	\$ 34,356	\$ 560	\$ 9,862,039	\$ 6,500,000	\$ 58,076	\$ 16,455,031
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 6,862	\$ 6,862
Due to other funds	34,356	560	429	-	51,214	86,559
Total liabilities	34,356	560	429	-	58,076	93,421
Fund balances						
Restricted	-	-	9,861,610	-	-	9,861,610
Committed	-	-	-	6,500,000	-	6,500,000
Total fund balances	-	-	9,861,610	6,500,000	-	16,361,610
Total liabilities and fund balances	\$ 34,356	\$ 560	\$ 9,862,039	\$ 6,500,000	\$ 58,076	\$ 16,455,031

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
June 30, 2011

Total fund balances – governmental funds		\$ 16,361,610
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>(330,727)</u>	
Total capital assets		<u>236,977</u>
Net assets of governmental activities		<u>\$ 16,598,587</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, 2011

	Neighborhood Stabilization Program Fund	Low Income Housing Tax Credit Fund	Tax Credit Assistance Program Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
State allotted appropriations	\$ -	\$ -	\$ -	\$ 36,500,000	\$ -	\$ 36,500,000
Intergovernmental revenue	6,245,695	31,342,719	9,861,610	-	1,191,911	48,641,935
Total revenue	<u>6,245,695</u>	<u>31,342,719</u>	<u>9,861,610</u>	<u>36,500,000</u>	<u>1,191,911</u>	<u>85,141,935</u>
Expenditures						
Programs	6,131,744	31,342,719	-	-	1,072,582	38,547,045
Personnel services	93,951	-	-	-	88,627	182,578
Administration	16,579	-	-	-	23,217	39,796
Professional services	3,421	-	-	-	7,485	10,906
Total expenditures	<u>6,245,695</u>	<u>31,342,719</u>	<u>-</u>	<u>-</u>	<u>1,191,911</u>	<u>38,780,325</u>
Other financing uses						
Transfers out	-	-	-	(30,000,000)	-	(30,000,000)
Change in fund balances	<u>-</u>	<u>-</u>	<u>9,861,610</u>	<u>6,500,000</u>	<u>-</u>	<u>16,361,610</u>
Fund balances						
Beginning of year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,861,610</u>	<u>\$ 6,500,000</u>	<u>\$ -</u>	<u>\$ 16,361,610</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 Statement of Revenues,
Expenditures and Change in Fund Balances to the Statement of Activities
Year Ended June 30, 2011

Net change in fund balances – total governmental funds		\$ 16,361,610
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 depreciative expense exceeded capital outlay during the year		
Depreciation expense	<u>\$ (113,540)</u>	<u>(113,540)</u>
Change in net assets – governmental activities		<u>\$ 16,248,070</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 – Neighborhood Stabilization Program Fund
Year Ended June 30, 2011

	Original and Final Budgets	Budgetary Actual
Revenues		
Intergovernmental revenue	\$ 6,245,695	\$ 6,245,695
Expenditures		
Programs	6,131,744	6,131,744
Personnel services	93,951	93,951
Administration	16,579	16,579
Professional services	3,421	3,421
Excess of revenues over expenditures	\$ -	-
Fund balance		
Beginning of year		-
End of year		\$ -

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, 2011

	Original and Final Budgets	Budgetary Actual
Revenues		
Intergovernmental revenue	\$ 31,342,719	\$ 31,342,719
Expenditures		
Programs	<u>31,342,719</u>	<u>31,342,719</u>
Excess of revenues over expenditures	<u>\$ -</u>	<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 – Tax Credit Assistance Program Fund
Year Ended June 30, 2011

	Original and Final Budgets	Budgetary Actual
Revenues		
Intergovernmental revenue	<u>\$ 9,861,610</u>	\$ 9,861,610
Fund balance		
Beginning of year		-
End of year		<u>\$ 9,861,610</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, 2011**

	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	\$ 87,992,508	\$ 102,686,207	\$ -	\$ -	\$ -	\$ 30,094,825	\$ 220,773,540
Cash in banks	-	372,043	2,075,776	-	-	187,576	2,635,395
Receivables							
Mortgage loans	415,492	-	-	458,266	48,140,387	514	49,014,659
Notes and loans	-	6,177,433	-	-	-	-	6,177,433
Accrued interest	3,713,939	5,404,721	-	574,371	814,219	871,915	11,379,165
Tenant receivables, less allowance for doubtful accounts of \$2,077,045	-	40,647	-	-	-	42,073	82,720
Other receivables, less allowance for doubtful accounts of \$1,758	-	2,498,865	-	-	137,474	2,733	2,639,072
Total receivables	4,129,431	14,121,666	-	1,032,637	49,092,080	917,235	69,293,049
Due from other funds	-	606,939	-	-	715,729	3,868,714	5,191,382
Due from other State departments	-	2,228,371	-	-	-	-	2,228,371
Inventories – development in progress and dwelling units	-	24,037,563	-	-	-	-	24,037,563
Prepaid expenses and other assets	-	200,200	387	7,207	-	119,592	327,386
Deposits held in trust	-	-	-	-	-	5,717	5,717
Deferred bond issuance costs	-	-	56,715	35,780	-	-	92,495
Total current assets	92,121,939	144,252,989	2,132,878	1,075,624	49,807,809	35,193,659	324,584,898
Assets held by Trustees under revenue bond programs							
Cash and cash equivalents	-	-	25,819,120	6,731,314	3,458,975	-	36,009,409
Investments	-	-	-	231,683,186	19,586	-	231,702,772
	-	-	25,819,120	238,414,500	3,478,561	-	267,712,181
Other receivables	-	-	761,148	-	-	-	761,148
Due from other State departments	-	13,770,961	-	-	-	-	13,770,961
Investments	-	-	-	-	-	6,871,687	6,871,687
Mortgage loans, net of allowance for loan losses of \$187,568	121,140,108	430,042	-	2,699,613	121,865,934	3,250,543	249,386,240
Notes and loans, net of current portion	-	67,654,291	-	-	-	-	67,654,291
Restricted deposits and funded reserves	-	-	-	-	-	469,567	469,567
Deferred bond insurance costs, net of current portion	-	-	695,211	661,615	-	-	1,356,826
Capital assets, net	-	27,664,710	70,359,124	-	-	4,310,803	102,334,637
Total assets	\$ 213,262,047	\$ 253,772,993	\$ 99,767,481	\$ 242,851,352	\$ 175,152,304	\$ 50,096,259	\$ 1,034,902,436

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, 2011**

	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	\$ -	\$ 33,181	\$ 642,738	\$ 33,271	\$ -	\$ 366,374	\$ 1,075,564
Accrued expenses							
Interest	-	-	2,168,007	2,535,430	689,709	-	5,393,146
Other	59,188	1,693,800	180,209	336,119	48,876	327,131	2,645,323
Due to other funds	68	-	588,498	238,066	-	4,278,191	5,104,823
Due to other State departments	-	5,573,604	-	-	-	10,000	5,583,604
Security deposits	-	78,896	1,001,462	-	-	1,333,087	2,413,445
Note payable	-	13,062	-	-	-	-	13,062
Mortgage payable	-	-	-	-	-	43,402	43,402
Revenue bonds payable, net	-	-	2,495,000	2,240,000	51,471,432	-	56,206,432
Deferred income	-	23,660,080	69,307	-	-	-	23,729,387
Deferred fees	-	-	-	120,765	-	-	120,765
Deferred gain on sale of units and land	-	1,782,147	-	-	-	-	1,782,147
Estimated future costs of development	-	35,209,112	-	-	-	-	35,209,112
Total current liabilities	<u>59,256</u>	<u>68,043,882</u>	<u>7,145,221</u>	<u>5,503,651</u>	<u>52,210,017</u>	<u>6,358,185</u>	<u>139,320,212</u>
Noncurrent liabilities							
Deferred fees	-	-	-	203,646	-	-	203,646
Arbitrage rebate payable	-	-	-	2,281,129	-	-	2,281,129
Note payable	-	210,500	-	-	-	-	210,500
Mortgage payable	-	-	-	-	-	5,426,062	5,426,062
Revenue bonds payable, net	-	-	90,282,573	193,954,640	121,864,889	-	406,102,102
Total noncurrent liabilities	<u>-</u>	<u>210,500</u>	<u>90,282,573</u>	<u>196,439,415</u>	<u>121,864,889</u>	<u>5,426,062</u>	<u>414,223,439</u>
Total liabilities	59,256	68,254,382	97,427,794	201,943,066	174,074,906	11,784,247	553,543,651
Commitments and contingencies							
Net assets							
Invested in capital assets, net of related debt	-	27,441,148	3,400,671	-	-	(1,158,661)	29,683,158
Restricted by legislation and contractual agreements	-	-	-	238,414,500	3,478,561	469,567	242,362,628
Unrestricted	213,202,791	158,077,463	(1,060,984)	(197,506,214)	(2,401,163)	39,001,106	209,312,999
Total net assets	<u>213,202,791</u>	<u>185,518,611</u>	<u>2,339,687</u>	<u>40,908,286</u>	<u>1,077,398</u>	<u>38,312,012</u>	<u>481,358,785</u>
Total liabilities and net assets	<u>\$ 213,262,047</u>	<u>\$ 253,772,993</u>	<u>\$ 99,767,481</u>	<u>\$ 242,851,352</u>	<u>\$ 175,152,304</u>	<u>\$ 50,096,259</u>	<u>\$ 1,034,902,436</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 Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2011**

	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	\$ 1,360,529	\$ 2,500,163	\$ -	\$ 4,828,931	\$ 1,612,757	\$ 121,863	\$ 10,424,243
Net decrease in fair value of mortgage-backed securities	-	-	-	(814,998)	-	-	(814,998)
Conveyance tax	11,990,292	-	-	-	-	-	11,990,292
Sales of land	-	155,700	-	-	-	-	155,700
Rental	-	1,871,660	14,943,992	-	-	915,241	17,730,893
Other	3,022	207,214	659,944	310	293,024	1,589,255	2,752,769
Total operating revenues	<u>13,353,843</u>	<u>4,734,737</u>	<u>15,603,936</u>	<u>4,014,243</u>	<u>1,905,781</u>	<u>2,626,359</u>	<u>42,238,899</u>
Operating expenses							
Cost of land sold	-	22,858	-	-	-	-	22,858
Programs	-	1,267,664	7,639,476	-	-	-	8,907,140
Personnel services	93,576	2,525,929	198,362	493,785	81,851	1,413,692	4,807,195
Depreciation	-	177,110	5,528,694	541	-	161,365	5,867,710
Housing assistance payments	-	-	-	-	-	1,485,062	1,485,062
Administration	23,893	935,781	4,806	219,672	13,960	352,523	1,550,635
Provision for (recovery of) losses	-	57,897	(25,543)	-	-	18,778	51,132
Loan servicing fees	-	-	-	13,200	-	-	13,200
Professional services	20,354	212,585	16,255	33,971	20,628	89,148	392,941
Insurance	-	-	116,772	5,555	487,900	28,431	638,658
Repairs and maintenance	580	164,673	987	7,955	932	111,773	286,900
Utilities	-	-	-	4,610	-	87,229	91,839
Capital expenses	25	3,728	164,932	-	42	186	168,913
Trustee fees	-	-	4,681	34,202	3,868	-	42,751
Interest expense	-	-	4,347,433	5,499,610	1,940,121	-	11,787,164
Other	-	(12)	35,535	-	8,419	19,000	62,942
Total operating expenses	<u>138,428</u>	<u>5,368,213</u>	<u>18,032,390</u>	<u>6,313,101</u>	<u>2,557,721</u>	<u>3,767,187</u>	<u>36,177,040</u>
Operating income (loss) carried forward	<u>13,215,415</u>	<u>(633,476)</u>	<u>(2,428,454)</u>	<u>(2,298,858)</u>	<u>(651,940)</u>	<u>(1,140,828)</u>	<u>6,061,859</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 Revenues, Expenses and Change in Net Assets
Year Ended June 30, 2011

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating income (loss) brought forward	13,215,415	(633,476)	(2,428,454)	(2,298,858)	(651,940)	(1,140,828)	6,061,859
Nonoperating revenues (expenses)							
Interest income	683,528	-	38,452	2,487,006	467,124	454,916	4,131,026
Net increase in the fair value of equity in cash and cash equivalents and investments in State Treasury	1,768,890	1,724,129	-	-	-	631,511	4,124,530
Net increase (decrease) in fair value of other investments	-	-	-	-	18,002	(137,203)	(119,201)
Interest expense	-	-	-	-	-	(110,338)	(110,338)
Amortization of deferred bond insurance costs	-	-	(110,363)	(248,043)	-	-	(358,406)
Arbitrage rebate	-	-	-	(28,460)	-	-	(28,460)
Other revenue (expense)	-	-	(33,600)	-	-	17,180	(16,420)
Total nonoperating revenues (expenses)	2,452,418	1,724,129	(105,511)	2,210,503	485,126	856,066	7,622,731
Income (loss) before transfers	15,667,833	1,090,653	(2,533,965)	(88,355)	(166,814)	(284,762)	13,684,590
Transfers in	10,000,000	20,000,000	-	-	-	-	30,000,000
Transfers out	-	-	-	-	-	(987,202)	(987,202)
Change in net assets	25,667,833	21,090,653	(2,533,965)	(88,355)	(166,814)	(1,271,964)	42,697,388
Net assets							
Beginning of year	187,534,958	164,427,958	4,873,652	40,996,641	1,244,212	39,583,976	438,661,397
End of year	\$ 213,202,791	\$ 185,518,611	\$ 2,339,687	\$ 40,908,286	\$ 1,077,398	\$ 38,312,012	\$ 481,358,785

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, 2011**

	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	\$ -	\$ 1,430,364	\$ 14,962,644	\$ -	\$ -	\$ 1,129,305	\$ 17,522,313
Cash received from borrowers							
Principal repayments	4,488,144	5,692,848	-	739,442	18,884,700	101,262	29,906,396
Interest income	1,519,671	989,130	-	6,435,528	1,138,178	56,361	10,138,868
Cash received from sale of land	-	159,797	-	-	-	-	159,797
Cash received from conveyance taxes	11,990,292	-	-	-	-	-	11,990,292
Cash received for payments on mortgage-backed securities	-	-	-	15,961,464	-	-	15,961,464
Cash payments for issuance of loans receivable	(14,835,037)	(7,144,730)	-	-	(80,814,802)	-	(102,794,569)
Interest payments	-	-	(4,389,313)	(6,597,693)	(2,038,586)	-	(13,025,592)
Payments to employees	(81,945)	(2,525,929)	(198,362)	(493,785)	(81,851)	(1,484,260)	(4,866,132)
Payments to suppliers	(44,852)	(3,392,863)	(8,125,110)	(254,576)	(516,463)	(2,030,783)	(14,364,647)
Cash receipts from (payments to) other funds	(120)	1,668,264	(9,104)	17,298	(144,604)	91,921	1,623,655
Other cash receipts (payments)	3,022	(220,565)	623,663	310	242,731	1,581,982	2,231,143
Net cash provided by (used in) operating activities	<u>3,039,175</u>	<u>(3,343,684)</u>	<u>2,864,418</u>	<u>15,807,988</u>	<u>(63,330,697)</u>	<u>(554,212)</u>	<u>(45,517,012)</u>
Cash flows from noncapital financing activities							
Principal paid on revenue bond maturities and redemptions	-	-	-	(41,185,000)	-	-	(41,185,000)
Arbitrage rebate paid	-	-	-	(1,588,088)	-	-	(1,588,088)
Transfers in	10,000,000	20,000,000	-	-	-	-	30,000,000
Transfers out	-	-	-	-	-	(987,202)	(987,202)
Net cash provided by (used in) noncapital financing activities	<u>10,000,000</u>	<u>20,000,000</u>	<u>-</u>	<u>(42,773,088)</u>	<u>-</u>	<u>(987,202)</u>	<u>(13,760,290)</u>
Subtotal carried forward	<u>13,039,175</u>	<u>16,656,316</u>	<u>2,864,418</u>	<u>(26,965,100)</u>	<u>(63,330,697)</u>	<u>(1,541,414)</u>	<u>(59,277,302)</u>

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2011

	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	13,039,175	16,656,316	2,864,418	(26,965,100)	(63,330,697)	(1,541,414)	(59,277,302)
Cash flows from capital and related financing activities							
Principal paid on revenue bond maturities and redemptions	-	-	(2,405,000)	-	(43,524,700)	-	(45,929,700)
Proceeds from new bond issuance	-	-	-	-	80,814,802	-	80,814,802
Principal paid on mortgage loans and notes payable	-	(13,471)	-	-	-	(40,081)	(53,552)
Interest payments	-	-	-	-	-	(110,338)	(110,338)
Purchase of capital assets	-	-	(756,724)	-	-	-	(756,724)
Net cash provided by (used in) capital and related financing activities	-	(13,471)	(3,161,724)	-	37,290,102	(150,419)	33,964,488
Cash flows from investing activities							
Purchase of investments	-	-	-	(20,724,356)	-	-	(20,724,356)
Proceeds from maturities of investments	-	-	-	49,022,300	29,032,195	1,169	78,055,664
Interest received	683,528	-	-	2,487,006	467,124	472,375	4,110,033
Change in fair value of equity in cash and cash equivalents and investments in State Treasury	1,768,890	1,724,129	-	-	-	631,511	4,124,530
Net cash provided by investing activities	2,452,418	1,724,129	-	30,784,950	29,499,319	1,105,055	65,565,871
Net increase (decrease) in cash and cash equivalents	15,491,593	18,366,974	(297,306)	3,819,850	3,458,724	(586,778)	40,253,057
Cash and cash equivalents							
Beginning of year	72,500,915	84,691,276	28,192,202	2,911,464	251	31,344,463	219,640,571
End of year	<u>\$ 87,992,508</u>	<u>\$ 103,058,250</u>	<u>\$ 27,894,896</u>	<u>\$ 6,731,314</u>	<u>\$ 3,458,975</u>	<u>\$ 30,757,685</u>	<u>\$ 259,893,628</u>
Components of cash and cash equivalents							
Equity in cash and cash equivalents and investments in State Treasury	\$ 87,992,508	\$ 102,686,207	\$ -	\$ -	\$ -	\$ 30,094,825	\$ 220,773,540
Cash in banks	-	372,043	2,075,776	-	-	187,576	2,635,395
Deposits held in trust	-	-	-	-	-	5,717	5,717
Cash and cash equivalents held by Trustee	-	-	25,819,120	6,731,314	3,458,975	-	36,009,409
Restricted deposits and funded reserves	-	-	-	-	-	469,567	469,567
Cash and cash equivalents	<u>\$ 87,992,508</u>	<u>\$ 103,058,250</u>	<u>\$ 27,894,896</u>	<u>\$ 6,731,314</u>	<u>\$ 3,458,975</u>	<u>\$ 30,757,685</u>	<u>\$ 259,893,628</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 Cash Flows
Year Ended June 30, 2011**

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash flows from operating activities							
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities							
Operating income (loss)	\$ 13,215,415	\$ (633,476)	\$ (2,428,454)	\$ (2,298,858)	\$ (651,940)	\$ (1,140,828)	\$ 6,061,859
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities							
Net increase in fair value of mortgage-backed securities	-	-	-	814,998	-	-	814,998
Depreciation	-	177,110	5,528,694	541	-	161,365	5,867,710
Provision for (recovery of) losses	-	57,897	(25,543)	-	-	18,778	51,132
Loss on sale of assets	-	22,857	-	-	-	-	22,857
Changes in assets and liabilities							
Mortgage loans receivables	(10,346,893)	(1,451,882)	-	739,442	(61,930,102)	101,262	(72,888,173)
Accrued interest receivable	159,142	(1,511,033)	-	1,606,597	(474,579)	(65,502)	(285,375)
Tenant receivables	-	(47,573)	80,037	-	-	(29,078)	3,386
Other receivables	-	(427,791)	(746)	-	(41,874)	-	(470,411)
Due from other funds	-	336	-	-	(144,604)	773,437	629,169
Due from other State departments	-	1,667,928	-	-	-	-	1,667,928
Inventories – development in progress and dwelling units	-	(800,271)	-	-	-	-	(800,271)
Prepaid expenses and other assets	-	-	10	(830)	-	(3,016)	(3,836)
Investments	-	-	-	15,961,465	-	-	15,961,465
Accounts payable	-	(13,477)	(170,857)	(3,801)	-	79,582	(108,553)
Accrued interest payable	11,631	-	(41,880)	(1,102,482)	(98,465)	-	(1,231,196)
Other accrued expenses	-	278,095	(6,354)	69,219	10,867	(11,838)	339,989
Due to other funds	(120)	-	(9,104)	17,298	-	(681,516)	(673,442)
Security deposits	-	(7,917)	10,584	-	-	243,142	245,809
Deferred income	-	(385,806)	(71,969)	-	-	-	(457,775)
Deferred refunding costs	-	-	-	253,660	-	-	253,660
Deferred fees	-	-	-	(249,261)	-	-	(249,261)
Deferred gain on sale of units and land	-	4,098	-	-	-	-	4,098
Estimated future costs of development	-	(272,779)	-	-	-	-	(272,779)
Net cash provided by (used in) operating activities	\$ 3,039,175	\$ (3,343,684)	\$ 2,864,418	\$ 15,807,988	\$ (63,330,697)	\$ (554,212)	\$ (45,517,012)

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, 2011

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

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

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Notes to Financial Statements
June 30, 2011

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, 2011, 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, 2011

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
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June 30, 2011

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, 2011 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 related federal grants. Substantially all of the fund's activity relates to providing affordable housing to residents of the State of Hawai'i.
- **National Foreclosure Mitigation Counseling Program Fund** – The National Foreclosure Mitigation Counseling Program (NFMC) Fund is used to account for all financial activities funded by the related federal grant. Substantially all of the fund's activity relates to providing foreclosure intervention counseling and legal assistance.
- **General Obligation Bond Fund** – The General Obligation Bond Fund is used to account for the transfers of the proceeds of the State's general obligation bonds allotted to the Corporation for subsequent use by the Corporation's other funds.

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

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 Housing 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, Kekuilani Gardens Project Fund, Disbursing Fund, Grant-In-Aid Fund, Hamakua Fund and Waiialua 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.
- 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.

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- 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 January 2012, 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, 2011 and that each participating State agency would be allocated a portion of the adjustment. The Corporation's total allocated adjustment for fiscal 2011 amounted to an increase of approximately \$4,125,000.

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.

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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, 2011

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 \$213,000. Accrued vacation, which is included in other accrued expenses in the statement of net assets, changed during 2011 as follows:

Balance July 1, 2010	\$ 649,837
Additions	279,557
Reductions	<u>305,526</u>
Balance at June 30, 2011	<u>\$ 623,868</u>

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, 2011 amounted to approximately \$1,881,000.

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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.

Risk Management

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

Governmental Fund Balances

Effective July 1, 2010, the Corporation implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54 provides clearer fund balance classifications and clarifies the existing governmental fund type definitions. The new hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

- **Restricted** – Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.
- **Committed** – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State legislature and the Corporation's Board of Directors.
- **Assigned** – Balances that are constrained by management to be used for specific purposes, but are neither restricted nor committed.
- **Unassigned** – Residual balances that are not contained in the other classifications.

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

The fund balance of the General Obligation Bond fund was committed to purchase land for the development of an affordable rental housing complex.

Deficit Balances

The Kekuilani Gardens Project Fund and Hamakua Fund have net deficits as of June 30, 2011. 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.

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New Accounting Pronouncements

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 American Institute of Certified Public Accountants 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 Corporation's financial statements.

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 budgetary comparison statements 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 2011 – 2012 biennial budget. The Neighborhood Stabilization Program, Low Income Housing Tax Credit and TCAP 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, 2011, 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.

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The Corporation's annual budget is prepared on the budgetary basis of accounting with several differences from the preparation of the statement of revenues, expenditures and change in fund balances under generally accepted accounting principles (GAAP), 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, 2011, there were no differences between the budgetary amounts and the amounts presented in accordance with GAAP.

3. Deposits

At June 30, 2011, 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	\$ 7,362	\$ 220,773,540	\$ 220,780,902
Cash in banks (book balance)	1,241	2,635,395	2,636,636
Deposits held in trust	-	5,717	5,717
Cash and cash equivalents held by Trustee	-	36,009,409	36,009,409
Restricted deposits and funded reserves	-	469,567	469,567
Total cash	<u>\$ 8,603</u>	<u>\$ 259,893,628</u>	<u>\$ 259,902,231</u>

The bank balance of cash in bank was approximately \$2,651,000, of which \$1,638,000 was covered by federal depository insurance and \$1,013,000 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, 2011 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	\$ 19,587	\$ -	\$ 6,871,687	\$ 55,488,136	\$ 38,728,661	\$ 101,108,071
Repurchase agreements	-	313,886	7,808,160	29,261,785	-	37,383,831
U.S. treasury bills	100,082,557	-	-	-	-	100,082,557
Total investments	<u>\$ 100,102,144</u>	<u>\$ 313,886</u>	<u>\$ 14,679,847</u>	<u>\$ 84,749,921</u>	<u>\$ 38,728,661</u>	<u>\$ 238,574,459</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	\$ 231,702,772
Investments – noncurrent	<u>6,871,687</u>
Total investments	<u>\$ 238,574,459</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.

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- **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, 2011, all investments are rated AAA by Moody’s, Fitch and Standard & Poor’s, except for investments in U.S. government or agency obligations which are rated as AA+ by Standard & Poor’s.
- **Concentration of Credit Risk** – The Corporation has no limit on the amount the Corporation may invest in any one issuer. As of June 30, 2011, the Corporation’s investments were primarily in the U.S. Treasury, the Federal National Mortgage Association, and the Societe Generale. These investments are 42%, 42%, and 13%, 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, 2011 comprised the following:

	Mortgage Loans	Notes and Loans
Mortgage loans bearing interest up to 11%, maturing at various dates through 2070	\$ 298,588,467	\$ -
Promissory notes bearing interest up to 4.72%, maturing in 2066	-	67,654,291
Promissory notes bearing interest up to 6%, maturing in 2012	-	6,177,433
Non-interest bearing promissory notes, maturing at various dates through 2056		9,861,610
Allowance for loan losses	<u>(187,568)</u>	<u>-</u>
	298,400,899	83,693,334
Less: Current portion	<u>(49,014,659)</u>	<u>(6,177,433)</u>
	<u>\$ 249,386,240</u>	<u>\$ 77,515,901</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). The non-interest bearing notes are collateralized by real property.

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6. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental activities				
Depreciable assets				
Equipment	\$ 567,704	\$ -	\$ -	\$ 567,704
Accumulated depreciation				
Equipment	<u>(217,187)</u>	<u>(113,540)</u>	<u>-</u>	<u>(330,727)</u>
Governmental activities capital assets, net	<u>\$ 350,517</u>	<u>\$ (113,540)</u>	<u>\$ -</u>	<u>\$ 236,977</u>
Business-type activities				
Depreciable assets				
Building and improvements	\$ 154,824,260	\$ 740,000	\$ -	\$ 155,564,260
Equipment	<u>2,366,368</u>	<u>16,724</u>	<u>-</u>	<u>2,383,092</u>
	157,190,628	756,724	-	157,947,352
Accumulated depreciation				
Building and improvements	(91,241,364)	(5,778,827)	-	(97,020,191)
Equipment	<u>(1,858,651)</u>	<u>(88,883)</u>	<u>-</u>	<u>(1,947,534)</u>
	<u>(93,100,015)</u>	<u>(5,867,710)</u>	<u>-</u>	<u>(98,967,725)</u>
	64,090,613	(5,110,986)	-	58,979,627
Land	<u>43,377,867</u>	<u>-</u>	<u>(22,857)</u>	<u>43,355,010</u>
Business-type activities capital assets, net	<u>\$ 107,468,480</u>	<u>\$ (5,110,986)</u>	<u>\$ (22,857)</u>	<u>\$ 102,334,637</u>

Depreciation expense for the year ended June 30, 2011 was charged to functions as follows:

Governmental activities		
Low income housing service and assistance		<u>\$ 113,540</u>
Business-type activities		
Housing development program		\$ 338,475
Single-family mortgage loan program		541
Rental housing program		<u>5,528,694</u>
Total depreciation expense – business-type activities		<u>\$ 5,867,710</u>

At June 30, 2011, capital assets for the proprietary funds consisted of the following:

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Total
Buildings and improvements	\$ 142,652,331	\$ 7,489,177	\$ 5,422,752	\$ 155,564,260
Equipment	<u>2,097,910</u>	<u>204,257</u>	<u>80,925</u>	<u>2,383,092</u>
	144,750,241	7,693,434	5,503,677	157,947,352
Less: Accumulated depreciation	<u>(90,577,967)</u>	<u>(6,124,384)</u>	<u>(2,265,374)</u>	<u>(98,967,725)</u>
	54,172,274	1,569,050	3,238,303	58,979,627
Land	<u>16,186,850</u>	<u>26,095,660</u>	<u>1,072,500</u>	<u>43,355,010</u>
Net capital assets	<u>\$ 70,359,124</u>	<u>\$ 27,664,710</u>	<u>\$ 4,310,803</u>	<u>\$ 102,334,637</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, 2011, 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	\$ 9,687,000
Mortgage loan reserve requirements	<u>787,000</u>
	<u>\$ 10,474,000</u>

At June 30, 2011, approximately \$11,639,000 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, 2011, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 4.10 times the aggregate debt service on outstanding bonds during the year and net revenues (as defined in the trust indenture agreement) of 1.10 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, 2011.

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, 2011, the balance outstanding on the mortgage loan was \$4,947,077.

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 \$366,000 to \$110,000.

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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, 2011, the balance outstanding on the mortgage loan was \$522,387.

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, 2011, the balance outstanding on the mortgage note was \$223,562.

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

	Balance at July 1, 2010	Addition	Reductions	Balance at June 30, 2011	Less Current Portion
Mortgage payable	\$ 5,509,545	\$ -	\$ (40,081)	\$ 5,469,464	\$ 43,402
Note payable	237,033	-	(13,471)	223,562	13,062
Total	<u>\$ 5,746,578</u>	<u>\$ -</u>	<u>\$ (53,552)</u>	<u>\$ 5,693,026</u>	<u>\$ 56,464</u>

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

Year ending June 30,	Principal	Interest	Total
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	68,000	354,000	422,000
2017 – 2021	398,000	1,713,000	2,111,000
2022 – 2026	517,000	1,593,000	2,110,000
2027 – 2031	608,000	1,427,000	2,035,000
2032 – 2036	839,000	1,192,000	2,031,000
2037 – 2041	1,174,000	857,000	2,031,000
2042 – 2046	1,654,000	377,000	2,031,000
2047	191,000	4,000	195,000
	<u>\$ 5,693,000</u>	<u>\$ 8,961,000</u>	<u>\$ 14,654,000</u>

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9. Revenue Bonds Payable

Through June 30, 2011, approximately \$2.42 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, 2011 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds

1997 Series A	
Term bonds maturing annually through 2031 (5.75%)	\$ 3,385,000
1997 Series B	
Term bonds maturing annually through 2018 (5.45%)	9,950,000
1998 Series A	
Serial bonds maturing annually through 2013 (5.15% to 5.25%)	3,255,000
Term bonds maturing in 2014 through 2019 (5.35%)	6,810,000
Placed bonds maturing in 2019 through 2031 (5.40%)	17,145,000
	<u>27,210,000</u>
1998 Series B	
Term bonds maturing in 2019 through 2029 (5.30%)	8,625,000
1998 Series C	
Term bonds maturing in 2019 through 2021 (5.35%)	3,165,000
2000 Series A	
Term bonds maturing in 2021 through 2027 (6.275%)	2,350,000
2002 Series A	
Serial bonds maturing annually through 2013 (4.55% to 4.80%)	1,185,000
Term bonds maturing in 2014 through 2034 (5.3% to 5.375%)	10,885,000
Placed bonds maturing in 2023 through 2033 (5.38%)	2,915,000
	<u>14,985,000</u>
2002 Series B	
Term bonds maturing in 2026 through 2028 (5.25%)	1,495,000
2005 Series A	
Term bonds maturing in 2027 through 2037 (5.00%)	3,265,000
2005 Series B	
Serial bonds maturing annually through 2016 (3.35% to 3.90%)	3,410,000
Term bonds maturing in 2016 through 2021 (4.125%)	10,645,000
Planned Amortization Class bonds maturing in 2012 through 2027 (3.70% to 4.3%)	8,465,000
	<u>22,520,000</u>
2009 Series A	
Term bonds maturing in 2042 (0.02%)	100,000,000
Total Single Family Mortgage Purchase revenue bonds	<u>\$ 196,950,000</u>

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Hawaii Rental Housing System revenue bonds

2004 Series A

Serial bonds maturing annually through 2014 (3.00% to 3.70%)	\$ 5,095,000
Term bonds maturing in 2015 through 2034 (3.80% to 4.75%)	67,455,000
	<u>72,550,000</u>

2004 Series B

Serial bonds maturing annually through 2030 (4.00% to 6.00%)	14,795,000
Term bonds maturing in 2031 through 2034 (6.50%)	5,590,000
	<u>20,385,000</u>

Total Hawaii Rental Housing System revenue bonds	<u>\$ 92,935,000</u>
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Multifamily Housing revenue bonds

1999 Series (Manana Gardens Project)

Term bond maturing annually through 2035 (6.30%)	\$ 3,330,000
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2002 Series (Hale Hoaloha Project)

Mortgage installment bonds maturing annually through 2018 (6.75% until 2012 and 7.75% thereafter)	1,467,314
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2005 Series (Kauhale Olu Project)

Mortgage installment bonds maturing annually through 2026 (6.375%)	5,241,363
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2007 Series (Kukui Gardens Project)

Mortgage installment bonds maturing annually through 2042 (1.16%)	45,000,000
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2008 Series (Kahului Town Terrace Project)

Mortgage installment bonds maturing annually through 2026 (4.25%)	1,917,500
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2009 Series (Lokahi Kau Project)

Mortgage installment bonds maturing annually through 2042 (0.25%)	33,500,000
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2009 Series (Franciscan Vistas Ewa Project)

Mortgage installment bonds maturing in 2052 (4.35%)	14,680,342
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2011 Series A (Kuhio Park Terrace Project)

Mortgage installment bonds maturing in 2014 through 2029 (1.25% to 3.95%)	3,180,000
Term bonds maturing in 2028 through 2029 (4.75% to 4.95%)	27,684,802
	<u>30,864,802</u>

2011 Series B (Kuhio Park Terrace Project)

Term bonds maturing in 2014 (1.25%)	33,650,000
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2011 Series A (Ewa Villages Apartments)

Term bonds maturing in 2021 through 2029 (3.95% to 5.1%)	3,630,000
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2011 Series B (Ewa Villages Apartments)

Term bonds maturing in 2016 (4.4%)	55,000
	<u>55,000</u>

Total Multifamily Housing revenue bonds	<u>\$ 173,336,321</u>
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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

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Purchase 2002 Series, 2005 for the Hawaii Rental Housing System 2004 Series, 2010 for the Multifamily Housing 1999 Series, 2021 for both the Ewa Villages Apartments and Kuhio Park Terrace Project 2011 Series A, and 2013 for the Kuhio Park Terrace Project 2011 Series B. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from undisbursed bond proceeds, principal payments and prepayments of mortgages, excess amounts in the debt service reserve account or excess revenues (as defined in the bond indentures).

During the year ended June 30, 2011, early redemptions totaled \$38,415,000.

Revenue bonds activity during the year was as follows:

	Balance at July, 2010	Additions	Reductions	Balance at June 30, 2011
Single Family Mortgage Purchase	\$ 238,135,000	\$ -	\$ (41,185,000)	\$ 196,950,000
Hawaii Rental Housing System	95,340,000	-	(2,405,000)	92,935,000
Multifamily Housing	136,046,219	80,814,802	(43,524,700)	173,336,321
	469,521,219	80,814,802	(87,114,700)	463,221,321
Add: Unamortized premium	545,369	-	(38,452)	506,917
Less: Deferred refunding amount	(1,725,486)	-	305,782	(1,419,704)
Total	<u>\$ 468,341,102</u>	<u>\$ 80,814,802</u>	<u>\$ (86,847,370)</u>	<u>462,308,534</u>
Less: Current portion				(56,206,432)
Total				<u>\$ 406,102,102</u>

The approximate annual debt service requirements through 2016 and in five-year increments thereafter to maturity for revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2012	\$ 56,206,000	\$ 10,827,000	\$ 67,033,000
2013	38,849,000	10,361,000	49,210,000
2014	5,763,000	10,239,000	16,002,000
2015	4,311,000	10,268,000	14,579,000
2016	4,194,000	10,053,000	14,247,000
2017 – 2021	42,108,000	46,201,000	88,309,000
2022 – 2026	46,069,000	39,086,000	85,155,000
2027 – 2031	100,735,000	23,603,000	124,338,000
2032 – 2036	31,996,000	6,219,000	38,215,000
2037 – 2041	5,348,000	3,672,000	9,020,000
2042 – 2046	112,962,000	3,234,000	116,196,000
2047 – 2051	-	3,193,000	3,193,000
2052	14,680,000	639,000	15,319,000
	<u>\$ 463,221,000</u>	<u>\$ 177,595,000</u>	<u>\$ 640,816,000</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

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funds been invested at the bond yield. At June 30, 2011, the Corporation determined that \$2,281,129 of rebates was due to the U.S. Treasury.

Interest expense of approximately \$11,898,000 was included as direct function expenses in the government-wide statement of activities during the year ended June 30, 2011.

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, 2011, there were eleven series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$173,336,000 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,	
2012	\$ 858,000
2013	872,000
2014	923,000
2015	938,000
2016	953,000
2017 – 2021	5,003,000
2022 – 2026	5,216,000
2027 – 2031	5,702,000
2032 – 2036	3,639,000
2037 – 2041	4,221,000
2042 – 2046	4,367,000
2047 – 2051	5,065,000
2052 – 2056	5,240,000
	<u>\$ 42,997,000</u>

Rent expense for the year ended June 30, 2011 totaled approximately \$866,000.

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Lessor

The Corporation leases land with a carrying value of approximately \$25,849,000 to various developers and home buyers. The leases expire at various dates through 2085. Lease rental income for the year ended June 30, 2011 was approximately \$953,000.

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, 2011 is as follows:

Year ending June 30,	
2012	\$ 461,000
2013	462,000
2014	467,000
2015	484,000
2016	519,000
2017 – 2021	2,497,000
2022 – 2026	2,258,000
2027 – 2031	2,030,000
2032 – 2036	411,000
2037 – 2041	81,000
2042 – 2046	31,000
	<u>\$ 9,701,000</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 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, 2011, the outstanding balance of mortgage loans that have been sold to the ERS which are covered by the loan guarantee was approximately \$1,000. At June 30, 2011, notes and loan receivables did not include any delinquent loans purchased back from the ERS.

Construction Contracts

At June 30, 2011, the Dwelling Unit Revolving Fund and Housing Finance Revolving Fund had outstanding commitments to expend approximately \$81,495,000 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, 2011.

Loan Commitments

At June 30, 2011, the Rental Housing Trust Fund had aggregate outstanding loan commitments of approximately \$16,955,000.

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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, 2011, all but remnant residential parcels and 35 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 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, 2011, the Corporation has remaining development rights for most of the Leiali'i project. Development costs related to Leiali'i were approximately \$20.2 million at June 30, 2011. Management believes that the future revenues from these projects will meet or exceed the development costs at June 30, 2011 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-ceeded 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, 2011.

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, 2011, 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, 2011.

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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.

To assist in financing the acquisition and redevelopment of the Project, the State contributed \$25 million to DURF during December 2007. Additionally, the Multifamily Housing 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 Housing 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, 2011. 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, 2011 related to the Project was approximately \$23,636,000. 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.

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During the year ended June 30, 2011, DURF recognized approximately \$1.6 million of interest income related to the outstanding promissory notes. As of June 30, 2011, DURF has recorded approximately \$5.2 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 State ERS, 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: <http://ers.ehawaii.gov/Financials.htm>.

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 fiscal years 2011, 2010 and 2009 of approximately \$417,000, \$393,000 and \$469,000, 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. Act 88 established the EUTF during the 2001 legislative session and is codified in Chapter 87A, HRS.

The Corporation contributed approximately \$201,000, \$172,000 and \$277,000, respectively for fiscal years 2011, 2010 and 2009.

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 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.

State of Hawai'i
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Notes to Financial Statements
June 30, 2011

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, 2011:

Balance at July 1, 2010	\$ 1,353,481
Additions	653,670
Deletions	<u>(196,619)</u>
Balance at June 30, 2011	<u>\$ 1,810,532</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.

15. Related Party Transactions

Amounts due from other State of Hawai'i departments include approximately \$505,000 of miscellaneous advances previously made to other departments and approximately \$15,494,000 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, 2011, amounts due from DHHL include approximately \$15,494,000 of principal, net of approximately \$2,371,000 of imputed interest, and approximately \$266,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately \$532,000 during the year ended June 30, 2011.

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 \$1,106,000 during the year ended June 30, 2011. 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, 2011, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately \$1,095,000, which was allocated as office rental expense to various funds of the Corporation. In addition, DAGS incurred approximately \$1,005,000 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.

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June 30, 2011

16. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2011 is as follows:

Receivable Fund	Payable Fund	Amount
Dwelling Unit Revolving Fund	Other Non-major Enterprise Funds	\$ 606,939
Multi Family Housing Revenue Bond Fund	Other Non-major Enterprise Funds	715,729
Other Non-major Enterprise Funds	Rental Housing Trust Fund	68
Other Non-major Enterprise Funds	Hawaii Rental Housing System Revenue Bond Fund	588,498
Other Non-major Enterprise Funds	Single Family Mortgage Purchase Revenue Bond Fund	238,066
Other Non-major Enterprise Funds	Other Non-major Enterprise Funds	<u>3,042,082</u>
	Total Proprietary interfund balances	<u>\$ 5,191,382</u>
Other Non-major Enterprise Funds	Other Non-major Governmental Funds	\$ 51,214
Other Non-major Enterprise Funds	Tax Credit Assistance Program Fund	429
Other Non-major Enterprise Funds	Low Income Housing Tax Credit Fund	560
Other Non-major Enterprise Funds	Neighborhood Stabilization Program Fund	<u>34,356</u>
	Total Governmental interfund balances	<u>\$ 86,559</u>

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

17. Subsequent Events

In July 2011, the Corporation redeemed \$3.3 million of outstanding revenue bonds from the Multifamily Housing Revenue Bond Fund.

In December 2011, the Corporation issued \$50 million in revenue bonds for the Single Family Mortgage Purchase Revenue Bond Fund.

Supplementary Information

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Non-major Governmental Funds
Combining Balance Sheet
June 30, 2011

	Home Program Fund	National Foreclosure Mitigation Counseling Program Fund	Total Non-major Governmental Funds
Assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ 7,362	\$ 7,362
Due from other governments	47,610	3,104	50,714
Total assets	<u>\$ 47,610</u>	<u>\$ 10,466</u>	<u>\$ 58,076</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ 6,862	\$ 6,862
Due to other funds	47,610	3,604	51,214
Total liabilities	<u>47,610</u>	<u>10,466</u>	<u>58,076</u>
Total liabilities and fund balances	<u>\$ 47,610</u>	<u>\$ 10,466</u>	<u>\$ 58,076</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, 2011

	Home Program Fund	National Foreclosure Mitigation Counseling Program Fund	Total Non-major Governmental Funds
Revenues			
Intergovernmental	\$ 917,746	\$ 274,165	\$ 1,191,911
Expenditures			
Programs	816,218	256,364	1,072,582
Personnel services	74,192	14,435	88,627
Administration	23,217	-	23,217
Professional services	4,119	3,366	7,485
Total expenditures	917,746	274,165	1,191,911
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
Year Ended June 30, 2011**

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Grant-In-Aid Fund	Hamakua Fund	Waiialua Fund	Total
Assets										
Current assets										
Equity in cash and cash equivalents and investments in State Treasury	\$ 10,449	\$ 64,968	\$ 24,835,583	\$ 4,217,498	\$ -	\$ 966,113	\$ -	\$ -	\$ 214	\$ 30,094,825
Cash in banks	-	-	-	-	41,011	9,368	137,197	-	-	187,576
Receivables	-	-	-	-	-	-	-	-	-	-
Mortgage loans	-	-	-	-	-	-	-	-	514	514
Accrued interest	-	-	855,264	13,486	-	-	-	1,851	1,314	871,915
Tenant receivables, less allowance for doubtful accounts of \$171,649	-	-	-	-	42,073	-	-	-	-	42,073
Other	-	2,733	-	-	-	-	-	-	-	2,733
	<u>-</u>	<u>2,733</u>	<u>855,264</u>	<u>13,486</u>	<u>42,073</u>	<u>-</u>	<u>-</u>	<u>1,851</u>	<u>1,828</u>	<u>917,235</u>
Due from other funds	-	-	-	3,855,432	-	13,282	-	-	-	3,868,714
Prepaid expenses and other assets	-	-	119,592	-	-	-	-	-	-	119,592
Deposits held in trust	-	5,717	-	-	-	-	-	-	-	5,717
Total current assets	<u>10,449</u>	<u>73,418</u>	<u>25,810,439</u>	<u>8,086,416</u>	<u>83,084</u>	<u>988,763</u>	<u>137,197</u>	<u>1,851</u>	<u>2,042</u>	<u>35,193,659</u>
Investments	-	-	6,871,687	-	-	-	-	-	-	6,871,687
Mortgage loans, net of allowance for loan losses of \$187,568	-	-	2,249,985	1,000,558	-	-	-	-	-	3,250,543
Restricted deposits and funded reserves	-	-	-	-	469,567	-	-	-	-	469,567
Capital assets, net	-	-	-	-	4,310,803	-	-	-	-	4,310,803
Total assets	<u>\$ 10,449</u>	<u>\$ 73,418</u>	<u>\$ 34,932,111</u>	<u>\$ 9,086,974</u>	<u>\$ 4,863,454</u>	<u>\$ 988,763</u>	<u>\$ 137,197</u>	<u>\$ 1,851</u>	<u>\$ 2,042</u>	<u>\$ 50,096,259</u>
Liabilities and Net Assets										
Current liabilities										
Accounts payable	\$ -	\$ 3,852	\$ -	\$ 825	\$ 232,934	\$ 128,763	\$ -	\$ -	\$ -	\$ 366,374
Other accrued expenses	-	1,140	46,475	269,307	10,209	-	-	-	-	327,131
Due to other funds	-	-	130	3,395,970	-	850,000	-	30,924	1,167	4,278,191
Due to other state departments	-	-	-	-	-	10,000	-	-	-	10,000
Security deposits	-	5,717	-	1,286,817	40,553	-	-	-	-	1,333,087
Mortgage payable	-	-	-	-	43,402	-	-	-	-	43,402
Total current liabilities	<u>-</u>	<u>10,709</u>	<u>46,605</u>	<u>4,952,919</u>	<u>327,098</u>	<u>988,763</u>	<u>-</u>	<u>30,924</u>	<u>1,167</u>	<u>6,358,185</u>
Mortgage payable, net of current portion	-	-	-	-	5,426,062	-	-	-	-	5,426,062
Total liabilities	<u>-</u>	<u>10,709</u>	<u>46,605</u>	<u>4,952,919</u>	<u>5,753,160</u>	<u>988,763</u>	<u>-</u>	<u>30,924</u>	<u>1,167</u>	<u>11,784,247</u>
Commitments and contingencies										
Net assets										
Invested in capital assets, net of related debt	-	-	-	-	(1,158,661)	-	-	-	-	(1,158,661)
Restricted by legislation and contractual agreements	-	-	-	-	469,567	-	-	-	-	469,567
Unrestricted	10,449	62,709	34,885,506	4,134,055	(200,612)	-	137,197	(29,073)	875	39,001,106
Total net assets	<u>10,449</u>	<u>62,709</u>	<u>34,885,506</u>	<u>4,134,055</u>	<u>(889,706)</u>	<u>-</u>	<u>137,197</u>	<u>(29,073)</u>	<u>875</u>	<u>38,312,012</u>
Total liabilities and net assets	<u>\$ 10,449</u>	<u>\$ 73,418</u>	<u>\$ 34,932,111</u>	<u>\$ 9,086,974</u>	<u>\$ 4,863,454</u>	<u>\$ 988,763</u>	<u>\$ 137,197</u>	<u>\$ 1,851</u>	<u>\$ 2,042</u>	<u>\$ 50,096,259</u>

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, 2011**

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Grant-In-Aid Fund	Hamakua Fund	Waialua Fund	Total
Operating revenues										
Interest on mortgages, notes, loans, and mortgage-backed securities	\$ -	\$ -	\$ 68,437	\$ 53,395	\$ -	\$ -	\$ -	\$ -	\$ 31	\$ 121,863
Rental	-	-	-	399,200	516,041	-	-	-	-	915,241
Other	-	-	59	1,562,013	27,183	-	-	-	-	1,589,255
Total operating revenues	-	-	68,496	2,014,608	543,224	-	-	-	31	2,626,359
Operating expenses										
Personnel services	-	-	66,892	1,301,687	45,113	-	-	-	-	1,413,692
Depreciation	-	-	-	-	161,365	-	-	-	-	161,365
Housing assistance payments	-	-	1,485,062	-	-	-	-	-	-	1,485,062
Administration	-	-	60,981	193,584	97,958	-	-	-	-	352,523
Provision for losses	-	-	-	-	18,778	-	-	-	-	18,778
Professional services	2,265	2,665	8,704	57,096	13,965	-	-	2,249	2,204	89,148
Insurance	-	-	-	-	28,431	-	-	-	-	28,431
Repairs and maintenance	-	-	1,334	2,953	107,486	-	-	-	-	111,773
Utilities	-	-	-	-	87,229	-	-	-	-	87,229
Capital expenses	-	-	42	144	-	-	-	-	-	186
Other	-	-	-	19,000	-	-	-	-	-	19,000
Total operating expenses	2,265	2,665	1,623,015	1,574,464	560,325	-	-	2,249	2,204	3,767,187
Operating income (loss)	(2,265)	(2,665)	(1,554,519)	440,144	(17,101)	-	-	(2,249)	(2,173)	(1,140,828)
Nonoperating revenues (expenses)										
Interest income	8,450	1,053	445,240	-	74	-	99	-	-	454,916
Net increase in fair value of equity in cash and cash equivalents and investments in State Treasury	10,449	1,280	563,067	56,715	-	-	-	-	-	631,511
Net decrease in fair value of other investments	-	-	(137,203)	-	-	-	-	-	-	(137,203)
Interest expense	-	-	-	-	(110,338)	-	-	-	-	(110,338)
Other revenue (expense)	-	17,460	-	(280)	-	-	-	-	-	17,180
Total nonoperating (expenses) revenues	18,899	19,793	871,104	56,435	(110,264)	-	99	-	-	856,066
Income (loss) before transfers	16,634	17,128	(683,415)	496,579	(127,365)	-	99	(2,249)	(2,173)	(284,762)
Transfers out	(512,016)	-	-	(474,014)	-	-	-	-	(1,172)	(987,202)
Change in net assets	(495,382)	17,128	(683,415)	22,565	(127,365)	-	99	(2,249)	(3,345)	(1,271,964)
Net assets										
Beginning of year	505,831	45,581	35,568,921	4,111,490	(762,341)	-	137,098	(26,824)	4,220	39,583,976
End of year	\$ 10,449	\$ 62,709	\$ 34,885,506	\$ 4,134,055	\$ (889,706)	\$ -	\$ 137,197	\$ (29,073)	\$ 875	\$ 38,312,012

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, 2011**

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Grant-In-Aid Fund	Hamakua Fund	Waialua Fund	Total
Cash flows from operating activities										
Cash received from tenants	\$ -	\$ -	\$ -	\$ 637,992	\$ 491,313	\$ -	\$ -	\$ -	\$ -	\$ 1,129,305
Cash received from borrowers										
Principal repayments	-	-	-	100,417	-	-	-	-	845	101,262
Interest income	-	123	2,812	53,395	-	-	-	-	31	56,361
Payments to employees	-	-	(66,892)	(1,301,687)	(115,681)	-	-	-	-	(1,484,260)
Payments to suppliers	(2,265)	(20,124)	(1,549,251)	(258,043)	(196,647)	-	-	(2,249)	(2,204)	(2,030,783)
Cash receipts from (to) other funds	-	-	(344)	129,204	-	(802)	-	2,249	(38,386)	91,921
Other cash receipts	-	-	58	1,543,013	27,183	11,728	-	-	-	1,581,982
Net cash provided by (used in) operating activities	<u>(2,265)</u>	<u>(20,001)</u>	<u>(1,613,617)</u>	<u>904,291</u>	<u>206,168</u>	<u>10,926</u>	<u>-</u>	<u>-</u>	<u>(39,714)</u>	<u>(554,212)</u>
Cash flows from noncapital financing activities										
Transfers out	(512,016)	-	-	(474,014)	-	-	-	-	(1,172)	(987,202)
Net cash used in noncapital financing activities	<u>(512,016)</u>	<u>-</u>	<u>-</u>	<u>(474,014)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,172)</u>	<u>(987,202)</u>
Cash flows from capital and related financing activities										
Principal payments on mortgage loans	-	-	-	-	(40,081)	-	-	-	-	(40,081)
Interest payments	-	-	-	-	(110,338)	-	-	-	-	(110,338)
Net cash used in capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,419)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(150,419)</u>
Cash flows from investing activities										
Proceeds from maturities of investments	-	-	-	1,169	-	-	-	-	-	1,169
Interest received	8,450	18,512	445,240	-	74	-	99	-	-	472,375
Change in fair value of equity in cash and cash equivalents and investments in State Treasury	<u>10,449</u>	<u>1,280</u>	<u>563,067</u>	<u>56,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>631,511</u>
Net cash provided by investing activities	<u>18,899</u>	<u>19,792</u>	<u>1,008,307</u>	<u>57,884</u>	<u>74</u>	<u>-</u>	<u>99</u>	<u>-</u>	<u>-</u>	<u>1,105,055</u>
Net increase (decrease) in cash and cash equivalents	<u>(495,382)</u>	<u>(209)</u>	<u>(605,310)</u>	<u>488,161</u>	<u>55,823</u>	<u>10,926</u>	<u>99</u>	<u>-</u>	<u>(40,886)</u>	<u>(586,778)</u>
Cash and cash equivalents										
Beginning of year	<u>505,831</u>	<u>70,894</u>	<u>25,440,893</u>	<u>3,729,337</u>	<u>454,755</u>	<u>964,555</u>	<u>137,098</u>	<u>-</u>	<u>41,100</u>	<u>31,344,463</u>
End of year	<u>\$ 10,449</u>	<u>\$ 70,685</u>	<u>\$ 24,835,583</u>	<u>\$ 4,217,498</u>	<u>\$ 510,578</u>	<u>\$ 975,481</u>	<u>\$ 137,197</u>	<u>\$ -</u>	<u>\$ 214</u>	<u>\$ 30,757,685</u>

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, 2011**

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Grant-In-Aid Fund	Hamakua Fund	Waialua Fund	Total
Components of cash and cash equivalents										
Equity in cash and cash equivalents and investments in State Treasury	\$ 10,449	\$ 64,968	\$ 24,835,583	\$ 4,217,498	\$ -	\$ 966,113	\$ -	\$ -	\$ 214	\$ 30,094,825
Cash in banks	-	-	-	-	41,011	9,368	137,197	-	-	187,576
Deposits held in trust	-	5,717	-	-	-	-	-	-	-	5,717
Restricted deposits and funded reserves	-	-	-	-	469,567	-	-	-	-	469,567
Cash and cash equivalents	<u>\$ 10,449</u>	<u>\$ 70,685</u>	<u>\$ 24,835,583</u>	<u>\$ 4,217,498</u>	<u>\$ 510,578</u>	<u>\$ 975,481</u>	<u>\$ 137,197</u>	<u>\$ -</u>	<u>\$ 214</u>	<u>\$ 30,757,685</u>
Cash flows from operating activities										
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities										
Operating income (loss)	\$ (2,265)	\$ (2,665)	\$ (1,554,519)	\$ 440,144	\$ (17,101)	\$ -	\$ -	\$ (2,249)	\$ (2,173)	\$ (1,140,828)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities										
Depreciation	-	-	-	-	161,365	-	-	-	-	161,365
Provision for losses	-	-	-	-	18,778	-	-	-	-	18,778
Changes in assets and liabilities										
Mortgage loans receivables	-	-	-	100,417	-	-	-	-	845	101,262
Accrued interest	-	123	(65,625)	-	-	-	-	-	-	(65,502)
Tenant receivables	-	-	-	-	(29,078)	-	-	-	-	(29,078)
Due from other funds	-	-	-	774,239	-	(802)	-	-	-	773,437
Prepaid expenses and other assets	-	-	(3,016)	-	-	-	-	-	-	(3,016)
Accounts payable	-	-	-	-	67,854	11,728	-	-	-	79,582
Other accrued expenses	-	(17,459)	9,887	(4,266)	-	-	-	-	-	(11,838)
Due to other funds	-	-	(344)	(645,035)	-	-	-	2,249	(38,386)	(681,516)
Security deposits	-	-	-	238,792	4,350	-	-	-	-	243,142
Net cash provided by (used in) operating activities	<u>\$ (2,265)</u>	<u>\$ (20,001)</u>	<u>\$ (1,613,617)</u>	<u>\$ 904,291</u>	<u>\$ 206,168</u>	<u>\$ 10,926</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (39,714)</u>	<u>\$ (554,212)</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, 2011

The Corporation's cash and short-term investments consist of the following as of June 30, 2011:

Equity in State Treasury investment pool – Government-wide	\$ 220,780,902
Equity in State Treasury investment pool – Fiduciary Funds	203,484
Cash in banks	2,636,636
Cash and cash equivalents held by trustees	36,009,409
Deposits held in trust	5,717
Restricted deposits and funded reserves	469,567
	<u>\$ 260,105,715</u>

Total cash and short-term investments are in agreement with the State Comptroller's central accounting records as of June 30, 2011, as reconciled below:

	Appropriation Symbol	Balance at June 30, 2011
Cash in State Treasury		
Special Funds	S-02-800-B	\$ 203,484
	S-07-375-B	279,331
	S-08-375-B	349,443
	S-09-375-B	162,698
	S-10-376-B	7,000
	S-11-213-B	6,862
	S-11-314-B	500,000
	S-11-320-B	254,118
	S-11-321-B	305,755
	S-11-376-B	3,916,938
	S-11-325-B	214
	S-11-374-B	65,202
	S-10-375-B	599,365
	S-10-376-B	22
	S-11-378-B	24,938,669
	S-11-375-B	101,821,768
	S-11-377-B	3,598
Trust Funds	T-11-930-B	88,316,354
		<u>221,730,821</u>
Total cash held in State Treasury, as reported by State Comptroller's accounting records		<u>221,730,821</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, 2011

	Appropriation Symbol	Balance at June 30, 2011
Reconciling items		
Journal vouchers not recorded by DAGS		1,248
Journal vouchers not recorded on books		(4,569)
Fair value adjustment – cash held in State Treasury Investment Pool		(750,544)
Other		7,430
		<u>(746,435)</u>
Cash and short-term investments held outside State Treasury		
Cash in bank		2,636,636
Cash held by trustees		36,009,409
Deposits held in trust		5,717
Restricted deposits and funded reserves		469,567
		<u>39,121,329</u>
Cash and short-term investments on Statement of Net Assets		<u>\$ 260,105,715</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, 2011

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	\$ 917,746
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii – Neighborhood Stabilization Program	14.228	6,245,695 *
ARRA – Tax Credit Assistance Program	14.258	9,861,610 *
U.S. Department of Treasury		
Passed through The Neighborhood Reinvestment Corporation – National Foreclosure Mitigation Counseling	21.000	<u>274,165</u>
Total federal expenditures		<u>\$ 17,299,216</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, 2011

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	\$ 816,218
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii – Neighborhood Stabilization Program	14.228	6,131,744
Tax Credit Assistance Program	14.258	9,861,610
U.S. Department of Treasury		
National Foreclosure Mitigation Counseling	21.000	<u>259,730</u>
Total federal expenditures		<u>\$ 17,069,302</u>

3. Loans Outstanding

The Corporation had \$9,861,610 of loan balances outstanding and advances awarded as of and for the year ended June 30, 2011, which are presented in the schedule of expenditures of federal awards.

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, 2011, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated January 27, 2012. 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

Management of the Corporation is responsible for establishing and maintaining effective 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 Nos. 2010-01 and 2009-01 of the accompanying schedule of finding and questioned costs, which we consider to be significant deficiencies 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
January 27, 2012



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, 2011. 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 each of 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, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the 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, 2011.

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.

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 and should not be used by anyone other than these specified parties.

Accuity LLP

Honolulu, Hawai'i
January 27, 2012

State of Hawai'i
Hawaii Housing Finance and Development Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' 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 auditors' 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
14.258	Tax Credit Assistance Program

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, 2011**

Section II – Financial Statement Findings

No current year financial statement findings.

Section III – Federal Award Findings and Questioned Costs

No current year federal award findings and questioned costs.

**State of Hawai'i
Hawaii Housing Finance and Development Corporation
Schedule of Findings and Questioned Costs
Year Ended June 30, 2011**

The following is the status of the prior year findings.

Section IV – Summary Schedule of Prior Audit Findings

Financial Statement Finding

Finding No. 2010-01 and 2009-01: Financial Reporting (Significant Deficiency)

As of June 30, 2010, the Corporation reported a liability for estimated future costs of development of \$35.5 million. This liability represented 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 related to its Leiali'i development on Maui. The estimates were material to the Corporation's and Dwelling Unit Revolving Fund's (DURF) financial statements, and therefore, represented 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 was unable to utilize solid assumptions in determining the estimated balances, and management believed the cost of obtaining updated appraisals of the value of the land being developed outweighed the benefit of having current appraisals.

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 recommended that the Corporation's management perform a 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.

Status

Unresolved. A formal valuation analysis was not performed as of June 30, 2011.

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, 2011**

<u>Federal Award Finding</u>	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

During our prior year 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) 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.

Status

Resolved. No similar instances were noted in the current year. We also noted that the report contained detailed information on the items reported and was reviewed prior to submission.