

**State of Hawai'i  
Hawaii Housing Finance and  
Development Corporation**  
Financial and Compliance Audit  
June 30, 2013

Submitted by  
The Auditor  
State of Hawai'i

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Index**  
**June 30, 2013**

---

	<b>Page(s)</b>
<b>PART I – FINANCIAL STATEMENTS</b>	
<b>Report of Independent Auditors</b>	
<b>Management’s Discussion and Analysis</b> .....	3–11
<b>Financial Statements</b>	
Statement of Net Position .....	12–13
Statement of Activities.....	14
Governmental Funds Balance Sheet.....	15
Governmental Funds Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position .....	16
Governmental Funds Statement of Revenues, Expenditures and Change in Fund Balances.....	17
Governmental Funds Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Change in Fund Balances to the Statement of Activities.....	18
Budgetary Comparison Statement – Neighborhood Stabilization Program Fund .....	19
Proprietary Funds Statement of Net Position .....	20–21
Proprietary Funds Statement of Revenues, Expenses and Change in Net Position.....	22–23
Proprietary Funds Statement of Cash Flows .....	24–26
Notes to Financial Statements .....	27–50

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Index**  
**June 30, 2013**

---

	<b>Page(s)</b>
<b>Supplementary Information</b>	
Non-major Governmental Funds Combining Balance Sheet.....	51
Non-major Governmental Funds Combining Statement of Revenues, Expenditures and Change in Fund Balances .....	52
Non-major Enterprise Funds Combining Statement of Net Position .....	53
Non-major Enterprise Funds Combining Statement of Revenues, Expenses and Change in Net Position .....	54
Non-major Enterprise Funds Combining Statement of Cash Flows.....	55–56
Reconciliation of Cash and Short-Term Investments .....	57–58
Schedule of Expenditures of Federal Awards.....	59
Notes to Schedule of Expenditures of Federal Awards .....	60
 <b>PART II – COMPLIANCE AND INTERNAL CONTROL</b>	
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 <i>Government Auditing Standards</i>	
Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	
Schedule of Findings and Questioned Costs.....	65–67

**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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the "Corporation"), as of and for the year ended June 30, 2013, which collectively comprise the Corporation's basic financial statements as listed in the index.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Corporation as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the Neighborhood Stabilization Program Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Corporation include only the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Corporation, and are not intended to present fairly the financial position of the State of Hawai'i as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 11 and page 19 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The combining non-major fund financial statements and reconciliation of cash and short-term investments are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

*Accuity LLP*

Honolulu, Hawai'i  
November 13, 2013

# State of Hawai'i

## Hawaii Housing Finance and Development Corporation

### Management's Discussion and Analysis

#### June 30, 2013

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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, 2013. This document should be read in conjunction with the audited financial statements. All amounts presented in tables, unless otherwise indicated, are expressed in thousands of dollars.

#### **Introduction**

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

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

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

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the financial statements of the Corporation for the period ended June 30, 2013. 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 Position and the Statement of Activities.
- The remaining statements are the fund financial statements of the Corporation's governmental funds, for which activities are funded primarily from appropriations from the State, the Corporation's major and non-major proprietary funds, which operate similar to business-type activities. The governmental funds are presented on a modified accrual basis of accounting while the proprietary funds are presented on an accrual basis of accounting.
- The basic financial statements also present budgetary comparison statements, which are required.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Management’s Discussion and Analysis**  
**June 30, 2013**

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

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

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

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

**Fund Financial Statements**

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Management’s Discussion and Analysis**  
**June 30, 2013**

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The Corporation has two types of funds:

- *Governmental Funds*
  - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements.
  - Governmental fund financial statements help determine whether there are more or fewer financial resources that can be spent in the near future to finance the Corporation’s programs.
  - The focus of the governmental funds is narrower than that of the government-wide financial statements; therefore, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decision.
  - Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and change in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- *Proprietary Funds* – The Corporation’s only type of proprietary funds are its enterprise funds, which are used to account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing services to customers.

**Notes to Financial Statements**

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

**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 an accrual basis of accounting for the year ended June 30, 2013.

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Management's Discussion and Analysis  
June 30, 2013**

**Government-wide Financial Analysis**

As noted earlier, the *statement of net position* presents all of the Corporation's assets and liabilities, with the difference between the two reported as net position. Over time, changes in net position may serve as a useful indicator of the Corporation's financial statements. As indicated below, as of June 30, 2013, the Corporation's total net position was approximately \$559,279,000, an increase of \$15,988,000 (or 2.9%) from the previous year.

**Government-Wide Condensed Statements of Net Position  
June 30, 2013 and 2012  
(in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2013	2012	2013	2012	2013	2012	
Current assets	\$ 7,056	\$ 33,032	\$ 297,035	\$ 213,132	\$ 304,091	\$ 246,164	23.5%
Assets held by trustee	-	-	179,917	259,351	179,917	259,351	-30.6%
Capital assets	69	139	91,672	96,850	91,741	96,989	-5.4%
Other assets	9,861	9,862	445,263	461,331	455,124	471,193	-3.4%
Total assets	\$ 16,986	\$ 43,033	\$ 1,013,887	\$ 1,030,664	\$ 1,030,873	\$ 1,073,697	-4.0%
Current liabilities	\$ 56	\$ 32	\$ 140,389	\$ 80,686	\$ 140,445	\$ 80,718	74.0%
Long-term liabilities	-	-	331,149	449,688	331,149	449,688	-26.4%
Total liabilities	56	32	471,538	530,374	471,594	530,406	-11.1%
Net position							
Invested in capital assets, net of related debt	69	139	24,966	27,584	25,035	27,723	-9.7%
Restricted	9,861	9,862	153,853	233,151	163,714	243,013	-32.6%
Unrestricted	7,000	33,000	363,530	239,555	370,530	272,555	35.9%
Total net position	16,930	43,001	542,349	500,290	559,279	543,291	2.9%
Total liabilities and net position	\$ 16,986	\$ 43,033	\$ 1,013,887	\$ 1,030,664	\$ 1,030,873	\$ 1,073,697	-4.0%

Current assets increased by approximately \$57,927,000 (or 23.5%) during 2013 primarily related to increases in cash and cash equivalents and investments in State Treasury of approximately \$17,302,000, an increase in current receivables of \$66,661,000 and a decrease in the due from State of Hawai'i of \$26,000,000. The increase in receivables comprised of increases in mortgage loans of approximately \$58,198,000, increases in notes and loans receivable of approximately \$6,665,000, and an increase in accrued interest of approximately \$1,810,000.

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 \$79,434,000 (or 30.6%) during 2013 due primarily to a net increase in the bonds payable of approximately \$46,971,000 in the Multifamily Housing Revenue Bond Fund and a net decrease of approximately \$100,738,000 in the Single Family Mortgage Purchase Revenue Bond Fund due to either repayments or defeasance. Restrictions on net position, 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 \$79,299,000 (or 32.6%) during 2013.

Capital assets decreased by approximately \$5,248,000 (or 5.4%) during 2013 primarily due to depreciation expense of \$5,599,000.

Other assets decreased by approximately \$16,069,000 (or 3.4%) during 2013 primarily due to a net increase of approximately \$18,898,000 in new mortgage loans issued by the Rental Housing Trust Fund and a decrease of approximately \$39,826,000 in mortgage loans in the Multifamily Housing Revenue Bond Fund (primarily due to a repayment of mortgage loans in fiscal year 2013).

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Management’s Discussion and Analysis**  
**June 30, 2013**

Current liabilities increased by approximately \$59,727,000 (or 74.0%) during 2013 primarily due to an increase in the current portion of revenue bonds payable of approximately \$63,559,000.

Long-term liabilities decreased by approximately \$118,539,000 (or 26.4%) primarily due to a paydown of revenue bonds and classification of revenue bonds to current liabilities.

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

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

**Government-Wide Statements of Activities**  
**Years Ended June 30, 2013 and 2012**  
**(in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2013	2012	2013	2012	2013	2012	
<b>Revenues</b>							
Program revenues							
Charges for services	\$ -	\$ -	\$ 49,984	\$ 41,829	\$ 49,984	\$ 41,829	19.5%
Operating grants and contributions	6,381	17,989	6,190	7,315	12,571	25,304	-50.3%
General revenues							
State allotted appropriations, net of lapses	5,000	36,500	-	-	5,000	36,500	-86.3%
Net change in fair value of equity in cash and cash equivalents and investments in State Treasury	-	-	1,199	(444)	1,199	(444)	-370.0%
Total revenues	11,381	54,489	57,373	48,700	68,754	103,189	-33.4%
<b>Expenses</b>							
Governmental activities							
Expenditures	6,452	18,087	-	-	6,452	18,087	-64.3%
Business-type activities							
Rental assistance program	-	-	1,889	1,765	1,889	1,765	7.0%
Housing development program	-	-	6,391	5,784	6,391	5,784	10.5%
Multi-family mortgage loan programs	-	-	5,723	5,096	5,723	5,096	12.3%
Single-family mortgage loan program	-	-	10,066	6,278	10,066	6,278	60.3%
Rental housing program	-	-	20,344	18,951	20,344	18,951	7.4%
Others	-	-	1,901	1,895	1,901	1,895	0.3%
Total expenses	6,452	18,087	46,314	39,769	52,766	57,856	-8.8%
Net change before transfers	4,929	36,402	11,059	8,931	15,988	45,333	-64.7%
Transfers	(31,000)	(10,000)	31,000	10,000	-	-	0.0%
Change in net position	(26,071)	26,402	42,059	18,931	15,988	45,333	-64.7%
<b>Net position</b>							
Beginning of year	43,001	16,599	500,290	481,359	543,291	497,958	9.1%
End of year	\$ 16,930	\$ 43,001	\$ 542,349	\$ 500,290	\$ 559,279	\$ 543,291	2.9%

# State of Hawai'i

## Hawaii Housing Finance and Development Corporation

### Management's Discussion and Analysis

#### June 30, 2013

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#### Governmental Activities

For the fiscal year ended June 30, 2013, total net position of the governmental activities decreased by approximately \$26,071,000, from \$43,001,000 in 2012 to \$16,930,000 in 2013. The decrease is primarily due to the State appropriated Capital Improvements Program ("CIP") of \$31,000,000 received in fiscal year 2013, of which \$26,000,000 was transferred to other funds for the Senior Residence at Iwilei, and \$5,000,000 was infused into the Rental Housing Trust Fund.

#### Business-type Activities

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

For the fiscal year ending June 30, 2013, business-type activities increased the Corporation's net position by approximately \$42,059,000 after transfers of \$31,000,000. Key elements of this increase are as follows:

- Total revenues of \$57,373,000 exceeded total expenses by \$11,059,000. Revenues primarily consisted of \$49,984,000 in charges for services for 2013, while the \$46,314,000 in expenses primarily consisted of operating expenses for the Corporation's various business-type functions.
- Net transfers increased net position by the \$5,000,000 General Obligation Bond Fund infusion into the Rental Housing Trust Fund and the \$26,000,000 General Obligation Bond Fund transfer to the Dwelling Unit Revolving Fund 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, 2013, the Corporation's governmental funds reported total fund balances of \$16,862,000.

The governmental funds consist of two major funds and several non-major funds. The two major funds are the (1) Neighborhood Stabilization Program ("NSP") Fund and (2) 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, 2013 as all revenues recognized were expended.
- 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 \$31,000,000 to the Rental Housing Trust Fund and the Dwelling Unit Revolving Fund during the fiscal year and had a fund balance of \$7,000,000 as of June 30, 2013.

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2013**

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**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 position of approximately \$23,729,000 in 2013, compared to an increase of \$21,864,000 in 2012. The 2013 increase in net position consisted of conveyance tax collections of approximately \$16,409,000, loan interest income of \$1,715,000, and \$682,000 of interest on investments, less operating expenses of approximately \$190,000. As previously mentioned, a \$5,000,000 infusion was also made into the Rental Housing Trust Fund.

Conveyance taxes increased by approximately \$5,869,000 (or 55.7%) to \$16,409,000 in 2013 from \$10,540,000 in 2012, due to an increase in real estate activity compared to last year. Interest income on cash balances increased due to higher interest yields.

- 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 position of \$27,015,000 in 2013, which was due primarily to a \$26,000,000 transfer into the Dwelling Unit Revolving Fund, interest income of \$2,233,000, offset by operating expenses of \$6,391,000 exceeding operating revenues of \$5,174,000.
- The *Hawaii Rental Housing System Revenue Bond Fund* accounts for special funds for housing projects or systems of housing projects financed from proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State. The fund had a loss of approximately \$1,805,000 in 2013, which was a decrease of approximately \$59,000 (or 3.2%) from the loss of \$1,864,000 in 2012. The decrease in the loss is due to an increase in rental revenues.
- 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 position in the fund decreased by approximately \$5,053,000, as a result of an operating loss of \$6,869,000 and nonoperating expenses of \$666,000, offset by nonoperating revenues of \$2,482,000.
- 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 position in the fund increased by approximately \$445,000 primarily as a result of operating revenues which is comprised mostly of interest income on mortgage loans exceeding operating expenses, which is comprised mostly of interest expense.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Management’s Discussion and Analysis**  
**June 30, 2013**

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**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2013, the Corporation had invested approximately \$91,741,000 (net of accumulated depreciation of \$110,073,000) in a broad range of capital assets. This amount represents a decrease of approximately \$5,248,000 (or 5.4%) over the prior year, primarily due to depreciation expense of \$5,599,000.

**Corporation’s Capital Assets**  
**June 30, 2013 and 2012**  
**(in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2013	2012	2013	2012	2013	2012	
Land	\$ -	\$ -	\$ 43,290	\$ 43,355	\$ 43,290	\$ 43,355	-0.1%
Buildings and improvements	-	-	155,459	155,122	155,459	155,122	0.2%
Equipment	568	568	2,497	2,418	3,065	2,986	2.6%
Total	568	568	201,246	200,895	201,814	201,463	0.2%
Accumulated depreciation	(499)	(429)	(109,574)	(104,045)	(110,073)	(104,474)	5.4%
Total capital assets, net	\$ 69	\$ 139	\$ 91,672	\$ 96,850	\$ 91,741	\$ 96,989	-5.4%

**Debt Administration**

Through June 30, 2013, approximately \$2.7 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 \$55,897,000 to approximately \$390,647,000 at June 30, 2013 from \$446,544,000 at June 30, 2012. During the year ended June 30, 2013, the Corporation issued \$26,309,000 in new bonds for the Single Family Mortgage Purchase Revenue Bond System and \$104,331,000 in new bonds for the Multifamily Housing System. Bond redemptions were approximately \$127,047,000, \$2,585,000 and \$57,360,000 for the Single Family Mortgage Purchase, Hawaii Rental Housing System and Multifamily Housing Revenue Bond Funds, respectively.

As of June 30, 2013, 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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Management’s Discussion and Analysis**  
**June 30, 2013**

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**Currently Known Facts, Decisions or Conditions**

- 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, the Corporation 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 Chief Financial Officer, 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 Position**  
**June 30, 2013**

	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 49,909	\$ 177,309,360	\$ 177,359,269
Cash in banks	4,640	2,484,932	2,489,572
Receivables			
Mortgage loans	-	59,450,632	59,450,632
Notes and loans	-	14,378,234	14,378,234
Accrued interest	-	16,110,417	16,110,417
Tenant receivables, less allowance for doubtful accounts of \$685,286	-	84,160	84,160
Other receivables, less allowance for doubtful accounts of \$1,758	-	2,542,893	2,542,893
	-	92,566,336	92,566,336
Due from State	7,000,000	-	7,000,000
Due from other governments	25,370	-	25,370
Internal balances	(24,191)	24,191	-
Inventories – development in progress and dwelling units	-	24,174,414	24,174,414
Prepaid expenses and other assets	-	416,660	416,660
Deposits held in trust	-	5,717	5,717
Deferred bond issuance costs	-	53,485	53,485
Total current assets	<u>7,055,728</u>	<u>297,035,095</u>	<u>304,090,823</u>
Assets held by Trustees under revenue bond programs			
Cash and cash equivalents	-	68,492,419	68,492,419
Investments	-	111,424,901	111,424,901
	-	179,917,320	179,917,320
Other receivables	-	1,023,834	1,023,834
Due from other State departments	-	10,151,454	10,151,454
Investments	-	6,709,494	6,709,494
Mortgage loans, net of allowance for loan losses of \$271,702	-	323,078,339	323,078,339
Notes and loans	9,861,610	102,423,172	112,284,782
Restricted deposits and funded reserves	-	532,852	532,852
Deferred bond issuance costs	-	1,343,155	1,343,155
Capital assets, net	68,962	91,671,805	91,740,767
Total assets	<u>\$ 16,986,300</u>	<u>\$ 1,013,886,520</u>	<u>\$ 1,030,872,820</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 Position**  
**June 30, 2013**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Liabilities and Net Position</b>			
Current liabilities			
Accounts payable	\$ 55,728	\$ 845,337	\$ 901,065
Accrued expenses			
Interest	-	4,272,323	4,272,323
Other	-	989,620	989,620
Due to other State departments, net	-	3,239,168	3,239,168
Security deposits	-	2,316,296	2,316,296
Note payable	-	13,743	13,743
Mortgages payable	-	48,500	48,500
Revenue bonds payable, net	-	68,540,542	68,540,542
Deferred income	-	22,870,523	22,870,523
Deferred gain on sale of units and land	-	1,905,724	1,905,724
Estimated future costs of development	-	35,346,842	35,346,842
Total current liabilities	<u>55,728</u>	<u>140,388,618</u>	<u>140,444,346</u>
Noncurrent liabilities			
Deferred fees	-	135,940	135,940
Arbitrage rebate payable	-	154,962	154,962
Note payable	-	182,469	182,469
Mortgages payable	-	5,334,899	5,334,899
Revenue bonds payable, net	-	322,106,936	322,106,936
Postemployment liability	-	3,233,717	3,233,717
Total noncurrent liabilities	<u>-</u>	<u>331,148,923</u>	<u>331,148,923</u>
Total liabilities	55,728	471,537,541	471,593,269
Commitments and contingencies			
Net position			
Invested in capital assets, net of related debt	68,962	24,966,065	25,035,027
Restricted by legislation and contractual agreements	9,861,610	153,852,724	163,714,334
Unrestricted	7,000,000	363,530,190	370,530,190
Total net position	<u>16,930,572</u>	<u>542,348,979</u>	<u>559,279,551</u>
Total liabilities and net position	<u>\$ 16,986,300</u>	<u>\$ 1,013,886,520</u>	<u>\$ 1,030,872,820</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, 2013**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>						
Governmental activities						
Low income housing service and assistance program	\$ 6,450,703	\$ -	\$ 6,381,006	\$ (69,697)	\$ -	\$ (69,697)
Total governmental activities	6,450,703	-	6,381,006	(69,697)	-	(69,697)
Business-type activities						
Rental assistance program	1,889,421	68,509	5,484	-	(1,815,428)	(1,815,428)
Housing development program	6,391,001	3,456,622	3,448,589	-	514,210	514,210
Multi-family mortgage loan program	5,723,045	24,205,161	168,162	-	18,650,278	18,650,278
Single-family mortgage loan program	10,066,164	2,742,029	2,269,843	-	(5,054,292)	(5,054,292)
Rental housing program	20,343,940	18,231,657	296,308	-	(1,815,975)	(1,815,975)
Others	1,900,576	1,279,814	1,477	-	(619,285)	(619,285)
Total business-type activities	46,314,147	49,983,792	6,189,863	-	9,859,508	9,859,508
Total	\$ 52,764,850	\$ 49,983,792	\$ 12,570,869	(69,697)	9,859,508	9,789,811
<b>General revenues</b>						
State allotted appropriations, net of lapses				5,000,000	-	5,000,000
Net transfers				(31,000,000)	31,000,000	-
Net increase in fair value of equity in cash and cash equivalents and investments in State Treasury				-	1,199,137	1,199,137
Total general revenues and transfers				(26,000,000)	32,199,137	6,199,137
Change in net position				(26,069,697)	42,058,645	15,988,948
<b>Net position</b>						
Beginning of year				43,000,269	500,290,334	543,290,603
End of year				\$ 16,930,572	\$ 542,348,979	\$ 559,279,551

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, 2013**

	Neighborhood Stabilization Program Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ -	\$ 49,909	\$ 49,909
Cash in banks	252	-	4,388	4,640
Notes and loans receivable	-	-	9,861,610	9,861,610
Due from State	-	7,000,000	-	7,000,000
Due from other governments	14,076	-	11,294	25,370
Total assets	<u>\$ 14,328</u>	<u>\$ 7,000,000</u>	<u>\$ 9,927,201</u>	<u>\$ 16,941,529</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 55,728	\$ 55,728
Due to other funds	14,328	-	9,863	24,191
Total liabilities	<u>14,328</u>	<u>-</u>	<u>65,591</u>	<u>79,919</u>
<b>Fund balances</b>				
Restricted	-	-	9,861,610	9,861,610
Committed	-	7,000,000	-	7,000,000
Total fund balances	<u>-</u>	<u>7,000,000</u>	<u>9,861,610</u>	<u>16,861,610</u>
Total liabilities and fund balances	<u>\$ 14,328</u>	<u>\$ 7,000,000</u>	<u>\$ 9,927,201</u>	<u>\$ 16,941,529</u>

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Governmental Funds**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Position**  
**June 30, 2013**

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Total fund balances – governmental funds \$ 16,861,610

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

Capital assets used in governmental activities are not current  
financial resources and therefore not reported in the funds.

These assets consist of the following

Equipment	\$	567,704	
Accumulated depreciation		(498,742)	
Total capital assets			68,962
Net position of governmental activities			\$ 16,930,572

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, 2013**

	<b>Neighborhood Stabilization Program Fund</b>	<b>General Obligation Bond Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
State allotted appropriations, net of lapses	\$ -	\$ 5,000,000	\$ -	\$ 5,000,000
Intergovernmental revenue	3,798,899	-	2,582,107	6,381,006
Total revenue	3,798,899	5,000,000	2,582,107	11,381,006
<b>Expenditures</b>				
Programs	3,725,400	-	2,504,236	6,229,636
Personnel services	64,197	-	52,255	116,452
Administration	6,656	-	15,520	22,176
Professional services	2,646	-	10,096	12,742
Total expenditures	3,798,899	-	2,582,107	6,381,006
Other financing uses				
Transfers out	-	(31,000,000)	-	(31,000,000)
Change in fund balances	-	(26,000,000)	-	(26,000,000)
<b>Fund balances</b>				
Beginning of year	-	33,000,000	9,861,610	42,861,610
End of year	\$ -	\$ 7,000,000	\$ 9,861,610	\$ 16,861,610

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, 2013**

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

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

Governmental funds report capital outlays as expenditures.

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

Depreciation expense	\$ (69,697)	(69,697)
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Change in fund balances – governmental activities		\$ (26,069,697)
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The accompanying notes are an integral part of these financial statements.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Budgetary Comparison Statement – Neighborhood Stabilization Program Fund**  
**Year Ended June 30, 2013**

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	<b>Original and Final Budgets</b>	<b>Budgetary Actual</b>
<b>Revenues</b>		
Intergovernmental revenue	\$ 3,798,899	\$ 3,798,899
<b>Expenditures</b>		
Programs	3,725,400	3,725,400
Personnel services	64,197	64,197
Administration	6,656	6,656
Professional services	2,646	2,646
Total expenditures	<u>3,798,899</u>	<u>3,798,899</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>-</u>
<b>Fund balances</b>		
Beginning of year		<u>-</u>
End of year		<u>\$ -</u>

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

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Proprietary Funds  
Statement of Net Position  
June 30, 2013**

	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
<b>Assets</b>							
Current assets							
Equity in cash and cash equivalents and investments in State Treasury	\$ 62,530,808	\$ 87,343,772	\$ -	\$ -	\$ -	\$ 27,434,780	\$ 177,309,360
Cash in banks	-	264,108	2,174,998	-	-	45,826	2,484,932
Receivables							
Mortgage loans	406,496	-	-	341,107	58,703,029	-	59,450,632
Notes and loans	-	14,378,234	-	-	-	-	14,378,234
Accrued interest	4,678,107	8,786,398	-	535,971	1,167,660	942,281	16,110,417
Tenant receivables, less allowance for doubtful accounts of \$685,286	-	50,480	-	-	-	33,680	84,160
Other receivables, less allowance for doubtful accounts of \$1,758	-	2,314,109	-	-	187,978	40,806	2,542,893
Total receivables	5,084,603	25,529,221	-	877,078	60,058,667	1,016,767	92,566,336
Due from other funds	51	615,000	-	-	1,476,223	1,717,576	3,808,850
Due from other State departments	-	2,344,436	-	-	-	-	2,344,436
Inventories – development in progress and dwelling units	-	24,174,414	-	-	-	-	24,174,414
Prepaid expenses and other assets	-	218,400	54,270	5,476	-	138,514	416,660
Deposits held in trust	-	-	-	-	-	5,717	5,717
Deferred bond issuance costs	-	-	53,485	-	-	-	53,485
Total current assets	67,615,462	140,489,351	2,282,753	882,554	61,534,890	30,359,180	303,164,190
Assets held by Trustees under revenue bond programs							
Cash and cash equivalents	-	-	26,597,448	38,719,600	3,175,371	-	68,492,419
Investments	-	-	-	86,040,908	25,383,993	-	111,424,901
	-	-	26,597,448	124,760,508	28,559,364	-	179,917,320
Other receivables	-	-	1,023,834	-	-	-	1,023,834
Due from other State departments	-	10,151,454	-	-	-	-	10,151,454
Investments	-	-	-	-	-	6,709,494	6,709,494
Mortgage loans, net of allowance for loan losses of \$271,702	191,277,035	461,846	-	1,308,422	126,986,275	3,044,761	323,078,339
Notes and loans	-	102,423,172	-	-	-	-	102,423,172
Restricted deposits and funded reserves	-	-	-	-	-	532,852	532,852
Deferred bond issuance costs	-	-	586,595	756,560	-	-	1,343,155
Capital assets, net	-	27,245,025	60,352,170	-	-	4,074,610	91,671,805
Total assets	\$ 258,892,497	\$ 280,770,848	\$ 90,842,800	\$ 127,708,044	\$ 217,080,529	\$ 44,720,897	\$ 1,020,015,615

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 Position  
June 30, 2013**

	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
<b>Liabilities and Net Position</b>							
Current liabilities							
Accounts payable	\$ -	\$ 33,230	\$ 388,564	\$ 27,294	\$ -	\$ 396,249	\$ 845,337
Accrued expenses							
Interest	-	-	2,074,708	1,014,906	1,182,709	-	4,272,323
Other	26,842	589,741	63,538	144,595	15,841	149,063	989,620
Due to other funds	-	-	595,600	489,683	-	2,699,376	3,784,659
Due to other State departments	-	5,573,604	-	-	-	10,000	5,583,604
Security deposits	-	77,819	1,160,005	-	-	1,078,472	2,316,296
Note payable	-	13,743	-	-	-	-	13,743
Mortgages payable	-	-	-	-	-	48,500	48,500
Revenue bonds payable, net	-	-	2,685,000	7,152,513	58,703,029	-	68,540,542
Deferred income	-	22,870,523	-	-	-	-	22,870,523
Deferred gain on sale of units and land	-	1,905,724	-	-	-	-	1,905,724
Estimated future costs of development	-	35,346,842	-	-	-	-	35,346,842
Total current liabilities	<u>26,842</u>	<u>66,411,226</u>	<u>6,967,415</u>	<u>8,828,991</u>	<u>59,901,579</u>	<u>4,381,660</u>	<u>146,517,713</u>
Noncurrent liabilities							
Deferred fees	-	-	-	135,940	-	-	135,940
Arbitrage rebate payable	-	-	-	154,962	-	-	154,962
Note payable	-	182,469	-	-	-	-	182,469
Mortgages payable	-	-	-	-	-	5,334,899	5,334,899
Revenue bonds payable, net	-	-	85,038,577	81,532,084	155,536,275	-	322,106,936
Postemployment liability	69,902	1,985,813	165,904	521,822	89,766	400,510	3,233,717
Total noncurrent liabilities	<u>69,902</u>	<u>2,168,282</u>	<u>85,204,481</u>	<u>82,344,808</u>	<u>155,626,041</u>	<u>5,735,409</u>	<u>331,148,923</u>
Total liabilities	<u>96,744</u>	<u>68,579,508</u>	<u>92,171,896</u>	<u>91,173,799</u>	<u>215,527,620</u>	<u>10,117,069</u>	<u>477,666,636</u>
Commitments and contingencies							
Net position							
Invested in capital assets, net of related debt	-	27,048,813	(773,959)	-	-	(1,308,789)	24,966,065
Restricted by legislation and contractual agreements	-	-	-	124,760,508	28,559,364	532,852	153,852,724
Unrestricted	<u>258,795,753</u>	<u>185,142,527</u>	<u>(555,137)</u>	<u>(88,226,263)</u>	<u>(27,006,455)</u>	<u>35,379,765</u>	<u>363,530,190</u>
Total net position	<u>258,795,753</u>	<u>212,191,340</u>	<u>(1,329,096)</u>	<u>36,534,245</u>	<u>1,552,909</u>	<u>34,603,828</u>	<u>542,348,979</u>
Total liabilities and net position	<u>\$ 258,892,497</u>	<u>\$ 280,770,848</u>	<u>\$ 90,842,800</u>	<u>\$ 127,708,044</u>	<u>\$ 217,080,529</u>	<u>\$ 44,720,897</u>	<u>\$ 1,020,015,615</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 Position  
Year Ended June 30, 2013**

	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
<b>Operating revenues</b>							
Rental	\$ -	\$ 1,855,677	\$ 16,886,881	\$ -	\$ -	\$ 597,657	\$ 19,340,215
Conveyance tax	16,409,446	-	-	-	-	-	16,409,446
Interest on mortgages, notes, loans and mortgage-backed securities	1,714,607	1,716,927	-	2,731,567	5,300,814	111,462	11,575,377
Net decrease in fair value of mortgage-backed securities	-	-	-	(3,096,884)	-	-	(3,096,884)
Gain on sale of land, net	-	882,136	-	-	-	-	882,136
Other	112,910	718,809	742,201	10,462	667,384	1,241,779	3,493,545
Total operating revenues	<u>18,236,963</u>	<u>5,173,549</u>	<u>17,629,082</u>	<u>(354,855)</u>	<u>5,968,198</u>	<u>1,950,898</u>	<u>48,603,835</u>
<b>Operating expenses</b>							
Interest expense	-	-	4,163,578	4,632,476	5,306,500	-	14,102,554
Programs	-	1,830,738	8,595,877	-	-	-	10,426,615
Personnel services	118,423	2,819,937	203,423	818,261	139,406	1,574,398	5,673,848
Depreciation	-	177,110	5,194,065	-	-	158,497	5,529,672
Administration	41,945	984,788	357,938	600,155	15,912	354,807	2,355,545
Housing assistance payments	-	-	-	376,500	-	1,735,795	2,112,295
Professional services	28,979	268,959	60,265	43,995	23,668	97,854	523,720
Insurance	-	12,276	203,591	6,295	-	136,963	359,125
Capital expenses	-	6,532	325,186	-	-	-	331,718
Repairs and maintenance	632	213,313	56,941	-	-	14,083	284,969
Provision for losses	-	75,068	103,391	-	-	1,254	179,713
Utilities	-	-	-	1,532	-	88,976	90,508
Other	-	2,280	72,435	34,608	37,311	137,767	284,401
Total operating expenses	<u>189,979</u>	<u>6,391,001</u>	<u>19,336,690</u>	<u>6,513,822</u>	<u>5,522,797</u>	<u>4,300,394</u>	<u>42,254,683</u>
Operating income (loss) carried forward	<u>18,046,984</u>	<u>(1,217,452)</u>	<u>(1,707,608)</u>	<u>(6,868,677)</u>	<u>445,401</u>	<u>(2,349,496)</u>	<u>6,349,152</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 Position**  
**Year Ended June 30, 2013**

	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	18,046,984	(1,217,452)	(1,707,608)	\$ (6,868,677)	445,401	(2,349,496)	6,349,152
<b>Nonoperating revenues (expenses)</b>							
Interest income	168,162	1,731,662	40,507	2,269,843	-	702,518	4,912,692
Net increase in the fair value of equity in cash and cash equivalents and investments in State Treasury	514,275	501,261	-	-	-	183,601	1,199,137
Net decrease in fair value of other investments	-	-	-	-	-	(439,756)	(439,756)
Interest expense	-	-	-	-	-	(360,167)	(360,167)
Amortization of deferred bond insurance costs	-	-	(104,396)	(666,184)	-	-	(770,580)
Arbitrage rebate	-	-	-	211,980	-	-	211,980
Other expense	-	-	(33,600)	-	-	(10,213)	(43,813)
Total nonoperating revenues (expenses)	682,437	2,232,923	(97,489)	1,815,639	-	75,983	4,709,493
Income (loss) before transfers	18,729,421	1,015,471	(1,805,097)	(5,053,038)	445,401	(2,273,513)	11,058,645
Transfers in	5,000,000	26,000,000	-	-	-	-	31,000,000
Change in net position	23,729,421	27,015,471	(1,805,097)	(5,053,038)	445,401	(2,273,513)	42,058,645
<b>Net position</b>							
Beginning of year	235,066,332	185,175,869	476,001	41,587,283	1,107,508	36,877,341	500,290,334
End of year	\$ 258,795,753	\$ 212,191,340	\$ (1,329,096)	\$ 36,534,245	\$ 1,552,909	\$ 34,603,828	\$ 542,348,979

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, 2013**

	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
<b>Cash flows from operating activities</b>							
Cash received from tenants	\$ -	\$ 1,396,349	\$ 16,724,984	\$ -	\$ -	\$ 350,423	\$ 18,471,756
Cash received from borrowers							
Principal repayments	2,040,609	4,324,358	-	526,094	3,023,976	95,829	10,010,866
Interest income	1,191,199	40,552	-	3,402,186	5,078,946	51,099	9,763,982
Cash received from sale of units and land	-	1,004,832	-	-	-	-	1,004,832
Cash received from conveyance taxes	16,409,446	-	-	-	-	-	16,409,446
Cash received for payments on mortgage-backed securities, net	-	-	-	85,720	-	-	85,720
Cash payments for issuance of loans receivable	(20,956,224)	(18,505,958)	-	(619,355)	(21,444,491)	-	(61,526,028)
Interest payments	-	-	(4,211,685)	(6,021,050)	(5,069,583)	-	(15,302,318)
Payments to employees	(82,420)	(2,819,937)	(203,423)	(818,261)	(139,406)	(1,574,398)	(5,637,845)
Payments to suppliers	(71,556)	(2,530,448)	(9,629,852)	(481,783)	(5,853)	(2,379,956)	(15,099,448)
Cash receipts from (payments to) other funds	(237)	1,780,262	(141,856)	(275,527)	(406,182)	755,170	1,711,630
Other cash receipts (payments)	112,910	850,629	536,387	(376,500)	551,442	1,242,673	2,917,541
Net cash provided by (used in) operating activities	<u>(1,356,273)</u>	<u>(14,459,361)</u>	<u>3,074,555</u>	<u>(4,578,476)</u>	<u>(18,411,151)</u>	<u>(1,459,160)</u>	<u>(37,189,866)</u>
<b>Cash flows from noncapital financing activities</b>							
Principal paid on revenue bond maturities and redemptions	-	-	-	(126,766,707)	-	-	(126,766,707)
Proceeds from new bond issuance	-	-	-	26,309,000	-	-	26,309,000
Arbitrage rebate paid	-	-	-	(1,976,524)	-	-	(1,976,524)
Transfers in	5,000,000	26,000,000	-	-	-	-	31,000,000
Net cash provided by (used in) noncapital financing activities	<u>5,000,000</u>	<u>26,000,000</u>	<u>-</u>	<u>(102,434,231)</u>	<u>-</u>	<u>-</u>	<u>(71,434,231)</u>
Subtotal carried forward	<u>3,643,727</u>	<u>11,540,639</u>	<u>3,074,555</u>	<u>(107,012,707)</u>	<u>(18,411,151)</u>	<u>(1,459,160)</u>	<u>(108,624,097)</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, 2013**

	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	3,643,727	11,540,639	3,074,555	(107,012,707)	(18,411,151)	(1,459,160)	(108,624,097)
<b>Cash flows from capital and related financing activities</b>							
Principal paid on revenue bond maturities and redemptions	-	-	(2,580,983)	-	(97,360,306)	-	(99,941,289)
Proceeds from new bond issuance	-	-	-	-	144,330,821	-	144,330,821
Principal paid on mortgage loans and notes payable	-	(13,743)	-	-	-	(42,664)	(56,407)
Interest payments	-	-	-	-	-	(103,328)	(103,328)
Purchase of capital assets	-	-	(399,270)	-	-	(17,693)	(416,963)
Net cash provided by (used in) capital and related financing activities	-	(13,743)	(2,980,253)	-	46,970,515	(163,685)	43,812,834
<b>Cash flows from investing activities</b>							
Purchase of investments	-	-	-	(392,676,604)	(25,383,993)	-	(418,060,597)
Proceeds from maturities of investments	-	-	-	486,529,767	-	-	486,529,767
Interest received	168,162	1,731,662	-	2,269,843	-	445,263	4,614,930
Change in fair value of equity in cash and cash equivalents and investments in State Treasury	514,275	501,261	-	-	-	183,601	1,199,137
Other payments	-	-	-	-	-	(8,759)	(8,759)
Net cash provided by (used in) investing activities	682,437	2,232,923	-	96,123,006	(25,383,993)	620,105	74,274,478
Net increase (decrease) in cash and cash equivalents	4,326,164	13,759,819	94,302	(10,889,701)	3,175,371	(1,002,740)	9,463,215
<b>Cash and cash equivalents</b>							
Beginning of year	58,204,644	73,848,061	28,678,144	49,609,301	-	29,021,915	239,362,065
End of year	<u>\$ 62,530,808</u>	<u>\$ 87,607,880</u>	<u>\$ 28,772,446</u>	<u>\$ 38,719,600</u>	<u>\$ 3,175,371</u>	<u>\$ 28,019,175</u>	<u>\$ 248,825,280</u>
<b>Components of cash and cash equivalents</b>							
Equity in cash and cash equivalents and investments in State Treasury	\$ 62,530,808	\$ 87,343,772	\$ -	\$ -	\$ -	\$ 27,434,780	\$ 177,309,360
Cash in banks	-	264,108	2,174,998	-	-	45,826	2,484,932
Deposits held in trust	-	-	-	-	-	5,717	5,717
Cash and cash equivalents held by Trustee	-	-	26,597,448	38,719,600	3,175,371	-	68,492,419
Restricted deposits and funded reserves	-	-	-	-	-	532,852	532,852
Cash and cash equivalents	<u>\$ 62,530,808</u>	<u>\$ 87,607,880</u>	<u>\$ 28,772,446</u>	<u>\$ 38,719,600</u>	<u>\$ 3,175,371</u>	<u>\$ 28,019,175</u>	<u>\$ 248,825,280</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, 2013**

	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
<b>Cash flows from operating activities</b>							
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities							
Operating income (loss)	\$ 18,046,984	\$ (1,217,452)	\$ (1,707,608)	\$ (6,868,677)	\$ 445,401	\$ (2,349,496)	\$ 6,349,152
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities							
Net decrease in fair value of mortgage-backed securities	-	-	-	3,096,884	-	-	3,096,884
Depreciation	-	177,110	5,194,065	-	-	158,497	5,529,672
Provision for losses	-	75,068	103,391	-	-	1,254	179,713
Gain on sale of assets	-	65,464	-	-	-	-	65,464
Changes in assets and liabilities							
Mortgage loans receivable	(18,915,615)	(29,586)	-	526,094	(18,420,515)	95,829	(36,743,793)
Notes and loans receivable	-	(14,152,014)	-	-	-	-	(14,152,014)
Accrued interest receivable	(523,408)	(1,676,375)	-	670,619	(221,868)	(60,363)	(1,811,395)
Tenant receivables	-	(82,461)	(218,484)	-	-	(25,382)	(326,327)
Other receivables	-	133,034	(93,335)	-	(78,631)	(7,577)	(46,509)
Due from other funds	-	-	-	-	(406,182)	473,540	67,358
Due from other State departments	-	1,780,262	-	-	-	-	1,780,262
Inventories – development in progress and dwelling units	-	(74,994)	-	-	-	-	(74,994)
Prepaid expenses and other assets	-	(18,200)	(44,473)	838	-	(1,029)	(62,864)
Investments	-	-	-	85,721	-	-	85,721
Accounts payable	-	12,231	47,149	(6,801)	-	(13,075)	39,504
Accrued interest payable	18,993	-	(48,107)	(1,481,541)	236,917	-	(1,273,738)
Other accrued expenses	17,010	447,036	(72,774)	200,302	33,727	61,207	686,508
Due to other funds	(237)	-	(141,856)	(275,527)	-	418,977	1,357
Security deposits	-	3,940	56,587	-	-	(211,542)	(151,015)
Deferred income	-	(380,807)	-	-	-	-	(380,807)
Deferred refunding costs	-	-	-	162,899	-	-	162,899
Deferred fees	-	-	-	(689,287)	-	-	(689,287)
Deferred gain on sale of units and land	-	57,231	-	-	-	-	57,231
Estimated future costs of development	-	421,152	-	-	-	-	421,152
Net cash provided by (used in) operating activities	\$ (1,356,273)	\$ (14,459,361)	\$ 3,074,555	\$ (4,578,476)	\$ (18,411,151)	\$ (1,459,160)	\$ (37,189,866)

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, 2013**

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**1. Organization and Summary of Significant Accounting Policies**

**Financial Reporting Entity**

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

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

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

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

The financial statements of the Corporation include only the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the Corporation, and are not intended to present fairly the financial position of the State of Hawai'i (the "State") as of June 30, 2013, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation's financial activities.

**Government-Wide and Fund Financial Statements**

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

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

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

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internally are reported as general revenues rather than program revenues. The Corporation employs an indirect cost allocation system. The Corporation provides certain administrative services to its various funds. The cost of these services is allocated to the funds based on estimates of benefits provided to the funds.

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

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

**Measurement Focus and Basis of Accounting**

***Government-Wide Financial Statements***

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

***Governmental Fund Financial Statements***

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

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, 2013 has been reported in the government-wide financial statements.

***Proprietary Funds***

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

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The Corporation applies all applicable Governmental Accounting Standards Board (“GASB”) pronouncements, including the adoption of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 Financial Accounting Standards Board and American Institute of Certified Public Accountants Pronouncements*, in the year ended June 30, 2013.

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 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.
- **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.

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

- **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.
- **Emergency Homeowners’ Loan Program** – The Emergency Homeowners’ Loan Program (“EHLP”) 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 emergency loans to homeowners who have suffered a loss of income that places them in jeopardy of foreclosure of their homes.

***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 Hawai'i Rental Housing System Revenue Bond Fund, the Single Family Mortgage Purchase Revenue Bond Fund, the Multifamily Housing Revenue Bond Fund, and the University of Hawai'i 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.
- 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.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

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- 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.

**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’ (“DAGS”) 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.

During fiscal 2013, the State sold the balance of its investment in auction rate securities at cost and DAGS informed state agencies participating in the State Treasury Investment Pool to adjust their investment in auction rate securities to reflect the sale. Since DAGS had allocated the write-down of these investments to the participating state agencies in prior years, the Corporation recorded a gain of approximately \$1,199,000 in fiscal 2013.

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

**Investments**

Investments in U.S. government securities and certificates of deposit 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.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

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

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

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

**Receivables**

Receivable balances are composed of mortgage loans receivable and tenant receivables from the various projects and funds within the Corporation. Mortgage loans receivable are primarily second mortgages from nonprofit organizations and for-profit developers for the development, pre-development, construction, acquisition, preservation and substantial rehabilitation of rental housing units. Receivable amounts from tenants are related to rental arrangements. Allowances on receivables are typically established for any accounts over 90 days outstanding. For the year ended June 30, 2013, there were allowances for mortgage loan receivables and total tenant receivables of \$272,000 and \$685,000, respectively.

**Interfund Receivables and Payables**

During the course of operations, transactions occur between funds that may result in amounts owed between funds. Those related to transactions for goods and services are classified as “due to and from other funds.” 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**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

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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:

	<b>Governmental Activities</b>	<b>Proprietary Funds and Business Type Activities</b>
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 position 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 \$350,000. Accrued vacation, which is included in other accrued expenses in the statement of net position, changed during 2013 as follows:

<b>Balance July 1, 2012</b>	\$ 778,127
Additions	486,583
Reductions	<u>(556,833)</u>
<b>Balance at June 30, 2013</b>	<u>\$ 707,877</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, 2013 amounted to approximately \$1,914,000.

**Post Retirement Health Care and Life Insurance Benefits**

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

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

**Risk Management**

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

**Governmental Fund Balances**

The Corporation accounts for governmental fund balances in accordance with GASB Statement No. 54 ("GASB 54"), *Fund Balance Reporting and Governmental Fund Type Definitions*. The GASB 54 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 Hawaii Rental Housing System Revenue Bond Fund, Kekuilani Gardens Project Fund and Waialua Fund have a net deficit as of June 30, 2013. Planned rental increases at all properties within the Hawai'i Rental Housing System are expected to aid the fund in eliminating the deficit. Rental increases at the Kekuilani Gardens Project, effective July 1, 2011, are expected to assist the project in eliminating the deficit. It is anticipated that subsidies from the State are necessary to liquidate the Waialua 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.

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

**New Accounting Pronouncements**

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 Corporation implemented Statement No. 63 in the fiscal year ended June 30, 2013. There was no material effect on the Corporation's financial statements.

In April 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources and provides financial reporting guidance related to the impact of the financial statement elements of deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for reporting periods beginning after December 15, 2012. The Corporation has not yet determined the effect this Statement will have on the Corporation's financial statements.

In April 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012*. The objective of this Statement is to enhance usefulness of financial reports by resolving conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. The requirements of this Statement are effective for reporting periods beginning after December 15, 2012. Management does not expect that this Statement will have a material effect on the Corporation's financial statements.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Statement revises and established new financial reporting requirements for most governments that provide their employees with pension benefits. The requirements of this statement are effective for reporting periods beginning after June 15, 2014. Management has not yet determined the effect this statement will have on the Corporation's financial statements.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This Statement establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. Management does not expect that this Statement will have a material effect 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 Hawai'i ("SLH") 2005), and from other authorizations contained in the State Constitution, Hawai'i 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 2013 – 2014 biennial budget. The Neighborhood Stabilization Program fund has a legally appropriated annual budget.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

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, 2013, there were no expenditures in excess of available appropriations at the legal level of budgetary control.

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

The Corporation’s annual budget is prepared on the budgetary basis of accounting with several differences from the preparation of the statement of revenues, expenditures and change in fund balances under 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, 2013, there were no differences between the budgetary amounts and the amounts presented in accordance with GAAP.

**3. Deposits**

At June 30, 2013, total cash and cash equivalents reported in the statement of net position consisted of the following:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Equity in cash and cash equivalents and investments in State Treasury	\$ 49,909	\$ 177,309,360	\$ 177,359,269
Cash in banks (book balance)	4,640	2,484,932	2,489,572
Deposits held in trust	-	5,717	5,717
Cash and cash equivalents held by Trustee	-	68,492,419	68,492,419
Restricted deposits and funded reserves	-	532,852	532,852
Total cash	<u>\$ 54,549</u>	<u>\$ 248,825,280</u>	<u>\$ 248,879,829</u>

The bank balance of cash in bank was approximately \$2,548,000, of which \$422,000 was covered by federal depositary insurance and \$2,126,000 was not covered.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

**4. Investments**

Investments at June 30, 2013 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	\$ -	\$ 7,021,759	\$ 2,985,887	\$ 34,013,637	\$ 38,892,871	\$ 82,914,154
Repurchase agreements	-	-	7,808,160	2,028,088	-	9,836,248
Municipal bonds	-	25,383,993	-	-	-	25,383,993
Total investments	\$ -	\$ 32,405,752	\$ 10,794,047	\$ 36,041,725	\$ 38,892,871	\$ 118,134,395

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

Investments held by trustees under revenue bond programs	\$ 111,424,901
Investments – noncurrent	<u>6,709,494</u>
Total investments	<u>\$ 118,134,395</u>

- **Interest Rate Risk** – The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.
- **Credit Risk** – The revenue bond funds’ trust indentures authorize the trustees to invest in certificates of deposit, money market funds, U.S. government or agency obligations, and repurchase agreements. The Corporation has no investment policy that would further limit its investment decisions. As of June 30, 2013, Federal National Mortgage Association (“FNMA”) mortgage-backed securities were rated Aaa, AAA, and AA+ by Moody’s, Fitch, and Standard & Poor’s, respectively. The Fund’s investments in repurchase agreements and money market funds are not rated. U.S. Treasury securities and securities of the Government National Mortgage Association are not considered to have credit risk exposure.
- **Concentration of Credit Risk** – The Corporation has no limit on the amount the Corporation may invest in any one issuer. As of June 30, 2013, the Corporation’s investments were primarily with the Federal National Mortgage Association and Societe Generale. These investments are 89% and 11%, 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.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

**5. Mortgage Loans and Notes and Loans Receivable**

Mortgage loans and notes and loans receivable at June 30, 2013 comprised the following:

	<b>Mortgage Loans</b>	<b>Notes and Loans</b>
Mortgage loans bearing interest up to 11%, maturing at various dates through 2070	\$ 382,800,673	\$ -
Promissory notes bearing interest up to 4.72%, maturing in 2066	-	102,423,172
Promissory notes bearing interest up to 6%, maturing in fiscal 2014	-	14,378,234
Non-interest bearing promissory notes, maturing at various dates through 2056	-	9,861,610
Allowance for loan losses	<u>(271,702)</u>	<u>-</u>
	382,528,971	126,663,016
Less: Current portion	<u>(59,450,632)</u>	<u>(14,378,234)</u>
Noncurrent portion	<u>\$ 323,078,339</u>	<u>\$ 112,284,782</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.

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

**6. Capital Assets**

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance at July 1, 2012	Additions	Disposals	Balance at June 30, 2013
<b>Governmental activities</b>				
Depreciable assets				
Equipment	\$ 567,704	\$ -	\$ -	\$ 567,704
Accumulated depreciation				
Equipment	(429,045)	(69,697)	-	(498,742)
Governmental activities capital assets, net	<u>\$ 138,659</u>	<u>\$ (69,697)</u>	<u>\$ -</u>	<u>\$ 68,962</u>
<b>Business-type activities</b>				
Depreciable assets				
Building and improvements	\$ 155,122,260	\$ 337,194	\$ -	\$ 155,459,454
Equipment	2,417,402	79,769	-	2,497,171
	157,539,662	416,963	-	157,956,625
Accumulated depreciation				
Building and improvements	(102,028,984)	(5,458,334)	-	(107,487,318)
Equipment	(2,015,710)	(71,338)	-	(2,087,048)
	(104,044,694)	(5,529,672)	-	(109,574,366)
	53,494,968	(5,112,709)	-	48,382,259
Land	43,355,010	-	(65,464)	43,289,546
Business-type activities capital assets, net	<u>\$ 96,849,978</u>	<u>\$ (5,112,709)</u>	<u>\$ (65,464)</u>	<u>\$ 91,671,805</u>

Depreciation expense for the year ended June 30, 2013 was charged to functions as follows:

<b>Governmental activities</b>		
Low income housing service and assistance		<u>\$ 69,697</u>
<b>Business-type activities</b>		
Housing development program		\$ 335,607
Rental housing program		5,194,065
Total depreciation expense – business-type activities		<u>\$ 5,529,672</u>

At June 30, 2013, capital assets for the proprietary funds consisted of the following:

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Total
Buildings and improvements	\$ 142,547,524	\$ 7,489,178	\$ 5,422,752	\$ 155,459,454
Equipment	2,194,297	204,257	98,617	2,497,171
	144,741,821	7,693,435	5,521,369	157,956,625
Less: Accumulated depreciation	(100,576,500)	(6,478,604)	(2,519,262)	(109,574,366)
	44,165,321	1,214,831	3,002,107	48,382,259
Land	16,186,849	26,030,194	1,072,503	43,289,546
Net capital assets	<u>\$ 60,352,170</u>	<u>\$ 27,245,025</u>	<u>\$ 4,074,610</u>	<u>\$ 91,671,805</u>

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

**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, 2013, 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	\$ 8,885,000
Mortgage loan reserve requirements	<u>743,000</u>
	<u>\$ 9,628,000</u>

At June 30, 2013, approximately \$8,885,000 and \$743,000 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 position.

Under the trust indenture agreement between the Corporation and the trustee for the Hawaii Rental Housing System Revenue Bond Fund, the Corporation is required to provide net revenues (as defined in the trust indenture agreement) together with lawfully available funds of at least 1.25 times the aggregate debt service on outstanding bonds during the bond year. Additionally, the Corporation is to provide net revenues (as defined in the trust indenture agreement) of at least 1.10 times the aggregate debt service on outstanding bonds during the bond year. At June 30, 2013, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 4.26 times the aggregate debt service on outstanding bonds during the year and net revenues (as defined in the trust indenture agreement) of 1.13 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, 2013.

**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, 2013, the balance outstanding on the mortgage loan was \$4,882,997.

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 \$360,000 to \$104,000.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

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, 2013, the balance outstanding on the mortgage loan was \$500,402.

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, 2013, the balance outstanding on the mortgage note was \$196,212.

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

	<b>Balance at July 1, 2012</b>	<b>Addition</b>	<b>Reductions</b>	<b>Balance at June 30, 2013</b>	<b>Less Current Portion</b>
Mortgage payable	\$ 5,426,063	\$ -	\$ (42,664)	\$ 5,383,399	\$ 48,500
Note payable	209,955	-	(13,743)	196,212	13,743
Total	<u>\$ 5,636,018</u>	<u>\$ -</u>	<u>\$ (56,407)</u>	<u>\$ 5,579,611</u>	<u>\$ 62,243</u>

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

<b>Year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2014	\$ 62,000	\$ 360,000	\$ 422,000
2015	65,000	357,000	422,000
2016	68,000	354,000	422,000
2017	72,000	350,000	422,000
2018	75,000	347,000	422,000
2019 – 2023	440,000	1,670,000	2,110,000
2024 – 2028	550,000	1,533,000	2,083,000
2029 – 2033	688,000	1,343,000	2,031,000
2034 – 2038	959,000	1,072,000	2,031,000
2039 – 2043	1,346,000	685,000	2,031,000
2044 – 2047	1,255,000	163,000	1,418,000
	<u>\$ 5,580,000</u>	<u>\$ 8,234,000</u>	<u>\$ 13,814,000</u>

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

**9. Revenue Bonds Payable**

Through June 30, 2013, approximately \$2.7 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, 2013 consist of the following issuances:

**Hawaii Rental Housing System revenue bonds**

2004 Series A	
Serial bonds maturing annually through 2014 (3.45% to 3.70%)	\$ 1,055,000
Term bonds maturing in 2015 through 2034 (3.80% to 4.75%)	<u>67,455,000</u>
	68,510,000
2004 Series B	
Serial bonds maturing annually through 2030 (4.00% to 6.00%)	13,755,000
Term bonds maturing in 2031 through 2034 (6.50%)	<u>5,590,000</u>
	19,345,000
Total Hawaii Rental Housing System revenue bonds	<u>\$ 87,855,000</u>

**Single Family Mortgage Purchase revenue bonds**

2005 Series A	
Term bonds maturing in 2027 through 2037 (5.00%)	\$ 1,855,000
2005 Series B	
Serial bonds maturing annually through 2016 (3.65% to 3.90%)	1,390,000
Term bonds maturing in 2016 through 2021 (4.125%)	4,135,000
Planned Amortization Class bonds maturing through 2027 (3.70% to 4.30%)	<u>6,800,000</u>
	12,325,000
2009 Series A-1	
Term bonds maturing in 2026 through 2042 (2.40%)	29,370,000
2011 Series A	
Serial bonds maturing in 2019 (0.06% to 2.90%)	6,855,000
2011 Series B	
Serial bonds maturing in 2020 through 2023 (2.95% to 3.45%)	4,320,000
Term bonds maturing in 2023 through 2026 (3.875%)	4,145,000
Planned Amortization Class bonds maturing in 2015 through 2026 (4.50%)	<u>4,205,000</u>
	12,670,000
2013 Series A	
Term bonds maturing in 2037 (2.60%)	<u>25,772,000</u>
Total Single Family Mortgage Purchase revenue bonds	<u>\$ 88,847,000</u>

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

<b>Multifamily Housing revenue bonds</b>	
2002 Series (Hale Hoaloha Project)	
Mortgage installment bonds maturing annually through 2018 (6.75% until 2012 and 7.75% thereafter)	\$ 1,363,613
2005 Series (Kauhale Olu Project)	
Mortgage installment bonds maturing annually through 2026 (6.375%)	5,074,685
2007 Series A (Kukui Gardens Project)	
Mortgage installment bonds maturing annually through 2042 (3.92%)	10,287,860
Mortgage installment bonds maturing in 2042 (6.25%)	3,270,000
2008 Series (Kahului Town Terrace Project)	
Mortgage installment bonds maturing annually through 2026 (4.25%)	1,852,777
2009 Series (Lokahi Kau Project)	
Mortgage installment bonds maturing in 2042 (5.52%)	19,830,000
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%)	29,170,000
2011 Series B (Kuhio Park Terrace Project)	
Term bonds maturing in 2014 (1.25%)	33,650,000
2011 Series A (Ewa Villages Apartments)	
Term bonds maturing in 2021 through 2029 (3.95% to 5.10%)	3,630,000
2011 Series B (Ewa Villages Apartments)	
Term bonds maturing in 2016 (3.25%)	12,670,000
2012 Series (Hale Mohalu)	
Term bonds maturing in 2014 (3.63%)	21,534,699
2012 Series A (Ko'oloa'ula Apartments)	
Serial bonds maturing in 2023 through 2034 (3.13% to 4.00%)	5,900,000
2012 Series B (Ko'oloa'ula Apartments)	
Serial bonds maturing in 2018 (0.18%)	11,800,000
2012 Series A (Wilikina Apartments)	
Serial bonds maturing in 2022 through 2047 (4.25% to 6.75%)	9,250,000
2012 Series B (Wilikina Apartments)	
Serial bonds maturing in 2014 (1.00%)	2,750,000
2012 Series A (Iwilei Apartments)	
Serial bonds maturing in 2017 through 2031 (1.625% to 3.75%)	11,500,000
2012 Series B (Iwilei Apartments)	
Serial bonds maturing in 2015 (7.50%)	55,000
2012 Series (Hale Makana Apartments)	
Serial bonds maturing in 2015 (7.50%)	1,258,037
2012 Series A (Halekauwila Place)	
Serial bonds maturing in 2015 (0.70%)	25,800,000
2012 Series B (Halekauwila Place)	
Serial bonds maturing in 2015 (7.50%)	134,342
2013 Series (Ewa Villages Apartments II)	
Term bonds maturing in 2015 (2.75%)	278,291
	<hr/>
Total Multifamily Housing revenue bonds	<b>\$ 214,239,304</b>

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

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

The 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 2005 for the Hawaii Rental Housing System 2004 Series; 2010 for the Multifamily Housing 1999 Series; 2021 for both the Multifamily Housing Ewa Villages Apartments and Kuhio Park Terrace Project 2011 Series A; 2013 for the Multifamily Housing Kuhio Park Terrace Project 2011 Series B; 2022 for the Multifamily Housing Koo'loa'ula Apartments Phase I 2012 Series A, Wilikina Apartments 2012 Series A, Iwilei Apartments 2012 Series A; and 2014 for the Multifamily Housing Halekauwila Place 2012 Series A. 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, 2013, early redemptions totaled \$80,055,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2012	Additions	Reductions	Balance at June 30, 2013
Single Family Mortgage Purchase	\$ 189,585,000	\$ 26,309,000	\$ (127,047,000)	\$ 88,847,000
Hawaii Rental Housing System	90,440,000	-	(2,585,000)	87,855,000
Multifamily Housing	167,268,789	104,330,821	(57,360,306)	214,239,304
	447,293,789	130,639,821	(186,992,306)	390,941,304
Add: Unamortized premium	469,428	-	(35,994)	433,434
Less: Deferred refunding amount	(1,219,220)	-	491,960	(727,260)
Total	<u>\$ 446,543,997</u>	<u>\$ 130,639,821</u>	<u>\$ (186,536,340)</u>	390,647,478
Less: Current portion				(68,540,542)
Total				<u>\$ 322,106,936</u>

The approximate annual debt service requirements through 2018 and in five-year increments thereafter to maturity for revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2014	\$ 68,541,000	\$ 17,649,000	\$ 86,190,000
2015	6,091,000	17,131,000	23,222,000
2016	46,352,000	16,216,000	62,568,000
2017	6,357,000	15,906,000	22,263,000
2018	19,383,000	15,699,000	35,082,000
2019 – 2023	40,418,000	74,324,000	114,742,000
2024 – 2028	52,700,000	62,576,000	115,276,000
2029 – 2033	87,503,000	42,718,000	130,221,000
2034 – 2038	33,703,000	25,660,000	59,363,000
2039 – 2043	27,590,000	12,734,000	40,324,000
2044 – 2047	2,303,000	333,000	2,636,000
	<u>\$ 390,941,000</u>	<u>\$ 300,946,000</u>	<u>\$ 691,887,000</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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

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the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. At June 30, 2013, the Corporation determined that approximately \$155,000 of rebates was due to the U.S. Treasury.

Interest expense of approximately \$14,463,000 was included as direct function expenses in the government-wide statement of activities during the year ended June 30, 2013.

**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, 2013, there were fourteen series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$214,239,000 reported as Multifamily Housing Revenue bonds.

**11. Leases**

**Lessee**

The Corporation leases land, buildings and improvements under various noncancelable 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:

<b>Year ending June 30,</b>	
2014	\$ 923,000
2015	938,000
2016	953,000
2017	968,000
2018	984,000
2019 – 2023	5,138,000
2024 – 2028	5,338,000
2029 – 2033	5,823,000
2034 – 2038	3,784,000
2039 – 2043	4,367,000
2044 – 2048	4,541,000
2049 – 2053	4,541,000
2054 – 2057	3,144,000
	<u>\$ 41,442,000</u>

Rent expense for the year ended June 30, 2013 totaled approximately \$896,000.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

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**Lessor**

The Corporation leases land with a carrying value of approximately \$25,784,000 to various developers and home buyers. The leases expire at various dates through 2085. Lease rental income for the year ended June 30, 2013 was approximately \$950,000.

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, 2013 is as follows:

<b>Year ending June 30,</b>	
2014	\$ 453,000
2015	471,000
2016	505,000
2017	516,000
2018	477,000
2019 – 2023	2,394,000
2024 – 2028	2,115,000
2029 – 2033	1,180,000
2034 – 2038	178,000
2039 – 2043	88,000
2044 – 2046	14,000
	<u>\$ 8,391,000</u>

**12. Commitments and Contingencies**

**Construction Contracts**

At June 30, 2013, the Dwelling Unit Revolving Fund and Housing Finance Revolving Fund had outstanding commitments to expend approximately \$29,512,000 for land development and the construction and renovation of housing projects.

**Loan Commitments**

At June 30, 2013, the Rental Housing Trust Fund had aggregate outstanding loan commitments of approximately \$6,442,000.

**Development Costs**

The Kapolei development project primarily consists of eight residential villages and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2013, 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 position and relates primarily to the completion of certain infrastructure improvements at this project. This liability represents estimated amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

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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, 2013, the Corporation has remaining development rights for most of the Leiali'i project. Development costs related to Leiali'i were approximately \$24.2 million at June 30, 2013. Management believes that the future revenues from these projects will meet or exceed the development costs at June 30, 2013 and the remaining costs to be incurred on the project.

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

Also, the Corporation has other development costs and dwelling units of approximately \$2.6 million at June 30, 2013.

**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, 2013, 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, 2013.

**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. Upon completion of the renovations,

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

---

\$34,605,000 of the bonds were scheduled to be redeemed leaving \$10,395,000 of permanent bonds outstanding to their stated maturity. In 2010, due to unfavorable global economic conditions, EAH requested and Citicorp Municipal Mortgage Inc., bondholder, agreed to increase the permanent bonds by \$3,270,000 to \$13,665,000, which decreased the redemption at conversion to \$31,335,000 from \$34,605,000. In May 2012, the Project was completed and a payment of \$31,335,000 was received. Accordingly, the Multifamily Housing Revenue Bond Fund has both notes receivable and revenue bonds payable of approximately \$13,558,000 related to the Project on the accompanying statement of net position as of June 30, 2013. Currently, \$3,270,000 of the note bears interest at a fixed rate of 6.25% and matures through January 2042, while the remaining \$10,288,000 bears interest at a rate of 3.92% and matures annually through January 2042. The note includes monthly payments of principal and interest with principal payments that range from approximately \$2,000 to \$41,000. Any unpaid principal and accrued interest, together with any other expenses are due upon maturity.

Additionally, EAH executed three promissory notes to DURF in an aggregate amount of \$29,055,000, including approximately \$4,055,000 related to cash advanced from DURF to EAH and \$25 million related to the terms of the land lease. Additionally, DURF recorded \$25 million of deferred income on the accompanying statement of net position 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, 2013 related to the Project was approximately \$22,866,000. The notes bear interest at 4.72% and are for a term of 58 years, with a final maturity date of December 17, 2065. Repayment of the notes is distributed into three periods as follows: (1) December 18, 2007 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

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

During the year ended June 30, 2013, DURF recognized approximately \$1.7 million of interest income related to the outstanding promissory notes. As of June 30, 2013, DURF has recorded approximately \$8.5 million of interest income receivable related to the outstanding promissory notes.

**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 DAGS website. The ERS CAFR can be found at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

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**Employees’ Retirement System**

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

The Corporation’s contributions for fiscal years 2013, 2012 and 2011 of approximately \$450,000, \$445,000 and \$417,000, 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 \$299,000, \$236,000 and \$201,000, respectively for fiscal years 2013, 2012 and 2011.

**Required Supplementary information and Disclosures**

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

**State Policy**

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

**Allocated OPEB Cost**

The following table shows the components of the annual OPEB cost that has been allocated to the Corporation for the year ended June 30, 2013:

<b>Balance at July 1, 2012</b>	\$ 2,450,748
Additions	1,077,578
Reductions	<u>(294,609)</u>
<b>Balance at June 30, 2013</b>	<b><u>\$ 3,233,717</u></b>

**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.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2013**

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**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 \$11,991,000 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, 2013, amounts due from DHHL include approximately \$11,991,000 of principal, net of approximately \$1,419,000 of imputed interest, and approximately \$210,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately \$420,000 during the year ended June 30, 2013.

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 \$1,332,000 during the year ended June 30, 2013. 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, 2013, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately \$1,137,000, which was allocated as office rental expense to various funds of the Corporation. In addition, DAGS incurred approximately \$1,016,000 in rent to the Hawaii Rental Housing System Revenue Bond Fund for leased space in the Pohulani building. The term of the lease with DAGS matures in August 2022 and the minimum annual rental is determined annually by negotiation within a range of 97% to 103% of the previous year’s minimum rent.

**16. Interfund Receivables and Payables**

The composition of interfund balances as of June 30, 2013 is as follows:

Receivable Fund	Payable Fund	Amount
Multifamily Housing Revenue Bond Fund	Other Non-major Enterprise Funds	\$ 1,476,223
Other Non-major Enterprise Funds	Other Non-major Enterprise Funds	632,293
Dwelling Unit Revolving Fund	Other Non-major Enterprise Funds	615,000
Other Non-major Enterprise Funds	Hawaii Rental Housing System Revenue Bond Fund	595,600
Other Non-major Enterprise Funds	Single Family Mortgage Purchase Revenue Bond Fund	489,683
Rental Housing Trust Fund	Other Non-major Enterprise Funds	51
	Total Proprietary interfund balances	<u>\$ 3,808,850</u>
Other Non-major Enterprise Funds	Neighborhood Stabilization Program Fund	\$ 14,328
Other Non-major Enterprise Funds	Other Non-major Governmental Funds	9,863
	Total Governmental interfund balances	<u>\$ 24,191</u>

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

## **Supplementary Information**

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2013**

	Home Program Fund	Tax Credit Assistance Program Fund	National Foreclosure Mitigation Counseling Program Fund	Emergency Homeowners' Loan Program Fund	Total Non-major Governmental Funds
<b>Assets</b>					
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ -	\$ 49,909	\$ -	\$ 49,909
Cash in banks	-	128	-	4,260	4,388
Notes and loans receivable	-	9,861,610	-	-	9,861,610
Due from other governments	5,493	-	4,840	961	11,294
Total assets	<u>\$ 5,493</u>	<u>\$ 9,861,738</u>	<u>\$ 54,749</u>	<u>\$ 5,221</u>	<u>\$ 9,927,201</u>
<b>Liabilities and Fund Balances</b>					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 51,468	\$ 4,260	\$ 55,728
Due to other funds	5,493	128	3,281	961	9,863
Total liabilities	<u>5,493</u>	<u>128</u>	<u>54,749</u>	<u>5,221</u>	<u>65,591</u>
Fund balances – restricted	<u>-</u>	<u>9,861,610</u>	<u>-</u>	<u>-</u>	<u>9,861,610</u>
Total liabilities and fund balances	<u>\$ 5,493</u>	<u>\$ 9,861,738</u>	<u>\$ 54,749</u>	<u>\$ 5,221</u>	<u>\$ 9,927,201</u>

**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, 2013**

	Home Program Fund	Tax Credit Assistance Program Fund	National Foreclosure Mitigation Counseling Program Fund	Emergency Homeowners' Loan Program Fund	Total Non-major Governmental Funds
<b>Revenues</b>					
Intergovernmental	\$ 2,523,636	\$ -	\$ 37,209	\$ 21,262	\$ 2,582,107
<b>Expenditures</b>					
Programs	2,448,936	-	36,065	19,235	2,504,236
Personnel services	52,255	-	-	-	52,255
Administration	13,493	-	-	2,027	15,520
Professional services	8,952	-	1,144	-	10,096
Total expenditures	<u>2,523,636</u>	<u>-</u>	<u>37,209</u>	<u>21,262</u>	<u>2,582,107</u>
Change in fund balances	-	-	-	-	-
<b>Fund balances</b>					
Beginning of year	-	9,861,610	-	-	9,861,610
End of year	<u>\$ -</u>	<u>\$ 9,861,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,861,610</u>

52

See accompanying independent auditors' report.

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Non-major Enterprise Funds  
Combining Statement of Net Position  
June 30, 2013**

	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
<b>Assets</b>										
Current assets										
Equity in cash and cash equivalents and investments in State Treasury	\$ 1,003	\$ 60,682	\$ 22,245,573	\$ 4,248,769	\$ -	\$ 877,965	\$ -	\$ -	\$ 788	\$ 27,434,780
Cash in banks	-	-	-	-	36,732	9,094	-	-	-	45,826
Receivables										
Mortgage loans	-	-	-	-	-	-	-	-	-	-
Accrued interest	-	12	926,932	13,486	-	-	-	1,851	-	942,281
Tenant receivables, less allowance for doubtful accounts of \$190,947	-	-	-	-	33,680	-	-	-	-	33,680
Other	-	4,004	-	-	36,802	-	-	-	-	40,806
	-	4,016	926,932	13,486	70,482	-	-	1,851	-	1,016,767
Due from other funds	-	-	3,644	1,689,514	-	24,418	-	-	-	1,717,576
Prepaid expenses and other assets	-	-	138,514	-	-	-	-	-	-	138,514
Deposits held in trust	-	5,717	-	-	-	-	-	-	-	5,717
Total current assets	1,003	70,415	23,314,663	5,951,769	107,214	911,477	-	1,851	788	30,359,180
Investments										
Mortgage loans, net of allowance for loan losses of \$188,822	-	-	2,249,985	794,776	-	-	-	-	-	3,044,761
Restricted deposits and funded reserves	-	-	-	-	532,852	-	-	-	-	532,852
Capital assets, net	-	-	-	-	3,990,941	83,669	-	-	-	4,074,610
Total assets	\$ 1,003	\$ 70,415	\$ 32,274,142	\$ 6,746,545	\$ 4,631,007	\$ 995,146	\$ -	\$ 1,851	\$ 788	\$ 44,720,897
<b>Liabilities and Net Position</b>										
Current liabilities										
Accounts payable	\$ -	\$ 4,992	\$ -	\$ 825	\$ 255,286	\$ 135,146	\$ -	\$ -	\$ -	\$ 396,249
Other accrued expenses	-	-	26,618	112,597	9,848	-	-	-	-	149,063
Due to other funds, net	-	-	-	1,845,489	-	850,000	-	1,851	2,036	2,699,376
Due to other State departments	-	-	-	-	-	10,000	-	-	-	10,000
Security deposits	-	5,717	-	1,028,111	44,644	-	-	-	-	1,078,472
Mortgages payable	-	-	-	-	48,500	-	-	-	-	48,500
Total current liabilities	-	10,709	26,618	2,987,022	358,278	995,146	-	1,851	2,036	4,381,660
Mortgages payable	-	-	-	-	5,334,899	-	-	-	-	5,334,899
Postemployment liability	-	-	47,905	352,605	-	-	-	-	-	400,510
Total liabilities	-	10,709	74,523	3,339,627	5,693,177	995,146	-	1,851	2,036	10,117,069
Commitments and contingencies										
Net position										
Invested in capital assets, net of related debt	-	-	-	-	(1,392,458)	83,669	-	-	-	(1,308,789)
Restricted by legislation and contractual agreements	-	-	-	-	532,852	-	-	-	-	532,852
Unrestricted	1,003	59,706	32,199,619	3,406,918	(202,564)	(83,669)	-	-	(1,248)	35,379,765
Total net position	1,003	59,706	32,199,619	3,406,918	(1,062,170)	-	-	-	(1,248)	34,603,828
Total liabilities and net position	\$ 1,003	\$ 70,415	\$ 32,274,142	\$ 6,746,545	\$ 4,631,007	\$ 995,146	\$ -	\$ 1,851	\$ 788	\$ 44,720,897

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 Position  
Year Ended June 30, 2013**

	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
<b>Operating revenues</b>										
Rental	\$ -	\$ -	\$ -	\$ 21,010	\$ 576,647	\$ -	\$ -	\$ -	\$ -	\$ 597,657
Interest on mortgages, notes, loans and mortgage-backed securities	-	-	68,437	43,025	-	-	-	-	-	111,462
Other	-	-	72	1,215,779	25,928	-	-	-	-	1,241,779
Total operating revenues	-	-	68,509	1,279,814	602,575	-	-	-	-	1,950,898
<b>Operating expenses</b>										
Personnel services	-	-	69,898	1,383,627	120,873	-	-	-	-	1,574,398
Depreciation	-	-	-	-	158,497	-	-	-	-	158,497
Administration	-	-	67,939	208,830	78,038	-	-	-	-	354,807
Housing assistance payments	-	-	1,735,795	-	-	-	-	-	-	1,735,795
Professional services	1,510	2,479	14,342	79,523	-	-	-	-	-	97,854
Insurance	-	-	-	83,705	53,258	-	-	-	-	136,963
Repairs and maintenance	-	-	1,447	3,191	9,445	-	-	-	-	14,083
Provision for losses	-	-	-	-	-	-	-	-	1,254	1,254
Utilities	-	-	-	-	88,976	-	-	-	-	88,976
Other	-	-	-	420	-	-	137,347	-	-	137,767
Total operating expenses	1,510	2,479	1,889,421	1,759,296	509,087	-	137,347	-	1,254	4,300,394
Operating income (loss)	(1,510)	(2,479)	(1,820,912)	(479,482)	93,488	-	(137,347)	-	(1,254)	(2,349,496)
<b>Nonoperating revenues (expenses)</b>										
Interest income	-	1,439	445,240	-	255,801	-	38	-	-	702,518
Net increase in fair value of equity in cash and cash equivalents and investments in State Treasury	3,038	372	163,702	16,489	-	-	-	-	-	183,601
Net decrease in fair value of other investments	-	-	(439,756)	-	-	-	-	-	-	(439,756)
Interest expense	-	-	-	-	(360,167)	-	-	-	-	(360,167)
Other expense	(8,759)	-	-	(1,454)	-	-	-	-	-	(10,213)
Total nonoperating revenues (expenses)	(5,721)	1,811	169,186	15,035	(104,366)	-	38	-	-	75,983
Change in net position	(7,231)	(668)	(1,651,726)	(464,447)	(10,878)	-	(137,309)	-	(1,254)	(2,273,513)
<b>Net position</b>										
Beginning of year	8,234	60,374	33,851,345	3,871,365	(1,051,292)	-	137,309	-	6	36,877,341
End of year	\$ 1,003	\$ 59,706	\$ 32,199,619	\$ 3,406,918	\$ (1,062,170)	\$ -	\$ -	\$ -	\$ (1,248)	\$ 34,603,828

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, 2013**

	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
<b>Cash flows from operating activities</b>										
Cash received from (paid to) tenants	\$ -	\$ -	\$ -	\$ (192,631)	\$ 544,308	\$ -	\$ -	\$ -	\$ (1,254)	\$ 350,423
Cash received from borrowers										
Principal repayments	-	-	-	94,575	-	-	-	-	1,254	95,829
Interest income	-	20	8,054	43,025	-	-	-	-	-	51,099
Payments to employees	-	-	(69,898)	(1,383,627)	(120,873)	-	-	-	-	(1,574,398)
Payments to suppliers	(1,510)	(2,485)	(1,808,877)	(325,711)	(241,373)	-	-	-	-	(2,379,956)
Cash receipts from (payments to) other funds	-	-	(3,644)	888,292	-	7,869	(137,347)	-	-	755,170
Other cash receipts (payments)	-	2,733	72	1,215,359	25,928	(1,419)	-	-	-	1,242,673
Net cash provided by (used in) operating activities	(1,510)	268	(1,874,293)	339,282	207,990	6,450	(137,347)	-	-	(1,459,160)
<b>Cash flows from capital and related financing activities</b>										
Principal paid on mortgage loans	-	-	-	-	(42,664)	-	-	-	-	(42,664)
Purchase of capital assets	-	-	-	-	-	(17,693)	-	-	-	(17,693)
Interest payments	-	-	-	-	(103,328)	-	-	-	-	(103,328)
Net cash used in capital and related financing activities	-	-	-	-	(145,992)	(17,693)	-	-	-	(163,685)
<b>Cash flows from investing activities</b>										
Interest received (paid)	-	1,439	445,240	(1,454)	-	-	38	-	-	445,263
Change in fair value of equity in cash and cash equivalents and investments in State Treasury	3,038	372	163,702	16,489	-	-	-	-	-	183,601
Other payments	(8,759)	-	-	-	-	-	-	-	-	(8,759)
Net cash provided by (used in) investing activities	(5,721)	1,811	608,942	15,035	-	-	38	-	-	620,105
Net increase (decrease) in cash and cash equivalents	(7,231)	2,079	(1,265,351)	354,317	61,998	(11,243)	(137,309)	-	-	(1,002,740)
<b>Cash and cash equivalents</b>										
Beginning of year	8,234	64,320	23,510,924	3,894,452	507,586	898,302	137,309	-	788	29,021,915
End of year	\$ 1,003	\$ 66,399	\$ 22,245,573	\$ 4,248,769	\$ 569,584	\$ 887,059	\$ -	\$ -	\$ 788	\$ 28,019,175

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Non-major Enterprise Funds  
Combining Statement of Cash Flows  
Year Ended June 30, 2013**

	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
<b>Components of cash and cash equivalents</b>										
Equity in cash and cash equivalents and investments in State Treasury	\$ 1,003	\$ 60,682	\$ 22,245,573	\$ 4,248,769	\$ -	\$ 877,965	\$ -	\$ -	\$ 788	\$ 27,434,780
Cash in banks	-	-	-	-	36,732	9,094	-	-	-	45,826
Deposits held in trust	-	5,717	-	-	-	-	-	-	-	5,717
Restricted deposits and funded reserves	-	-	-	-	532,852	-	-	-	-	532,852
Cash and cash equivalents	<u>\$ 1,003</u>	<u>\$ 66,399</u>	<u>\$ 22,245,573</u>	<u>\$ 4,248,769</u>	<u>\$ 569,584</u>	<u>\$ 887,059</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 788</u>	<u>\$ 28,019,175</u>
<b>Cash flows from operating activities</b>										
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities										
Operating income (loss)	\$ (1,510)	\$ (2,479)	\$ (1,820,912)	\$ (479,482)	\$ 93,488	\$ -	\$ (137,347)	\$ -	\$ (1,254)	\$ (2,349,496)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities										
Depreciation	-	-	-	-	158,497	-	-	-	-	158,497
Provision for losses	-	-	-	-	-	-	-	-	1,254	1,254
Changes in assets and liabilities										
Mortgage loans receivable	-	-	-	94,575	-	-	-	-	1,254	95,829
Accrued interest receivable	-	20	(60,383)	-	-	-	-	-	-	(60,363)
Tenant receivables	-	-	-	-	(24,128)	-	-	-	(1,254)	(25,382)
Other receivables	-	2,733	-	-	(10,310)	-	-	-	-	(7,577)
Due from other funds	-	-	-	465,671	-	7,869	-	-	-	473,540
Prepaid expenses and other assets	-	-	(1,029)	-	-	-	-	-	-	(1,029)
Accounts payable	-	-	-	-	(11,656)	(1,419)	-	-	-	(13,075)
Other accrued expenses	-	(6)	11,675	49,538	-	-	-	-	-	61,207
Due to other funds	-	-	(3,644)	422,621	-	-	-	-	-	418,977
Security deposits	-	-	-	(213,641)	2,099	-	-	-	-	(211,542)
Net cash provided by (used in) operating activities	<u>\$ (1,510)</u>	<u>\$ 268</u>	<u>\$ (1,874,293)</u>	<u>\$ 339,282</u>	<u>\$ 207,990</u>	<u>\$ 6,450</u>	<u>\$ (137,347)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,459,160)</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, 2013**

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The Corporation’s cash and short-term investments consist of the following as of June 30, 2013:

Equity in State Treasury investment pool – Government-wide	\$ 177,359,269
Cash in banks	2,489,572
Cash and cash equivalents held by trustees	68,492,419
Deposits held in trust	5,717
Restricted deposits and funded reserves	532,852
	<u>\$ 248,879,829</u>

Total cash and short-term investments are in agreement with the State Comptroller’s central accounting records as of June 30, 2013, as reconciled below:

	<b>Appropriation Symbol</b>	<b>Balance at June 30, 2013</b>
<b>Cash in State Treasury</b>		
Special Funds	S-13-375-B	\$ 86,312,932
	S-13-378-B	22,243,484
	S-13-376-B	3,949,990
	S-11-375-B	705,609
	S-13-314-B	500,389
	S-12-375-B	354,317
	S-12-376-B	239,250
	S-08-375-B	126,362
	S-13-320-B	104,672
	S-09-375-B	84,797
	S-13-374-B	60,682
	S-13-213-B	49,409
	S-13-321-B	41,108
	S-07-375-B	21,920
	S-10-375-B	14,246
	S-09-376-B	7,000
	S-11-376-B	4,000
	S-13-377-B	1,003
	S-13-325-B	788
Trust Funds	T-13-930-B	62,535,492
		<u>177,357,450</u>
Total cash held in State Treasury, as reported by State Comptroller’s accounting records		<u>177,357,450</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, 2013**

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	<b>Balance at June 30, 2013</b>
<b>Reconciling items</b>	
Journal vouchers not recorded by DAGS	(3,507)
Other	5,326
	<u>1,819</u>
<b>Cash and short-term investments held outside State Treasury</b>	
Cash in bank	2,489,572
Cash held by trustees	68,492,419
Deposits held in trust	5,717
Restricted deposits and funded reserves	532,852
	<u>71,520,560</u>
Cash and short-term investments on Statement of Net Assets	<u>\$ 248,879,829</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, 2013**

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<b>Federal Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Housing and Urban Development</b>		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii –		
Neighborhood Stabilization Program	14.228	\$ 3,798,899 *
HOME Investment Partnership Program	14.239	2,523,636
Emergency Homeowners' Loan Program	14.323	21,262
 <b>U.S. Department of Treasury</b>		
Passed through The Neighborhood Reinvestment Corporation –		
National Foreclosure Mitigation Counseling	21.000	<u>37,209</u>
Total federal expenditures		<u>\$ 6,381,006</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, 2013**

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**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Corporation and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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:

<b>Program Title</b>	<b>CFDA Number</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. Department of Housing and Urban Development</b>		
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii –		
Neighborhood Stabilization Program	14.228	\$ 3,725,401
HOME Investment Partnership Program	14.239	2,434,798
Emergency Homeowners’ Loan Program	14.323	21,262
 <b>U.S. Department of Treasury</b>		
National Foreclosure Mitigation Counseling	21.000	<u>35,918</u>
Total federal expenditures		<u>\$ 6,217,379</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, 2013.

See accompanying independent auditors’ report.

**PART II**  
**Compliance and Internal Control**

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

The Auditor  
State of Hawai'i

The Board of Directors  
Hawaii Housing Finance and Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the "Corporation") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements, and have issued our report thereon dated November 13, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we did identify certain deficiencies in internal control, described in Finding Nos. 2010-01 and 2009-01 in the accompanying schedule of findings and questioned costs, which we consider to be significant deficiencies.

**Compliance and Other Matters**

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

**The Corporation's Response to Findings**

The Corporation's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Corporation's response was not subject to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

The image shows a handwritten signature in black ink that reads "Accuity LLP". The signature is written in a cursive, flowing style.

Honolulu, Hawai'i  
November 13, 2013

## Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

The Auditor  
State of Hawai'i

The Board of Directors  
Hawaii Housing Finance and Development Corporation

### Report on Compliance for Each Major Federal Program

We have audited the State of Hawai'i, Hawaii Housing Finance and Development Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *OMB 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, 2013. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

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

### Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

### Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

### Report on Internal Control over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance

with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Accuity LLP*

Honolulu, Hawai'i  
November 13, 2013

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2013**

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**Section I – Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

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

Type of auditors' report issued on compliance for major programs: Unmodified

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

Identification of major programs:

**CFDA**

<b>Number</b>	<b>Name of Federal Program</b>
14.228	CDBG - Neighborhood Stabilization 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, 2013**

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**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, 2013**

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The following is the status of the prior year findings.

**Section IV – Summary Schedule of Prior Audit Findings**

**Financial Statement Finding**

**Finding Nos. 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, 2013.

**Management Response**

The Corporation does not agree with this finding, as management firmly believes that the Villages of Kapolei analysis is sufficient for the time being 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.

The Corporation 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.