

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

Financial Statements

June 30, 2009

Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**

Table of Contents

	Page
I. FINANCIAL STATEMENTS	
Management's Discussion and Analysis	1
Financial Statements	
Independent Auditor's Report	13
Basic Financial Statements	
Government-Wide	
Statement of Net Assets – Governmental Activities and Business-Type Activities	15
Statement of Activities – Governmental Activities and Business-Type Activities	17
Governmental Funds – General and Nonmajor Funds	
Balance Sheet	18
Reconciliation of the Governmental Fund Balance to the Statement of Net Assets	19
Statement of Revenues, Expenditures, and Changes in Fund Balance	20
Reconciliation of the Change in Fund Balances of	
Governmental Funds to the Statement of Activities	21
Proprietary Funds – 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 and	
Other Enterprise Funds	
Statement of Net Assets	22
Statement of Revenues, Expenses, and Changes in Net Assets	24
Statement of Cash Flows	26
Fiduciary Fund – Private Purpose Trust	
Statement of Fiduciary Net Assets	29
Notes to Financial Statements	30
Required Supplementary Information Other Than Management's Discussion and Analysis	
Budgetary Comparison Schedule – Major Governmental Fund	68
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	69
Combining Schedule of Revenues and Expenditures and Changes in	
Fund Balance – Nonmajor Governmental Funds	70
Combining Statement of Net Assets – Nonmajor Other Enterprise Funds	71
Combining Statement of Revenues and Expenses – Nonmajor Other Enterprise Funds	73
Combining Statement of Changes in Fund Assets – Nonmajor Other Enterprise Funds	74
Combining Statement of Cash Flows – Nonmajor Other Enterprise Funds	75
Reconciliation of Cash and Short-Term Investments	77

Table of Contents (continued)

	Page
 II. COMPLIANCE AND INTERNAL CONTROL	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	79
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	81
Schedule of Expenditures of Federal Awards	83
Schedule of Findings and Questioned Costs	84

SECTION I
FINANCIAL STATEMENTS

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis
June 30, 2009

The management of the Hawaii Housing Finance and Development Corporation (Corporation) offers readers of the Corporation's financial statements this narrative overview and analysis of their financial activities for the fiscal year ended (FYE) June 30, 2009. This document should be read in conjunction with the audited financial statements. All amounts presented in tables, unless otherwise indicated, are expressed in thousands of dollars.

Introduction

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

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

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

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis
June 30, 2009

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, 2009. The financial statements consist of Management's Discussion and Analysis, the basic financial statements, related notes to the financial statements and other required supplementary information. These components are described below:

1. Basic Financial Statements

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

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

2. Government-Wide Financial Statements

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

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis June 30, 2009

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

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

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

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

3. Fund Financial Statements

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

The Corporation has three types of funds:

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

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis June 30, 2009

- 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 changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.
- Proprietary Funds – the Corporation's only type of proprietary funds are its enterprise funds, which are used to account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing services to customers.
- Fiduciary Fund is not reflected in the government-wide financial statement because the resources of those funds are not available to support the Corporation's own programs.

4. Notes to Financial Statements

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

5. Required Supplementary Information

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

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis June 30, 2009

6. Other Information

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

Government-Wide Financial Analysis

As noted earlier, the *statement of net assets* presents all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of the Corporation's financial position. As indicated below, as of June 30, 2009, the Corporation's total net asset balance was approximately \$393,660,000, an increase of \$15,313,000 (or 4.0%) from the previous year.

Government-Wide
Condensed Statement of Net Assets
June 30, 2009 and 2008
(In thousand of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2009	2008	2009	2008	2009	2008	
Current assets	\$ 26,240	\$ 182	\$ 266,237	\$ 280,596	\$ 292,477	\$ 280,778	4.2%
Assets held by trustee	-	-	287,376	308,006	287,376	308,006	-6.7%
Capital assets	1,464	389	109,367	107,408	110,831	107,797	2.8%
Other assets	-	-	207,613	174,405	207,613	174,405	19.0%
Total assets	\$ 27,704	\$ 571	\$ 870,593	\$ 870,415	\$ 898,297	\$ 870,986	3.1%
Current liabilities	\$ 240	\$ -	\$ 99,485	\$ 98,810	\$ 99,725	\$ 98,810	1.0%
Long-term liabilities	-	-	404,913	393,829	404,913	393,829	2.8%
Total liabilities	240	-	504,398	492,639	504,638	492,639	2.4%
Net assets							
Invested in capital assets							
net of related debt	1,464	389	7,449	3,789	8,913	4,178	113.3%
Restricted	-	-	287,835	308,596	287,835	308,596	-6.7%
Unrestricted	26,000	182	70,912	65,391	96,912	65,573	47.8%
Total net assets	27,464	571	366,196	377,776	393,660	378,347	4.0%
Total liabilities and net assets	\$ 27,704	\$ 571	\$ 868,278	\$ 870,415	\$ 895,982	\$ 870,986	2.9%

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis June 30, 2009

Current assets increased by approximately \$11,699,000 (or 4.2%) during 2009 primarily related to an increase in receivables from the State of approximately \$26,240,000 and a decrease in cash of approximately \$13,303,000. The decrease in cash is primarily related to a decrease in the fair value adjustment for cash held in the State Treasury Investment Pool.

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 \$20,630,000 (or 6.7%) during 2009 due to the use of these assets to redeem previously outstanding bonds. Restricted net assets, which represent resources that are subject to external restrictions on how they may be used, primarily include the assets held by trustee and decreased by approximately \$20,761,000 (or 6.7%) during 2009.

Capital assets increased by approximately \$3,034,000 (or 2.8%) during 2009 primarily due to the transfer of approximately \$2,500,000 of capital assets from Hawaii Public Housing Authority, a related component unit and approximately \$4,200,000 of building construction in the Hawaii Rental Housing System Revenue Bond Fund. These acquisitions were offset by approximately \$4,700,000 of depreciation expense.

Other assets increased by approximately \$33,208,000 (or 19%) during 2009 primarily due to an increase of approximately \$33,500,000 of new mortgage loans issued by the Multi-Family Housing Revenue Bond Fund related to the Lokahi Kau project and \$16,000,000 of new mortgage loans issued by the Rental Housing Trust Fund. Of the approximately \$16,000,000 of loans issued by the Rental Housing Trust Fund, approximately \$11,750,000 is related to the Lokahi Kau project. These increases were offset by a decrease of approximately \$14,500,000 related to the early termination of the financing lease for the University of Hawaii Faculty Housing Revenue Bond Fund.

Current liabilities increased by approximately \$915,000 (or 1.0%) during 2009 primarily due to an increase in the current portion of revenue bonds payable of approximately \$1,000,000.

Long-term liabilities increased by approximately \$11,804,000 (or 2.8%) primarily due to the issuance of approximately \$33,500,000 in revenue bonds in the Multi Family Revenue Bond Fund related to the Lokahi Kau project and a decrease of approximately \$21,600,000 primarily due to approximately \$8,000,000 of regularly scheduled maturities of bonds in the Single Family Revenue Bond Fund and the Hawaii Rental Housing System Revenue Bond Fund and the early repayment of approximately \$13,600,000 of revenue bonds related to the University of Hawaii Faculty Housing Revenue Bond Fund.

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

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis June 30, 2009

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

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

Government-Wide Statement of Activities Years Ended June 30, 2009 and June 30, 2008 (In thousand of dollars)							
	Governmental Activities		Business-Type Activities		Total		Percent Change
	2009	2008 (as restated)	2009	2008	2009	2008	
Revenues							
Program revenues:							
Charges for services	\$ -	\$ -	\$ 38,784	\$ 50,828	\$ 38,784	\$ 50,828	-23.7%
Operating grants and contributions	6,674	2,854	23,505	64,162	30,179	67,016	-55.0%
Capital grants and contributions	-	-	-	-	-	-	-
General revenues:							
State allotted appropriations, net of lapses	26,116	1,102	-	-	26,116	1,102	2269.9%
Net decrease in fair value of pooled cash and investments	-	-	(9,540)	(5,186)	(9,540)	(5,186)	84.0%
Total revenues	32,790	3,956	52,749	109,804	85,539	113,760	-24.8%
Expenses							
Governmental activities							
Expenditures	6,897	4,014	-	-	6,897	4,014	71.8%
Business-type activities							
Rental assistance program	-	-	1,581	1,518	1,581	1,518	4.1%
Housing development program	-	-	6,759	6,287	6,759	6,287	7.5%
Multi-family mortgage loan programs	-	-	5,706	6,664	5,706	6,664	-14.4%
Single-family mortgage loan program	-	-	12,315	11,472	12,315	11,472	7.3%
Rental housing program	-	-	19,229	17,352	19,229	17,352	10.8%
Others	-	-	1,629	1,500	1,629	1,500	8.6%
Total government-wide expenses	6,897	4,014	47,219	44,793	54,116	48,807	10.9%
Net change before transfers	25,893	(58)	5,530	65,011	31,423	64,953	-48.7%
Transfers	-	-	(17,110)	(2)	(17,110)	(2)	8,554%
Change in net assets	25,893	(58)	(11,580)	65,009	14,313	64,951	-78.0%
Total net assets, beginning of year (as restated)	1,571	1,629	377,776	312,767	379,347	314,396	20.7%
Total net assets, end of year	\$ 27,464	\$ 1,571	\$366,196	\$ 377,776	\$393,660	\$ 379,347	3.8%

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis June 30, 2009

Governmental Activities

As noted in the previous section, the Corporation restated its beginning net assets for its governmental activities to reflect an allotment of \$1,000,000 that was inadvertently excluded in the prior year (see Note 2). For the fiscal year ended June 30, 2009, total net assets of the governmental activities increased by approximately \$25,893,000, from \$571,000 in 2008 to \$27,464,000 in 2009 primarily due to an allotment for the Kukui Gardens project.

Business-type Activities

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

For the fiscal year ending June 30, 2009, business-type activities decreased the Corporation's net assets by approximately \$11,580,000. Key elements of this decrease are as follows:

- Charges for services decreased by approximately \$12,045,000 (or 23.7%) to \$38,784,000 in 2009 from \$50,829,000 in 2008 primarily as a result of a decrease of approximately \$12,100,000 in conveyance taxes to the Rental Housing Trust Fund during 2009.
- Operating grants and contributions decreased by \$40,657,000 to \$23,505,000 in 2009 from \$64,162,000 in 2008 primarily due to contributions from the State in the prior year of \$40,000,000.

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, 2009, the Corporation's governmental funds reported a combined ending fund balance of \$26,000,000, an increase of approximately \$25,818,000 in comparison to the combined \$182,000 fund balance at June 30, 2008. The increase was due to State allotted appropriations of \$26,000,000 recorded in the General Fund relating to the Kukui Gardens project.

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis
June 30, 2009

Proprietary Funds

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

- The *Rental Housing Trust Fund* provides developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units. The fund recognized an increase in net assets of approximately \$5,879,000 in 2009, compared to \$33,893,000 in 2008. The 2009 increase in net assets consisted of conveyance tax collections of approximately \$7,136,000, interest income of \$2,259,000 less fair value adjustments of approximately \$4,403,000 and operating expenses of approximately \$214,000.

Conveyance taxes decreased by approximately \$12,068,000 (or 62.8%) to \$7,136,000 in 2009 from \$19,204,000 in 2008 due to a significant decline in real estate activity which was the direct result of the global economic downturn. Interest income on cash balances remained relatively constant, however the fair value adjustment related to the fund's share of the State Treasury Investment Pool increased by approximately \$4,403,000 during 2009.

- 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 a decrease in net assets of \$2,528,000 in 2009, which was a decrease of approximately \$26,890,000 (or 110.0%) over the increase in net assets of \$24,521,000 in 2008. The 2009 decrease in net assets consisted of operating losses of approximately \$1,265,000 and non-operating losses of approximately \$1,831,000. The non-operating loss consisted primarily of the fair value adjustment related to the fund's holdings in the State Treasury Investment Pool. In 2008, the fund recorded as non-operating income a contribution of \$25,000,000 related to the Kukui Gardens project. The difference in the change in the funds' net assets is primarily due to the non-recurring contribution from the State in 2008.

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis June 30, 2009

- The *Hawaii Rental Housing System Revenue Bond Fund* accounts for special funds for housing projects or systems of housing projects financed from proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State. The fund had a loss before transfers of \$2,806,000 in 2009, which was an increase in losses of approximately \$1,855,000 (or 195.1%) from the loss before transfers of \$951,000 in 2008. The increase in the loss before transfers is due to a decrease in operating income of \$911,000 (or 36.4%) to \$1,592,000 in 2009 from \$2,503,000 in 2008. This decline resulted from increases in operating expenses of \$1,599,000 and increases in revenue of only \$688,000. Non-operating expenses increased by \$945,000 (or 27.4%) to \$4,398,000 in 2009 from \$3,453,000 in 2008 primarily due to a decline in interest income.
- The *Single Family Mortgage Purchase Revenue Bond Fund* accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest, and earnings from such loans and investment of such funds. Net assets in the fund decreased by approximately \$10,990,000, attributable to a decrease in the change in net assets of approximately \$17,001,000. This change was primarily due to the net effect of a transfer of \$20,000,000 to the State general fund authorized by Act 79, SLH 2009 offset by an increase in the fair value of investments of approximately \$4,200,000.
- The *Multifamily Housing Revenue Bond Fund* accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing at below market interest rates to facilitate the construction or rehabilitation of affordable housing projects. Net assets in the fund decreased by approximately \$675,000 attributable to a decrease in the change in net assets of approximately \$2,856,000. This change was primarily due to a decrease in the fair value of investments of approximately \$2,709,000, a decrease in interest income from investments of approximately \$485,000 and an increase in interest income on mortgage loans of approximately \$622,000.

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis June 30, 2009

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2009, the Corporation had invested approximately \$110,831,000 (net of accumulated depreciation of \$87,912,000) in a broad range of capital assets. This amount represents an increase of approximately \$3,033,000 (or 2.8%) over the prior year, primarily due to various renovation projects at the Corporation's properties.

Corporation's Capital Assets
Years Ended June 30, 2009 and June 30, 2008
(In thousand of dollars)

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2009	2008	2009	2008	2009	2008	
Land	\$ -	\$ -	\$ 43,387	\$ 43,454	\$ 43,387	\$ 43,454	-0.2%
Construction in progress	1,000	-	-	-	1,000	-	N/A
Buildings and improvements	-	-	151,964	145,234	151,964	145,234	4.6%
Equipment	568	448	1,824	1,793	2,392	2,241	6.7%
Total	1,568	448	197,175	190,481	198,743	190,929	2.2%
Accumulated depreciation	(104)	(59)	(87,808)	(83,072)	(87,912)	(83,131)	5.8%
Total Capital Assets, net	<u>\$ 1,464</u>	<u>\$ 389</u>	<u>\$109,367</u>	<u>\$107,409</u>	<u>\$110,831</u>	<u>\$107,798</u>	-0.3%

Debt Administration

Through June 30, 2009, approximately \$2.22 billion of revenue bonds have been issued. The revenue bonds are payable solely from the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the various bond indentures. Revenue bonds payable, net of premiums and deferred charges, increased by approximately \$11,855,000 to approximately \$411,965,000 at June 30, 2009 from approximately \$400,110,000 at June 30, 2008. During the year ended June 30, 2009, the Corporation issued \$54,375,000 in new bonds for the Multifamily Housing System and had bond redemptions of approximately \$41,565,000. Included in bond issuances and redemptions are the remarketed 2004 Series B bonds of approximately \$20,875,000 recorded in the Hawaii Rental Housing System Revenue Bond Fund.

Hawaii Housing Finance and Development Corporation

Management's Discussion and Analysis
June 30, 2009

During fiscal year 2009, Moody's Investors Service's rating of the Corporation continued to be A2 with a negative outlook. The Corporation's bond ratings for the Single Family Mortgage Purchase Revenue Bond program were as follows:

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

Currently Known Facts, Decisions, or Conditions

- On July 1, 2009, the Corporation redeemed \$5.3 million of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund.
- On September 22, 2009, the Corporation issued to Kukui Gardens a \$26 million loan for construction activities.

Requests for Information

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

Independent Auditor's Report

The Auditor
State of Hawaii

The Board of Directors
Hawaii Housing Finance and Development Corporation:

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Hawaii Housing Finance and Development Corporation (Corporation) as of and for the year ended June 30, 2009, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Corporation are intended to present the financial position, changes in financial position and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate other fund information of the State of Hawaii that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2009, and the changes in its financial position and the cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Corporation, as of June 30, 2009, and the respective changes in financial position and the cash flows where applicable thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated March 29, 2010 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 to 12 and Budgetary Comparison Schedule on page 68 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 29, 2010

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Net Assets
June 30, 2009

	Governmental Activities	Business-type Activities	Total
<u>Assets</u>			
Current Assets:			
Cash and investments in State Treasury Investment Pool	\$ 6,529	\$ 185,540,843	\$ 185,547,372
Cash in banks	100	2,651,344	2,651,444
Due from State	26,240,252	-	26,240,252
Receivables:			
Mortgage loans	-	7,687,823	7,687,823
Notes and loans	-	8,387,372	8,387,372
Accrued interest	-	12,556,427	12,556,427
Tenant receivables, less allowance for doubtful accounts of \$1,838,569	-	276,874	276,874
Other	-	2,869,683	2,869,683
	-	31,778,179	31,778,179
Due from other funds	-	3,737,003	3,737,003
Due from other governments	63,571	-	63,571
Internal balances	(70,200)	70,200	-
Due from other State of Hawaii Departments	-	19,281,708	19,281,708
Inventories --			
Developments in progress and dwelling units	-	22,666,304	22,666,304
Prepaid expenses and other assets	-	385,826	385,826
Deposits held in trust	-	5,717	5,717
Deferred bond issuance costs	-	120,024	120,024
Total current assets	26,240,252	266,237,148	292,477,400
Assets Held by Trustees Under Revenue Bond Programs:			
Cash and cash equivalents	-	28,489,974	28,489,974
Investments	-	258,886,052	258,886,052
	-	287,376,026	287,376,026
Investments	-	6,730,699	6,730,699
Mortgage Loans, net of current portion	-	169,665,216	169,665,216
Notes and Loans, net of current portion	-	29,054,552	29,054,552
Restricted Deposits and Funded Reserves	-	459,328	459,328
Deferred Bond Issuance Costs, net of current portion	-	1,703,195	1,703,195
Capital Assets, less accumulated depreciation	1,464,058	109,366,863	110,830,921
Total assets	\$ 27,704,310	\$ 870,593,027	\$ 898,297,337

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Net Assets (continued)
June 30, 2009

	Governmental Activities	Business-type Activities	Total
<u>Liabilities and Net Assets</u>			
Current Liabilities:			
Accounts payable	\$ 240,252	\$ 2,199,276	\$ 2,439,528
Accrued expenses:			
Interest	-	7,573,221	7,573,221
Other	-	1,834,827	1,834,827
Due to other funds	-	3,737,003	3,737,003
Due to State of Hawaii, including Office of Hawaiian Affairs	-	5,583,604	5,583,604
Security deposits	-	2,117,248	2,117,248
Notes payable	-	13,337	13,337
Mortgage payable	-	39,000	39,000
Revenue bonds payable, less deferred refunding cost	-	16,697,007	16,697,007
Deferred income	-	24,624,254	24,624,254
Deferred commitment fees	-	327,371	327,371
Deferred gain on sale of units and land	-	1,805,929	1,805,929
Estimated future costs of land sold	-	32,932,673	32,932,673
Total current liabilities	240,252	99,484,750	99,725,002
Deferred Commitment Fees, net of current portion	-	573,641	573,641
Arbitrage Rebate Payable	-	3,344,877	3,344,877
Notes Payable, net of current portion	-	237,033	237,033
Mortgage Payable, net of current portion	-	5,488,409	5,488,409
Revenue Bonds Payable, less deferred refunding costs, net of current portion	-	395,268,109	395,268,109
Commitments and Contingencies			
Net Assets:			
Invested in capital assets, net of related debt	1,464,058	7,449,163	8,913,221
Restricted by legislation and contractual agreements	-	287,835,354	287,835,354
Unrestricted	26,000,000	70,911,691	96,911,691
Total net assets	27,464,058	366,196,208	393,660,266
Total liabilities and net assets	\$ 27,704,310	\$ 870,593,027	\$ 898,297,337

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Activities
June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities--							
Low income housing service and assistance program	\$ 6,896,819	\$ -	\$ 6,673,490	\$ -	\$ (223,329)	\$ -	\$ (223,329)
Total governmental activities	6,896,819	-	6,673,490	-	(223,329)	-	(223,329)
Business-type activities:							
Rental assistance program	1,581,454	68,461	1,311,291	-	-	(201,702)	(201,702)
Housing development program	6,758,587	2,643,432	4,800,942	-	-	685,787	685,787
Multi-family mortgage loan programs	5,706,557	10,994,483	3,080,545	-	-	8,368,471	8,368,471
Single-family mortgage loan program	12,314,699	7,318,631	14,000,773	-	-	9,004,705	9,004,705
Rental housing program	19,228,700	15,990,861	219,633	-	-	(3,018,206)	(3,018,206)
Others	1,628,672	1,767,671	91,960	-	-	230,959	230,959
Total business-type activities	47,218,669	38,783,539	23,505,144	-	-	15,070,014	15,070,014
Total government-wide	\$ 54,115,488	\$ 38,783,539	\$ 30,178,634	\$ -	(223,329)	15,070,014	14,846,685
General revenues:							
State allotted appropriations, net of lapses					26,116,461	-	26,116,461
Net transfers					-	(469)	(469)
Intergovernmental transfers					-	(17,109,570)	(17,109,570)
Net decrease in fair value of pooled cash and investments in State Treasury and Investment Pool					-	(9,540,073)	(9,540,073)
Total general revenues and transfers					26,116,461	(26,650,112)	(533,651)
Change in net assets					25,893,132	(11,580,098)	14,313,034
Net Assets, July 1, 2008 (as restated)					1,570,926	377,776,306	379,347,232
Net Assets, June 30, 2009					\$ 27,464,058	\$ 366,196,208	\$ 393,660,266

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Governmental Funds

Balance Sheet

June 30, 2009

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>Assets</u>			
Cash and investments in State Treasury Investment Pool	\$ -	\$ 6,529	\$ 6,529
Cash	-	100	100
Due from State	26,240,252	-	26,240,252
Due from other agencies	-	63,571	63,571
Total assets	<u>\$ 26,240,252</u>	<u>\$ 70,200</u>	<u>\$ 26,310,452</u>
<u>Liabilities and Fund Balance</u>			
Liabilities --			
Accounts payable	\$ 240,252	\$ -	\$ 240,252
Internal balances	-	70,200	70,200
Total liabilities	240,252	70,200	310,452
Fund Balance - Unrestricted	<u>26,000,000</u>	<u>-</u>	<u>26,000,000</u>
Total liabilities and fund balance	<u>\$ 26,240,252</u>	<u>\$ 70,200</u>	<u>\$ 26,310,452</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Reconciliation of the Governmental Fund Balance to the
Statement of Net Assets
June 30, 2009

Total fund balance - governmental funds	\$ 26,000,000
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Amounts reported for governmental activities in
the statement of net assets are different because:

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

Equipment	1,567,704	
Accumulated depreciation	(103,646)	
Total capital assets		<u>1,464,058</u>
Net assets of governmental activities		<u>\$ 27,464,058</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2009

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:			
State allotted appropriations	\$ 26,116,461	\$ -	\$ 26,116,461
Intergovernmental revenue	-	6,673,490	6,673,490
Total revenues	26,116,461	6,673,490	32,789,951
Expenditures:			
Low income housing services	62,271	-	62,271
Capital outlays	1,119,440	-	1,119,440
Project	-	6,357,532	6,357,532
Personnel services	116,479	129,512	245,991
Administration	-	140,632	140,632
Professional services	-	45,814	45,814
Total expenditures	1,298,190	6,673,490	7,971,680
Change in fund balance	24,818,271	-	24,818,271
Fund Balance at July 1, 2008 (as restated)	1,181,729	-	1,181,729
Fund Balance at June 30, 2009	\$ 26,000,000	\$ -	\$ 26,000,000

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Reconciliation of the Change in Fund Balances of Governmental

Funds to the Statement of Activities

June 30, 2009

Net change in fund balances - total governmental funds	\$ 24,818,271
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Amounts reported for governmental activities in
the statement of activities are different because:

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

Capital outlay	1,119,440	
Depreciation expense	<u>(44,579)</u>	
		<u>1,074,861</u>
Change in net assets - governmental activities		<u><u>\$ 25,893,132</u></u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Net Assets
June 30, 2009

<u>Assets</u>	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Current Assets:							
Cash and investments in State Treasury Investment Pool	\$ 78,196,381	\$ 77,686,098	\$ -	\$ -	\$ -	\$ 29,658,364	\$ 185,540,843
Cash in banks	-	377,441	2,088,722	-	-	185,181	2,651,344
Receivables:							
Mortgage loans	337,706	159	-	695,767	6,587,007	67,184	7,687,823
Notes and loans	-	8,387,372	-	-	-	-	8,387,372
Accrued interest	3,671,266	3,118,467	-	4,377,333	363,124	1,026,237	12,556,427
Tenant receivables, less allowance for doubtful accounts of \$1,838,569	-	36,060	230,351	-	-	10,463	276,874
Other	-	1,973,029	787,361	-	106,560	2,733	2,869,683
	<u>4,008,972</u>	<u>13,515,087</u>	<u>1,017,712</u>	<u>5,073,100</u>	<u>7,056,691</u>	<u>1,106,617</u>	<u>31,778,179</u>
Due from other funds	-	635,429	-	-	425,384	2,676,190	3,737,003
Internal balances	-	-	-	-	-	70,200	70,200
Due from other State of Hawaii Departments	-	19,281,708	-	-	-	-	19,281,708
Inventories	-	22,666,304	-	-	-	-	22,666,304
Prepaid expenses and other assets	-	200,200	60,995	6,725	-	117,906	385,826
Deposits held in trust	-	-	-	-	-	5,717	5,717
Deferred bond issuance costs	-	-	59,713	60,311	-	-	120,024
Total current assets	<u>82,205,353</u>	<u>134,362,267</u>	<u>3,227,142</u>	<u>5,140,136</u>	<u>7,482,075</u>	<u>33,820,175</u>	<u>266,237,148</u>
Assets Held by Trustees Under Revenue Bond Programs:							
Cash and cash equivalents	-	-	28,302,585	187,040	349	-	28,489,974
Investments	-	-	-	228,431,976	30,454,076	-	258,886,052
	<u>-</u>	<u>-</u>	<u>28,302,585</u>	<u>228,619,016</u>	<u>30,454,425</u>	<u>-</u>	<u>287,376,026</u>
Investments	-	-	-	-	-	6,730,699	6,730,699
Mortgage Loans, net of current portion	74,523,966	476,287	-	4,016,353	87,292,094	3,356,516	169,665,216
Notes and Loans, net of current portion	-	29,054,552	-	-	-	-	29,054,552
Restricted Deposits and Funded Reserves	-	-	-	-	-	459,328	459,328
Deferred Bond Issuance Costs, net of current portion	-	-	810,167	893,028	-	-	1,703,195
Capital Assets, less accumulated depreciation	-	28,053,424	76,789,092	1,344	-	4,523,003	109,366,863
Total assets	<u>\$ 156,729,319</u>	<u>\$ 191,946,530</u>	<u>\$ 109,128,986</u>	<u>\$ 238,669,877</u>	<u>\$ 125,228,594</u>	<u>\$ 48,889,721</u>	<u>\$ 870,593,027</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Net Assets (continued)
June 30, 2009

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Liabilities and Net Assets							
Current Liabilities:							
Accounts payable	\$ -	\$ 486,803	\$ 1,519,348	\$ 41,790	\$ -	\$ 151,335	\$ 2,199,276
Accrued expenses:							
Interest	34,149	-	1,747,875	4,980,437	810,760	-	7,573,221
Other	-	1,193,524	151,851	197,978	29,564	261,910	1,834,827
Due to other funds	4,643	-	625,121	216,671	-	2,890,568	3,737,003
Due to State of Hawaii, including Office of Hawaiian Affairs	-	5,573,604	-	-	-	10,000	5,583,604
Security deposits	-	85,671	1,006,352	-	-	1,025,225	2,117,248
Notes payable	-	13,337	-	-	-	-	13,337
Mortgage payable	-	-	-	-	-	39,000	39,000
Revenue bonds payable, less deferred refunding cost	-	-	1,855,000	7,820,000	7,022,007	-	16,697,007
Deferred income	-	24,441,896	182,358	-	-	-	24,624,254
Deferred commitment fees	-	-	-	327,371	-	-	327,371
Deferred gain on sale of units and land	-	1,805,929	-	-	-	-	1,805,929
Estimated future costs of land sold	-	32,932,673	-	-	-	-	32,932,673
Total current liabilities	38,792	66,533,437	7,087,905	13,584,247	7,862,331	4,378,038	99,484,750
Deferred Commitment Fees, net of current portion	-	-	-	573,641	-	-	573,641
Arbitrage Rebate Payable	-	-	-	3,344,877	-	-	3,344,877
Notes Payable, net of current portion	-	237,033	-	-	-	-	237,033
Mortgage Payable, net of current portion	-	-	-	-	-	5,488,409	5,488,409
Revenue Bonds Payable, less deferred refunding cost, net of current portion	-	-	95,154,801	184,851,214	115,262,094	-	395,268,109
Commitments and Contingencies							
Net Assets:							
Invested in capital assets, net of related debt	-	27,803,054	(19,350,829)	1,344	-	(1,004,406)	7,449,163
Restricted by legislation and contractual agreements	-	-	28,302,585	228,619,016	30,454,425	459,328	287,835,354
Unrestricted	156,690,527	97,373,006	(2,065,476)	(192,304,462)	(28,350,256)	39,568,352	70,911,691
Total net assets	156,690,527	125,176,060	6,886,280	36,315,898	2,104,169	39,023,274	366,196,208
Total liabilities and net assets	\$ 156,729,319	\$ 191,946,530	\$ 109,128,986	\$ 238,669,877	\$ 125,228,594	\$ 48,889,721	\$ 870,593,027

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Net Assets

Year Ended June 30, 2009

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues:							
Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease	\$ 1,099,792	\$ 2,850,485	\$ -	\$ 7,318,430	\$ 1,913,113	\$ 660,771	\$ 13,842,591
Net increase in fair value of mortgage-backed securities	-	-	-	6,600,504	-	-	6,600,504
Conveyance tax	7,136,246	-	-	-	-	-	7,136,246
Sales of land	-	496,400	-	-	-	-	496,400
Rental	-	1,776,982	14,756,570	-	-	472,167	17,005,719
Other	1,014	370,050	734,225	201	282,313	1,747,414	3,135,217
Total operating revenues	8,237,052	5,493,917	15,490,795	13,919,135	2,195,426	2,880,352	48,216,677
Operating Expenses:							
Cost of land sold	-	67,086	-	-	-	-	67,086
Project	-	2,059,688	7,824,162	-	-	-	9,883,850
Personnel services	169,374	3,000,037	472,547	398,771	91,555	1,447,262	5,579,546
Depreciation	-	108,525	4,470,769	804	-	155,718	4,735,816
Housing assistance payments	-	-	-	-	-	1,430,919	1,430,919
Administration	23,426	908,274	34,898	198,342	14,666	301,621	1,481,227
Provision for losses	-	54,003	78,838	-	-	-	132,841
Loan servicing fees	-	-	-	20,786	-	-	20,786
Professional services	19,981	256,647	6,073	51,463	20,436	109,939	464,539
Insurance	-	33,218	506,237	8,553	-	15,152	563,160
Repairs and maintenance	569	225,145	312,259	7,800	928	212,356	759,057
Utilities	-	-	-	4,572	-	79,779	84,351
Capital expenditures	-	45,964	86,359	-	-	-	132,323
Interest expense	-	-	-	10,105,449	3,551,049	-	13,656,498
Other	-	-	106,993	-	8,919	73,391	189,303
Total operating expenses	213,350	6,758,587	13,899,135	10,796,540	3,687,553	3,826,137	39,181,302
Operating income (loss) carried forward	\$ 8,023,702	\$ (1,264,670)	\$ 1,591,660	\$ 3,122,595	\$ (1,492,127)	\$ (945,785)	\$ 9,035,375

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

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

Year Ended June 30, 2009

	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	\$ 8,023,702	\$ (1,264,670)	\$ 1,591,660	\$ 3,122,595	\$ (1,492,127)	\$ (945,785)	\$ 9,035,375
Nonoperating Revenues (Expenses):							
Interest revenue:							
Interest income	2,259,079	1,950,457	215,995	7,400,103	822,834	1,207,605	13,856,073
Net decrease in the fair value of pooled cash and investments	(4,403,317)	(3,781,198)	-	-	-	(1,355,558)	(9,540,073)
Net (decrease) increase in fair value of investments	-	-	-	-	(1,368)	185,596	184,228
Loss on early termination of investment in financing lease	-	-	-	-	-	(932,003)	(932,003)
Write-off of unamortized deferred bond issuance costs	-	-	-	-	-	(229,748)	(229,748)
Interest expense	-	-	(3,975,875)	-	-	(729,704)	(4,705,579)
Trustee fees	-	-	(6,926)	(53,379)	(3,968)	-	(64,273)
Amortization of deferred bond issuance costs	-	-	(473,513)	(59,329)	-	(14,746)	(547,588)
Insurance expense	-	-	(122,234)	-	-	-	(122,234)
Arbitrage rebate	-	-	-	(1,400,342)	-	-	(1,400,342)
Other (expenses) revenues	-	-	(35,600)	-	-	31,705	(3,895)
Net nonoperating revenues (expenses)	(2,144,238)	(1,830,741)	(4,398,153)	5,887,053	817,498	(1,836,853)	(3,505,434)
Income (loss) before transfers	5,879,464	(3,095,411)	(2,806,493)	9,009,648	(674,629)	(2,782,638)	5,529,941
Intergovernmental Transfers		567,418	2,284,484	-	-	(19,961,472)	(17,109,570)
Transfers	-	-	-	(20,000,000)	-	19,999,531	(469)
Change in net assets	5,879,464	(2,527,993)	(522,009)	(10,990,352)	(674,629)	(2,744,579)	(11,580,098)
Net Assets, July 1, 2008	150,811,063	127,704,053	7,408,289	47,306,250	2,778,798	41,767,853	377,776,306
Net Assets, June 30, 2009	\$ 156,690,527	\$ 125,176,060	\$ 6,886,280	\$ 36,315,898	\$ 2,104,169	\$ 39,023,274	\$ 366,196,208

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2009

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities:							
Cash received from renters	\$ -	\$ 1,178,073	\$ 14,660,694	\$ -	\$ -	\$ 483,634	\$ 16,322,401
Cash received from borrowers:							
Principal repayments	360,969	6,133,634	-	1,327,788	108,315	196,332	8,127,038
Interest income	576,508	2,063,651	-	6,979,832	1,913,113	127,152	11,660,256
Cash received from net investment in financing lease	-	-	-	-	-	1,053,774	1,053,774
Cash received from sale of land	-	659,528	-	-	-	-	659,528
Cash received from conveyance taxes	7,136,246	-	-	-	-	-	7,136,246
Cash received for payments on mortgage-backed securities	-	-	-	16,324,500	-	-	16,324,500
Cash to borrower	-	(2,569,382)	-	-	(33,500,000)	-	(36,069,382)
Cash payments for acquisition of mortgage-backed securities	-	-	-	(22)	-	-	(22)
Cash payments for issuance of loans receivable	(16,237,007)	-	-	-	-	-	(16,237,007)
Cash payments for interest	-	-	-	(10,103,151)	(3,605,152)	-	(13,708,303)
Cash payments to employees	(109,969)	(3,000,037)	(416,796)	(358,988)	(91,555)	(1,438,997)	(5,416,342)
Cash payments to suppliers	(85,565)	(4,582,988)	(8,827,555)	(351,864)	(39,425)	(2,183,267)	(16,070,664)
Cash receipts from (payments to) other funds	4,678	(7,373)	522,144	(15,470)	(73,006)	(449,948)	(18,975)
Other cash receipts (payments)	1,014	2,617,034	630,109	(5,175)	191,111	1,801,208	5,235,301
Net cash (used in) provided by operating activities	(8,353,126)	2,492,140	6,568,596	13,797,450	(35,096,599)	(410,112)	(21,001,651)
Cash Flows from Noncapital Financing Activities:							
Principal paid on revenue bond maturities and redemptions	-	-	-	(5,940,000)	-	-	(5,940,000)
Arbitrage rebate paid	-	-	-	(812,670)	-	-	(812,670)
Intergovernmental transfers	-	-	-	-	-	(20,000,000)	(20,000,000)
Transfers	-	-	-	(20,000,000)	-	19,999,531	(469)
Net cash used in noncapital financing activities	-	-	-	(26,752,670)	-	(469)	(26,753,139)
Cash Flows from Capital and Related Financing Activities:							
Loss on early termination of investment in financing lease	-	-	-	-	-	13,576,813	13,576,813
Principal paid on revenue bond maturities and redemptions	-	-	(2,355,000)	-	(523,315)	(13,820,000)	(16,698,315)
Other financing source - new bond issuance	-	-	-	-	33,500,000	-	33,500,000
Other financing source - bond premium	-	-	584,745	-	-	-	584,745
Principal paid on mortgage loans	-	-	-	-	-	(58,182)	(58,182)
Interest paid on revenue bonds	-	-	(3,946,973)	-	-	(929,250)	(4,876,223)
Principal payments on notes payable	-	(11,669)	-	-	-	-	(11,669)
Bond remarketing costs paid	-	-	(334,704)	-	-	-	(334,704)
Payments for acquisition of property and equipment	-	-	(3,925,806)	-	-	(480)	(3,926,286)
Net cash (used in) provided by capital and related financing activities	-	(11,669)	(9,977,738)	-	32,976,685	(1,231,099)	21,756,179
Subtotal carried forward	\$ (8,353,126)	\$ 2,480,471	\$ (3,409,142)	\$ (12,955,220)	\$ (2,119,914)	\$ (1,641,680)	\$ (25,998,611)

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

Statement of Cash Flows (continued)

Year Ended June 30, 2009

	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	\$ (8,353,126)	\$ 2,480,471	\$ (3,409,142)	\$ (12,955,220)	\$ (2,119,914)	\$ (1,641,680)	\$ (25,998,611)
Cash Flows from Investing Activities:							
Purchases of investments	-	-	-	(31,604,253)	(254,281)	-	(31,858,534)
Proceeds from maturities of investments	-	-	-	34,729,176	1,700,337	2,582	36,432,095
Change in fair value of pooled cash and investments	(4,403,317)	(3,781,198)	-	-	-	(1,355,558)	(9,540,073)
Receipts of interest	1,669,299	-	260,453	6,826,567	664,135	977,020	10,397,474
Net increase in restricted deposits and funded reserves	-	-	-	-	-	131,102	131,102
Net cash (used in) provided by investing activities	(2,734,018)	(3,781,198)	260,453	9,951,490	2,110,191	(244,854)	5,562,064
Net (decrease) in cash and cash equivalents	(11,087,144)	(1,300,727)	(3,148,689)	(3,003,730)	(9,723)	(1,886,534)	(20,436,547)
Cash and Cash Equivalents, July 1, 2008	89,283,525	79,364,266	33,539,996	3,190,770	10,072	31,730,079	237,118,708
Cash and Cash Equivalents, June 30, 2009	\$ 78,196,381	\$ 78,063,539	\$ 30,391,307	\$ 187,040	\$ 349	\$ 29,843,545	\$ 216,682,161

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Cash Flows (continued)
Year Ended June 30, 2009

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities:							
Reconciliation of operating income (loss) to net cash							
(used in) provided by operating activities:							
Operating income (loss)	\$ 8,023,702	\$ (1,264,670)	\$ 1,591,660	\$ 3,122,595	\$ (1,492,127)	\$ (945,785)	\$ 9,035,375
Adjustments to reconcile operating income (loss)							
to net cash (used in) provided by operating activities:							
Net increase in fair value of mortgage-backed securities	-	-	-	(6,600,504)	-	-	(6,600,504)
Depreciation	-	108,525	4,470,769	804	-	155,718	4,735,816
Provision for losses	-	54,003	78,838	-	-	-	132,841
Gain on sale of assets	-	263,192	-	-	-	-	263,192
Changes in assets and liabilities:							
Mortgage loans receivable	(15,876,036)	3,564,252	-	1,327,788	(33,391,685)	86,542	(44,289,139)
Accrued interest receivable on mortgages, notes and loans	(523,284)	(149,517)	-	-	-	(3,319)	(676,120)
Tenant receivables	-	(33,911)	(245,185)	-	-	13,771	(265,325)
Other receivables	-	46,984	2,877	-	(91,202)	61,233	19,892
Due from other funds	35	(7,373)	-	-	(73,006)	(385,091)	(465,435)
Due from State of Hawaii	-	1,562,683	-	-	-	-	1,562,683
Inventories	-	(605,319)	-	-	-	-	(605,319)
Prepaid expenses and other assets	-	(170,248)	1,327	480	-	(12,727)	(181,168)
Net investment in financing lease	-	-	-	-	-	523,474	523,474
Investments in mortgage-backed securities	-	-	-	16,324,478	-	-	16,324,478
Accounts payable	-	(348,645)	(58,894)	(63,484)	-	(25,744)	(496,767)
Accrued interest payable	-	-	-	(128,780)	-	-	(128,780)
Accrued lease rent payable	-	(696,800)	-	-	-	-	(696,800)
Other accrued expenses	17,814	397,615	55,751	37,867	(48,579)	76,796	537,264
Due to other funds	4,643	-	522,144	(15,470)	-	(62,466)	448,851
Security deposits	-	9,019	64,354	-	-	107,486	180,859
Deferred income	-	(574,017)	84,955	-	-	-	(489,062)
Deferred refunding costs	-	-	-	130,274	-	-	130,274
Deferred commitment fees	-	-	-	(338,598)	-	-	(338,598)
Deferred gain on sale of units and land	-	163,128	-	-	-	-	163,128
Estimated future costs of land sold	-	173,239	-	-	-	-	173,239
Net cash (used in) provided by operating activities	<u>\$ (8,353,126)</u>	<u>\$ 2,492,140</u>	<u>\$ 6,568,596</u>	<u>\$ 13,797,450</u>	<u>\$ (35,096,599)</u>	<u>\$ (410,112)</u>	<u>\$ (21,001,651)</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Fiduciary Fund

Statement of Fiduciary Net Assets

June 30, 2009

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

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies

a. General

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

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

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

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies (continued)

a. General (continued)

State of Hawaii as of June 30, 2009, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation's financial activities.

b. Government-Wide and Fund Financial Statements

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

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

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies (continued)

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

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

c. Measurement Focus and Basis of Accounting

i. Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Interest expense of approximately \$18,364,000 was included as direct function expenses during the year ended June 30, 2009.

ii. Governmental Fund Financial Statements

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

ii. Governmental Fund Financial Statements (continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation, which is recorded as an expenditure when utilized or paid. The amount of unmatured long-term indebtedness related to accumulated vacation at June 30, 2009 has been reported in the government-wide financial statements.

iii. Proprietary Funds and Fiduciary Fund

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

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

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

d. Fund Accounting

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

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

i. Governmental Funds

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

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

National Foreclosure Mitigation Counseling Fund – The National Foreclosure Mitigation Counseling Fund (NFMC) 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.

Neighborhood Stabilization Program – The Neighborhood Stabilization Program Fund (the NSP) is used to account for all financial activities funded by the related federal grant. Substantially all of the fund's activity relates to providing targeted emergency assistance to acquire and redevelop foreclosed properties that might otherwise become sources of abandonment and blight.

ii. Proprietary Funds

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

ii. Proprietary Funds (continued)

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

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

The Corporation reports the following as major proprietary funds:

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

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

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

ii. Proprietary Funds (continued)

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

iii. Fiduciary Fund

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

e. Capital Assets

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

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

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies (continued)

e. Capital Assets (continued)

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

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

f. Deferred Revenues

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

g. Cash and Cash Equivalents

Cash and cash equivalents for the purpose of the statement of cash flows – proprietary funds, include all cash and investments with original purchased maturities of three months or less. Cash and cash equivalents also include cash and investments held in the State Treasury Investment Pool.

h. Investments

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies (continued)

i. Inventories

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

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

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

j. Interfund Receivables and Payables

During the course of operations, transactions occur between funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Interfund receivables and payables between funds (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within business-type activities are eliminated in the accompanying statement of net assets. See Note 19 for details of interfund transactions, including receivables and payables at year end.

k. Amortization

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies (continued)

l. Vacation

Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$189,000. The change in accumulated unpaid vacation during the year is approximately as follows:

<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2009</u>
\$ 593,028	\$ 340,637	\$ 256,642	\$ 677,023

m. Allocated Costs

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

n. 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.

o. Reservations of Fund Balances

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

1. Organization and Significant Accounting Policies (continued)

p. Risk Management

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

q. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Significant estimates include the valuation of receivables, fair value of investments and future costs of land sold. Actual results could differ from those estimates.

2. Restated Beginning Fund Balance

During the current year, the Corporation recorded allotment revenue that was not reported in the prior year. The recording of the allotment resulted in the following adjustment to the Corporation's June 30, 2008 fund balance for the General Fund and the beginning net assets for Governmental Activities:

	General Fund	Governmental Activities
Fund Balance/Net Assets – June 30, 2008, as previously reported	\$ 181,729	\$ 570,926
Addition of:		
Allotment revenue	1,000,000	1,000,000
Fund Balance/Net Assets – June 30, 2008 – as restated	<u>\$ 1,181,729</u>	<u>\$ 1,570,926</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

3. Budgeting and Budgetary Control

The budget of the Corporation is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which financial policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the accompanying Required Supplementary Information – Budgetary Comparison Schedule are estimates as compiled by the Corporation and reviewed by the Department of Budget and Finance. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes and other specific appropriation acts in various Session Laws of Hawaii.

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

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

To the extent not expended or encumbered, General Fund appropriations generally lapse at the end of the fiscal year or grant period for which the appropriations were made. The State Legislature or Federal Government specifies the lapse dates and any other contingencies that may terminate the authorization for other appropriations. Known lapses occurring in the year of appropriation, if any, are included in the amended budgets, and are netted against revenues in the accompanying Required Supplementary Information – Budgetary Comparison Schedule.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

3. Budgeting and Budgetary Control (continued)

A comparison of both the original budget and the final budget to the actual revenues and expenditures of the general and certain special revenue funds are presented in the accompanying Required Supplementary Information – Budgetary Comparison Schedule. Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with U.S. GAAP are mainly due to revenues and expenditures of unbudgeted funds and the different methods used to recognize resource uses. For budgeting purposes, resource uses are recognized when cash disbursements are made or funds are encumbered. For financial statements presented in accordance with U.S. GAAP, expenditures are recognized when incurred and encumbrances are not reported as resources used.

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with U.S. GAAP for the General Fund for the year ended June 30, 2009 is set forth in the Required Supplementary Information.

4. Deposits

The State maintains a cash and investment pool that is available to all funds. The Director of Finance is responsible for the safekeeping of all monies paid into the State Treasury. The Director of Finance may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited with approved financial institutions or invested in the State Treasury Investment Pool. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account.

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

4. Deposits (continued)

At June 30, 2009, a portion of the State Treasury Investment Pool was invested in auction rate securities. Due to ongoing issues in the credit market of the United States, particularly related to auction rate securities, the State Treasury Investment Pool recorded a decrease in fair value related to its investments in auction rate securities. The Corporation recorded a change in fair value of approximately \$9.4 million which served to reduce cash and investments held in the State Treasury Investment Pool.

At June 30, 2009, total cash reported in the Statement of Net Assets consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Cash and investments in State Treasury Investment Pool	\$ 6,529	\$ 185,540,843	\$ 185,547,372
Cash in bank (book balance)	<u>100</u>	<u>2,651,344</u>	<u>2,651,444</u>
	6,629	188,192,187	188,198,816
Cash and cash equivalents held by Trustee	-	28,489,974	28,489,974
Deposits held in trust	<u>-</u>	<u>5,717</u>	<u>5,717</u>
Total Cash	<u>\$ 6,629</u>	<u>\$ 216,754,255</u>	<u>\$ 216,694,507</u>

The bank balance of cash in bank was approximately \$2,699,000, of which \$500,000 was covered by federal depositary insurance and \$2,199,000 was covered by collateral held by the pledging financial institution's trust department or agent in the Corporation's name.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

5. Investments

Investments at June 30, 2009 are summarized by maturity (in years) as follows:

	0 - 1	1 - 5	5 - 10	10 - 20	>20	Fair Value
Government sponsored enterprises	\$ -	\$ -	\$ 5,625,613	\$ 1,100,613	\$ -	\$ 6,726,226
Mortgage-backed securities	5,046,143	42,786,071	23,397,942	55,493,340	-	126,723,496
Repurchase agreements	-	-	-	-	105,162,808	105,162,808
Other fixed Income	1,343,595	25,558,222	-	-	-	26,901,817
Guaranteed investment contracts	-	-	-	-	102,404	102,404
Total investments	<u>\$ 6,389,738</u>	<u>\$ 68,344,293</u>	<u>\$ 29,023,555</u>	<u>\$ 56,593,953</u>	<u>\$ 105,265,212</u>	<u>\$ 265,616,751</u>

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

Investments held by trustees under revenue bond programs	\$258,886,052
Investments – non current	<u>6,730,699</u>
Total investments	<u>\$265,616,751</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, 2009, all investments are rated AAA or Baa - AA by Moody's, Fitch and Standard & Poors.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

5. Investments (continued)

Concentration of Credit Risk – the Corporation places no limit on the amount the Corporation may invest in any one issuer. More than 5 percent of the Corporation's investments are in the Federal National Mortgage Association, the Societe Generale, the First American Government Obligation Fund, and the U.S. Treasury. These investments are 44 percent, 30 percent, 10 percent, and 9 percent, respectively, of the Corporation's total investments.

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

6. Mortgage Loans and Notes and Loans Receivable

Mortgage loans and other notes and loans receivable at June 30, 2009 comprised the following:

	Mortgage Loans	Notes and Loans
Mortgage loans bearing interest up to 13.5%, maturing at various dates through 2069	\$ 177,353,039	\$ –
Promissory notes bearing interest at 4.72%, maturing in 2065	–	29,054,552
Promissory notes bearing interest up to 6%, maturing in 2010	–	8,387,372
	177,353,039	37,441,924
Less current maturities	7,687,823	8,387,372
	<u>\$ 169,665,216</u>	<u>\$ 29,054,552</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

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

Mortgage and development loans are collateralized by real property. The revenue bond funds' mortgage loans are also subject to primary mortgage and mortgage pool insurance coverage that, subject to aggregate loss limitations, reimburses the Corporation for all losses incurred, if any, from the disposition of real property acquired through foreclosure.

The promissory notes are collateralized by a second mortgage on the improvements of Kukui Gardens (see Note 15).

7. Net Investment in Financing Lease

The Corporation previously entered into a Lease and Sublease Agreement (the Agreement) with the Board of Regents, University of Hawaii (the University). Under the Agreement, the Corporation leased the land under the housing project from the University for annual rent of \$1 and then subleased the land, buildings and improvements, and equipment back to the University. The University made certain lease rental payments to the Corporation, including amounts sufficient to pay the principal, discount, and interest on the bonds as the same become due and payable. In April 2009, the bonds underlying the Agreement were redeemed effectively terminating the Agreement. Accordingly, the Corporation recognized a loss on the early termination of the Agreement of approximately \$930,000. Additionally, ownership of the buildings and improvements, and the equipment underlying the Agreement reverted to the University.

8. 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, 2009, the following debt service reserves and mortgage loan reserves required by the indentures were included in assets held by trustees under Revenue Bond Programs in the Single Family Mortgage Purchase Revenue Bond Fund.

Debt service reserve requirements	\$ 19,421,000
Mortgage loan reserve requirements	<u>1,119,000</u>
	<u>\$ 20,540,000</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

8. Revenue Bond Funds – Reserve Requirements (continued)

At June 30, 2009, approximately \$45.6 million and \$7.9 million of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively.

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, 2009, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 4.19 times the aggregate debt service on outstanding bonds during the year, respectively, and net revenues (as defined in the trust indenture agreement) of 1.02 times the aggregate debt service on outstanding bonds during the year, respectively. At June 30, 2009, management determined that the Corporation was not in compliance with its requirement to provide net revenue of at least 1.10 times the aggregate debt service during the year. The Corporation has not formally notified the Trustee of its non-compliance, however, in accordance with the terms of the Indenture, management has developed a plan to remedy the non-compliance.

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, 2009.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

9. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Total capital assets not being depreciated	-	1,000,000	-	1,000,000
Capital assets being depreciated--				
Equipment	448,264	119,440	-	567,704
Less accumulated depreciation for--				
Equipment	59,067	44,579	-	103,646
Governmental activities capital assets, net	\$ 389,197	\$ 1,074,861	\$ -	\$ 1,464,058
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 43,453,945	\$ -	\$ (67,086)	\$ 43,386,859
Total capital assets not being depreciated	43,453,945	-	(67,086)	43,386,859
Capital assets being depreciated:				
Building and improvements	145,233,724	6,730,010	-	151,963,734
Equipment	1,792,612	31,437	-	1,824,049
Total capital assets being depreciated	147,026,336	6,761,447	-	153,787,783
Less accumulated depreciation for:				
Building and improvements	81,311,324	4,717,618	-	86,028,942
Equipment	1,760,639	18,198	-	1,778,837
Total accumulated depreciation	83,071,963	4,735,816	-	87,807,779
Business-type activities capital assets, net	\$ 107,408,318	\$ 2,025,631	\$ (67,086)	\$ 109,366,863

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

9. Capital Assets (continued)

Current year depreciation expense was charged to function as follows:

Governmental activities--	
Low income housing service and assistance	<u>\$ 44,579</u>
Business-type activities:	
Housing development program	\$ 264,244
Single-family mortgage loan program	804
Rental housing programs	<u>4,470,768</u>
Total depreciation expense – business-type activities	<u>\$4,735,816</u>

At June 30, 2009, capital assets for the proprietary funds consisted of the following:

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Total
Land	\$ 16,186,850	\$ 26,127,508	\$ 1,072,500	\$ 43,386,858
Buildings and improvements	139,050,064	7,613,437	5,300,233	151,963,734
Equipment	<u>1,539,389</u>	<u>204,257</u>	<u>80,403</u>	<u>1,824,049</u>
	156,776,303	33,945,202	6,453,136	197,174,641
Less accumulated depreciation	<u>79,985,867</u>	<u>5,891,778</u>	<u>1,930,133</u>	<u>87,807,778</u>
Net capital assets	<u>\$ 76,790,436</u>	<u>\$ 28,053,424</u>	<u>\$ 4,523,003</u>	<u>\$ 109,366,863</u>

10. Mortgage and Notes Payable

The Kekuilani Gardens Project (Kekuilani) entered into a mortgage agreement in December 1996 in the amount of \$5,213,614 with the U.S. Department of Agriculture (USDA) Farmers Home Administration, now known as the USDA – Rural Development (RD). The mortgage loan bears interest at 7.25 percent and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$11,059 and matures on December 1, 2046. At June 30, 2009, the balance outstanding on the mortgage loan was \$4,994,569.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

10. Mortgage and Notes Payable (continued)

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 \$245,000 of interest credit reducing the interest expense from approximately \$367,000 to \$122,000.

In addition, Kekuilani entered into a mortgage agreement in December 1996 in the amount of \$696,267 with the Rental Housing Trust Fund. The mortgage loan bears interest at 1 percent and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$1,475 and matures on January 1, 2047. At June 30, 2009, the balance outstanding on the mortgage loan was \$532,840.

The Dwelling Unit Revolving Fund also has three mortgage notes payable to the USDA – RD. Two notes were originated in August 1976, and are payable in combined monthly installments of \$2,207, including interest at 1 percent. These notes were fully repaid in July 2008. The third note was originated in October 1994, and is payable in monthly installments of \$1,315, including interest at 1 percent, due in October 2026. The notes are secured by property and rental receipts. At June 30, 2009, the balance outstanding on the mortgage note was \$250,370.

Notes payable activity during the year was as follows:

	Balance at July 1, 2008	Addition	Reductions	Balance at June 30, 2009	Less Current Portion	Long-Term Portion
Mortgage payable	\$ 5,585,591	\$ -	\$ 58,182	\$ 5,527,409	\$ 39,000	\$ 5,488,409
Notes payable	262,039	-	11,669	250,370	13,337	237,033
Total	\$ 5,847,630	\$ -	\$ 69,851	\$ 5,777,779	\$ 52,337	\$ 5,725,442

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

10. Mortgage and Notes Payable (continued)

The approximate debt service requirement of notes payable through 2014 and in five-year increments thereafter to maturity are as follows:

Year ending June 30,	Principal	Interest	Total
2010	\$ 52,000	\$ 115,000	\$ 167,000
2011	54,000	113,000	167,000
2012	58,000	111,000	169,000
2013	60,000	113,000	173,000
2014	62,000	111,000	173,000
2015-2019	346,000	516,000	862,000
2020-2024	443,000	431,000	874,000
2025-2029	538,000	312,000	850,000
2030-2034	693,000	148,000	841,000
2035-2039	965,000	12,000	977,000
2040-2044	1,355,000	6,000	1,361,000
2045-2047	1,151,779	4,506	1,156,285
	<u>\$ 5,777,779</u>	<u>\$ 1,992,506</u>	<u>\$ 7,770,285</u>

11. Revenue Bonds Payable

Through June 30, 2009, approximately \$2,216,818,000 of revenue bonds have been issued. The revenue bonds are payable from and secured solely by the revenues and other monies and assets of the revenue bond funds and other assets of the Corporation pledged under the indentures.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

11. Revenue Bonds Payable (continued)

Revenue bonds payable at June 30, 2009 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds:

1997 Series A:

Term bonds maturing annually through 2031 (5.00% to 5.75%)	\$ 9,475,000
--	--------------

1997 Series B:

Serial bonds maturing annually through 2009 (5.00%)	2,645,000
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Term bonds maturing in 2010 through 2018 (5.45%)	29,405,000
--	------------

	32,050,000
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1998 Series A:

Serial bonds maturing annually through 2013 (4.95% to 5.25%)	6,630,000
--	-----------

Term bonds maturing annually through 2030 (5.35% to 5.40%)	30,785,000
--	------------

	37,415,000
--	------------

1998 Series B:

Term bonds maturing in 2019 through 2028 (5.30%)	11,085,000
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1998 Series C:

Term bonds maturing in 2019 through 2020 (5.35%)	4,060,000
--	-----------

2000 Series A:

Term bonds maturing in 2021 through 2027 (6.275%)	25,000,000
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2002 Series A:

Serial bonds maturing annually through 2013 (4.30% to 4.80%)	2,485,000
--	-----------

Term bonds maturing in 2010 through 2034 (4.40% to 5.38%)	18,575,000
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Placed bonds maturing in 2023 through 2033 (5.38%)	3,525,000
--	-----------

	24,585,000
--	------------

2002 Series B:

Term bonds maturing in 2026 through 2028 (5.25%)	1,810,000
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2005 Series A:

Term bonds maturing in 2026 through 2037 (5.00%)	6,655,000
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Single Family Mortgage Purchase revenue bonds subtotal carried forward	\$ 152,135,000
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Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

11. Revenue Bonds Payable (continued)

Single Family Mortgage Purchase revenue bonds subtotal brought forward	\$ 152,135,000
2005 Series B:	
Serial bonds maturing annually through 2015 (3.25% to 3.90%)	8,890,000
Term bonds maturing in 2012 through 2027 (3.70% to 4.30%)	33,180,000
	42,070,000
Total Single Family Mortgage Purchase revenue bonds	\$ 194,205,000
Hawaii Rental Housing System revenue bonds:	
2004 Series A:	
Serial bonds maturing in 2009 through 2013 (3.00% to 3.70%)	\$ 8,865,000
Term bonds maturing in 2014 through 2034 (3.80% to 4.75%)	67,455,000
	76,320,000
2004 Series B:	
Serial bonds maturing in 2010 through 2030 (4.00% to 6.00%)	15,285,000
Term bonds maturing in 2031 through 2034 (6.50%)	5,590,000
	20,875,000
Total Hawaii Rental Housing System revenue bonds	\$ 97,195,000
Multifamily Housing revenue bonds:	
1999 Series (Manana Gardens Project) – term bond maturing annually through 2035 (6.30%)	\$ 3,430,000
2000 Series (Sunset Villas Project) – term bonds maturing annually through 2036 (5% to 5.75%)	24,975,000
2002 Series (Hale Hoaloha Project) – mortgage installment bonds maturing annually through 2018 (6.75% until 2012 and 7.75% thereafter)	1,556,798
2005 Series (Kauahale Olu Project):	
Mortgage Installment bonds maturing in 2026 (6.375%)	5,402,303
2007 Series (Kukui Gardens Project):	
Mortgage Installment bonds maturing annually through 2042 (1.26%)	45,000,000
Multifamily Housing revenue bonds subtotal carried forward	\$ 80,364,101

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

11. Revenue Bonds Payable (continued)

Multifamily Housing revenue bonds	
subtotal brought forward	<u>\$ 80,364,101</u>
2008 Series (Kahului Town Terrace Project):	
Mortgage Installment bonds maturing annually through 2026 (4.25%)	8,420,000
2009 Series (Lokahi Kau Project):	
Mortgage Installment bonds maturing annually through 2042 (0.32%)	<u>33,500,000</u>
Total Multifamily Housing revenue bonds	<u>\$ 122,284,101</u>
Total Revenue Bonds:	
Revenue Bonds	\$ 413,684,101
Add unamortized premium	584,745
Less deferred refunding costs (difference between reacquisition	
price and net carrying value of old debt)	<u>(2,303,730)</u>
Total revenue bonds	411,965,116
Less current portion	<u>16,697,007</u>
	<u>\$ 395,268,109</u>

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

The Single Family Mortgage Purchase and Hawaii Rental Housing System revenue bonds with designated maturity dates, and the Multifamily Housing revenue bonds may be redeemed at the option of the Corporation commencing in 2001 for the Single Family Mortgage Purchase 1991 Series, 2004 for the Single Family Mortgage Purchase 1994 Series, 2007 for the Single Family Mortgage Purchase 1997 Series, subject to a redemption premium which ranges from 2 percent to zero; 2008 for the Single Family Mortgage Purchase 1998 Series, subject to a redemption premium that ranges from 1.5 percent to zero; 2010 for the Single Family Mortgage Purchase 2000 Series, and 2014 for the Single Family Mortgage Purchase 2002 Series, 2005 for the Hawaii Rental Housing System 2004 Series, 2010 for the Multifamily Housing 1999 Series, and 2011 for the 2000 Series, subject to a redemption premium which ranges from 2 percent to zero. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from undisbursed bond proceeds, principal payments and prepayments of mortgages, excess amounts in the debt service reserve account or excess revenues (as defined in the bond indentures).

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

11. Revenue Bonds Payable (continued)

Due to the continued failure of the auction process for the 2004 Refunding Series B bonds, management elected to replace the auction rate securities by remarketing the bonds as fixed rate instruments. On June 10, 2009, the Corporation issued the remarketed 2004 Refunding Series B bonds in the amount of \$20,875,000. The interest rates on the remarketed bonds vary between 4.00 through 6.50 percent. Management intends to cover the increased debt service costs through rent increases and existing reserves, if necessary, as provided for in the Indenture.

During the year ended June 30, 2009, early redemptions totaled \$105,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2008	Additions	Reductions	Balance at June 30, 2009
Single Family				
Mortgage Purchase	\$ 200,145,000	\$ -	\$ (5,940,000)	\$ 194,205,000
Hawaii Rental Housing System	99,550,000	-	(2,355,000)	97,195,000
Multifamily Housing	89,307,416	33,500,000	(523,315)	122,284,101
University of Hawaii Faculty Housing Program	13,820,000	-	(13,820,000)	-
	402,822,416	33,500,000	(22,638,315)	413,684,101
Add unamortized premium	-	584,745	-	584,745
Less deferred refunding amount	(2,712,311)	-	408,581	(2,303,730)
Total	<u>\$ 400,110,105</u>	<u>\$ 34,084,745</u>	<u>\$ (22,229,734)</u>	<u>\$ 411,965,116</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

11. Revenue Bonds Payable (continued)

The approximate annual debt service requirements through 2014 and in five-year increments thereafter to maturity for revenue bonds are as follows:

Year ending June 30:	Principal	Interest	Total
2010	\$ 16,697,000	\$ 17,090,000	\$ 33,787,000
2011	9,853,000	16,695,000	26,548,000
2012	58,552,000	16,240,000	74,792,000
2013	11,894,000	15,264,000	27,158,000
2014	13,474,000	14,713,000	28,187,000
2015 – 2019	64,267,000	64,241,000	128,508,000
2020 – 2024	71,852,000	48,562,000	120,414,000
2025 – 2029	86,191,000	27,273,000	113,464,000
2030 – 2034	55,738,000	8,904,000	64,642,000
2035 – 2039	9,989,000	920,000	10,909,000
2040 – 2042	15,177,101	199,000	15,376,101
	<u>\$ 413,684,101</u>	<u>\$ 230,101,000</u>	<u>\$ 643,785,101</u>

In order to ensure the exclusion of interest on the Corporation's Hawaii Rental Housing System revenue bonds and Single Family Mortgage Purchase 1989 Series A, 1990 Series A, 1991 Series A and B and 1994 Series A and B revenue bonds from gross income for federal income tax purposes, the Corporation calculates rebates due to the U.S. Treasury annually. The rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. At June 30, 2009, the Corporation determined that \$3,344,877 of rebates was due to the U. S. Treasury.

12. Conduit Debt Obligations

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

As of June 30, 2009, there were seven series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of \$122,284,101 reported as Multifamily Housing Revenue bonds.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

13. Leases

a. Lessee

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

The minimum rental commitments under operating leases through 2014 and in five-year increments thereafter, with consideration of a minimum annual rent increase are as follows:

Year ending June 30,	
2010	\$ 817,000
2011	830,000
2012	843,000
2013	857,000
2014	906,000
2015 – 2019	4,757,000
2020 – 2024	5,097,000
2025 – 2029	5,436,000
2030 – 2034	4,479,000
2035 – 2039	4,003,000
2040 – 2044	4,367,000
2045 – 2049	4,803,000
2050 – 2054	5,240,000
2055 – 2056	2,620,000
	<u>\$ 45,055,000</u>

Rent expense for the year ended June 30, 2009 totaled approximately \$834,000.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

13. Leases (continued)

b. Lessor

The Corporation leases land with a carrying value of approximately \$25,799,000 to various developers and home buyers. The leases expire at various dates through December 2072. Lease rental income for the year ended June 30, 2009 was approximately \$788,000.

As discussed in Note 15, the Corporation's lease related to Kukui Gardens was prepaid via a promissory note. The promissory note does not have fixed repayment terms. Accordingly, the minimum amounts to be received are excluded from the following table.

The future minimum lease rent from these operating leases at June 30, 2009 is as follows:

Year ending June 30:	
2010	\$ 402,000
2011	393,000
2012	388,000
2013	387,000
2014	397,000
2015 – 2019	2,121,000
2020 – 2024	1,931,000
2025 – 2027	1,805,000
	<hr/>
	\$ 7,824,000

14. Commitments and Contingencies

a. Loan Guarantee

The Corporation has guaranteed up to \$40,000,000 of the mortgage loans sold by it to the Employees' Retirement System of the State of Hawaii (ERS). Upon the 120th day of any delinquency or default, the Corporation is obligated to cure the arrearage of principal and interest or buy back the delinquent loan. At June 30, 2009, the outstanding balance of mortgage loans that have been sold to the ERS which are covered by the loan guarantee was approximately \$21,000. At June 30, 2009, notes and loans receivables did not include any delinquent loans purchased back from the ERS.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

14. Commitments and Contingencies (continued)

b. Construction Contracts

At June 30, 2009, the Dwelling Unit Revolving Fund had outstanding commitments to expend approximately \$39,489,000 for land development and the construction and renovation of housing projects.

The Fiduciary Fund had outstanding construction contract commitments of approximately \$203,000 at June 30, 2009.

c. Loan Commitments

At June 30, 2009, the Rental Housing Trust Fund had aggregate outstanding loan commitments in the amount of \$7,692,166.

d. Development Costs

The Kapolei development project primarily consists of eight residential villages and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2009, all but remnant residential parcels and 42 acres of business mixed-use land have been developed and sold. The estimated future cost of land sold is recorded as a liability on the accompanying statement of net assets and relates primarily to the completion of certain infrastructure improvements at this project. This liability represents amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands. The Villages of Leialī'i is in West Maui and is located on public trust ("ceded") land owned by the State of Hawaii. Development of Leialī'i has been delayed due to lawsuits seeking to prevent the Corporation's sale or transfer of this land. As of June 30, 2009, the Corporation has remaining development rights for most of the Leialī'i project. Development costs related to Leialī'i were approximately \$19.7 million at June 30, 2009. Management believes that the future revenues from these projects will meet or exceed the aggregate of the development costs at June 30, 2009 and the remaining costs to be incurred on the project.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

14. Commitments and Contingencies (continued)

d. Development Costs (continued)

Development of the Villages of La'i'opua master planned community in West Hawaii 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 Hawaii, named the Kamakana Villages at Keahuolu.

Also, the Corporation has other development costs and dwelling units of approximately \$2.6 million at June 30, 2009.

e. Torts and Litigation

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

f. Workers' Compensation Policy

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

g. Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave at June 30, 2009 amounted to approximately \$1,830,000.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

14. Commitments and Contingencies (continued)

h. Deferred Compensation Plan

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

i. Litigation

In prior years, the Corporation was a party to various lawsuits related to the land transferred to the United States by the Republic of Hawaii during Hawaii's annexation to the United States in 1898. This litigation related to the State's right to sell or transfer these lands, also referred to as ceded lands. On March 31, 2009, the Supreme Court of the United States issued its ruling on the issue supporting the State's position in the various lawsuits.

15. Kukui Gardens

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

To assist in financing the acquisition and redevelopment of the Project, the State contributed \$25 million to DURF during December 2007. Additionally, the Multifamily Revenue Bond Fund issued \$45 million of revenue bonds to provide conduit financing to EAH for their acquisition of the Project's improvements and operating cash, as well as to provide capital for rental operations and the planned renovation of the apartment units. Accordingly, the Multifamily Revenue Bond Fund has both notes receivable and revenue bonds payable of \$45 million related to the Project on the accompanying statement of net assets as of June 30, 2009.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

15. Kukui Gardens (continued)

Additionally, EAH executed three promissory notes to DURF in an aggregate amount of \$29,055,000, including approximately \$4,055,000 related to cash advanced from DURF to EAH and \$25 million related to the terms of the land lease. Additionally, DURF recorded \$25 million of deferred income on the accompanying statement of net assets related to this transaction. The deferred income will be amortized to rental income on a straight-line basis and the notes receivable will be reduced as cash is collected. Deferred income at June 30, 2009 related to the Project was approximately \$24,404,000. Management believes that the \$371,000 of rental income recognized during 2009 related to the Project is realizable. The notes bear interest at 4.72% and are for a term of 58 years, with a final maturity date of December 17, 2065. Repayment of the notes is distributed into three periods as follows: (1) December 18, 2007 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

During the year ended June 30, 2009, DURF recognized approximately \$1.4 million of interest income related to the outstanding promissory notes. As of June 30, 2009 DURF has recorded approximately \$2.2 million of interest income receivable related to the outstanding promissory notes.

16. Retirement Plan

All eligible employees of the State and Counties are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for ERS. That report may be obtained from them.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

16. Retirement Plan (continued)

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

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited services or age 55 and 30 years of credit service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan are eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 are required to join the new hybrid plan.

Most covered employees of the contributory plan are required to contribute 7.8 percent of their salary. Police officers, firefighters, investigators of the department of the prosecuting attorney and the attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2 percent of their salary. The actuarial cost or funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Under this method, the total employer contributions to the ERS is comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the closed period ending June 30, 2029.

The Corporation's contributions for the fiscal years 2009, 2008 and 2007 of approximately \$469,000, \$388,000 and \$313,000, respectively, were equal to the required contributions for each year.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

17. Post Retirement Health Care and Life Insurance Benefits

The Corporation contributes to the Employers Union Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at 201 Merchant Street, Suite 1520, Honolulu, Hawaii, 96813. The eligibility requirements for retiree health benefits are as follows:

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

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

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

The Corporation contributed approximately \$277,000, \$238,000 and \$152,000, respectively for the fiscal years 2009, 2008 and 2007.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

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

Annual OPEB Cost and Net OPEB Obligation

It is the State's policy that measurement of the actuarial valuation and the annual required contribution (ARC) are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Corporation. The state allocates the ARC to the various departments and agencies based upon a systematic methodology. The Corporation's contribution for the year ended June 30, 2009 was \$276,004, which represented 37% of the Corporation's share of the ARC for postretirement healthcare and life insurance benefits of \$661,152.

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2009:

Balance at June 30, 2008	\$ 423,494
Additions	739,792
Deletions	<u>(276,004)</u>
Balance at June 30, 2009	<u>\$ 887,282</u>

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

18. Related Party Transactions

Amounts due from other State of Hawaii Departments include approximately \$475,000 of miscellaneous advances previously made to other departments and approximately \$18,806,000 of amounts due from the Department of Hawaiian Home Lands (DHHL) related to a previous agreement to transfer certain land and development rights to DHHL. Pursuant to this agreement, DHHL was required to commence 15 annual \$2.2 million payments to the Corporation in December 2004. Effective at that time, the Corporation recorded the sale of the land and development rights at the net present value of the estimated future cash flow from DHHL using an imputed interest rate of approximately 3.3 percent. As of June 30, 2009, amounts due from DHHL include approximately \$18,800,000 of principal, net of approximately \$3,223,000 of imputed interest, and approximately \$306,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately \$637,000 during the year ended June 30, 2009.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2009

18. Related Party Transactions (continued)

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 \$1,013,000 during the year ended June 30, 2009. 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, 2009, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately \$1,077,000, which was allocated as office rental expense to various funds of the Corporation. In addition, the State Department of Accounting and General Services (DAGS) incurred \$983,753 in rent to the Hawaii Rental Housing System Revenue Bond Fund for leased space in the Pohulani building. The term of the lease with DAGS is from September 1992 through August 2022. The minimum annual rental is determined by multiplying the previous year's minimum annual rent by one hundred three percent (103%).

19. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2009 is as follows:

Receivable Fund	Payable Fund	Amount
Dwelling Unit Revolving Fund	Other Nonmajor Enterprise Funds	\$ 635,429
Multi Family Housing Revenue Bond Fund	Other Nonmajor Enterprise Funds	425,384
Other Nonmajor Enterprise Funds	Rental Housing Trust Fund	4,643
Other Nonmajor Enterprise Funds	Single Family Mortgage Revenue Bond Fund	216,671
Other Nonmajor Enterprise Funds	Hawaii Rental Housing System Revenue Bond Fund	625,121
Other Nonmajor Enterprise Funds	Other Nonmajor Enterprise Funds	1,829,755
		<u>\$ 3,737,003</u>

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2009

20. Intergovernmental Transfers

State of Hawaii: Act 79, SLH 2009 authorized the transfer of excess balances in non-general funds to the State General Fund to help address the critical budget shortfall in Fiscal Biennium 2009 - 2011, effective May 28, 2009. Section 13 authorized the Corporation to transfer approximately \$20,600,000 to the State General Fund. The Single Family Mortgage Purchase Revenue Bond Fund (SF) transferred \$20 million and DURF transferred \$600,000 of which approximately \$459,000 was accrued in prior years. However, since the SF does not have a separate appropriation established with the Department of Accounting and General Services, the monies were transferred to the Housing Finance Revolving Fund (HFRF) which then remitted them to the State.

Hawaii Public Housing Authority: During the year ended June 30, 2009, the Hawaii Public Housing Authority transferred approximately \$3 million of capital assets and various maintenance expenses paid for on behalf of the Corporation. The transfers are reflected in their respective funds.

21. Subsequent Events

On July 1, 2009, the Corporation redeemed \$5,340,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund.

22. Recently Issued Accounting Pronouncements

In 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes standards of accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specially defined classifications and clarifies definitions for governmental fund types. This Statement is effective for financial statement periods beginning after June 15, 2010.

In 2009, the Corporation adopted GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This Statement incorporates into GASB the following three accounting and reporting guidelines currently existing in the American Institute of Certified Public Accountants' Statement on Auditing Standards – related party transactions, going concern considerations and subsequent events. The adoption of GASB Statement No. 56 did not have an impact on the Corporation's financial position, results of operations or cash flows.

**Required Supplementary Information
Other Than Management's Discussion and Analysis**

Hawaii Housing Finance and Development Corporation

Required Supplementary Information

Budgetary Comparison Schedule - Major Governmental Fund

Year Ended June 30, 2009

	General Fund		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues --			
State allotted appropriations	<u>\$ 26,116,461</u>	<u>\$ 26,116,461</u>	<u>\$ 26,116,461</u>
Expenditures:			
Low income housing services	62,271	62,271	62,271
Capital outlay	27,119,440	27,119,440	1,119,440
Personnel services	<u>116,479</u>	<u>116,479</u>	<u>116,479</u>
Excess of revenues over expenditures	<u>\$ (1,181,729)</u>	<u>\$ (1,181,729)</u>	24,818,271
Reconciliation to GAAP Fund Balance:			
Add: Reserve for encumbrances included in budgetary expenditures			-
Fund Balance, July 1, 2008 (as restated)			<u>1,181,729</u>
Fund Balance, June 30, 2009			<u>\$ 26,000,000</u>

See accompanying independent auditor's report.

Supplementary Information

Hawaii Housing Finance and Development Corporation

Non-Major Governmental Funds

Combining Balance Sheet

June 30, 2009

	Home Program Fund	National Foreclosure Mitigation Program Fund	Neighborhood Stabilization Program Fund	Total Non-Major Governmental Funds
<u>Assets</u>				
Cash and investments in State Treasury Investment Pool	\$ -	\$ 6,529	\$ -	\$ 6,529
Cash in banks	-	-	100	100
Due from other agencies	40,190	1,151	22,230	63,571
Total assets	<u>\$ 40,190</u>	<u>\$ 7,680</u>	<u>\$ 22,330</u>	<u>\$ 70,200</u>
<u>Liabilities and Fund Balance</u>				
Liabilities --				
Internal balances	<u>\$ 40,190</u>	<u>\$ 7,680</u>	<u>\$ 22,330</u>	<u>70,200</u>
Total liabilities	40,190	7,680	22,330	70,200
Fund Balances - Unrestricted	-	-	-	-
Total liabilities and fund balance	<u>\$ 40,190</u>	<u>\$ 7,680</u>	<u>\$ 22,330</u>	<u>\$ 70,200</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Non-Major Governmental Funds

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2009

	Home Program Fund	National Foreclosure Mitigation Program Fund	Neighborhood Stabilization Program Fund	Total Non-Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Intergovernmental revenue	\$ 6,451,084	\$ 157,206	\$ 65,200	\$ 6,673,490
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Expenditures:				
Project	6,357,532	-	-	6,357,532
Personnel services	67,531	11,737	50,244	129,512
Administration	15,207	110,469	14,956	140,632
Professional services	10,814	35,000	-	45,814
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenditures	6,451,084	157,206	65,200	6,673,490
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Change in fund balance	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance at July 1, 2008	-	-	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund Balance at June 30, 2009	\$ -	\$ -	\$ -	\$ -
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Net Assets - Nonmajor Other Enterprise Funds
June 30, 2009

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Assets											
Current Assets:											
Cash and investments in State Treasury Investment Pool	\$ 477,868	\$ 61,534	\$ 24,964,400	\$ 3,011,451	\$ -	\$ 934,908	\$ 167,922	\$ -	\$ -	\$ 40,281	\$ 29,658,364
Cash in banks	-	-	-	-	39,118	9,140	-	136,923	-	-	185,181
Receivables:											
Mortgage loans	-	-	-	65,564	-	-	-	-	135	1,485	67,184
Accrued interest	-	523	981,058	41,491	-	-	-	-	1,851	1,314	1,026,237
Tenant receivables, less allowance for doubtful accounts	-	-	-	-	10,463	-	-	-	-	-	10,463
Other	-	2,733	-	-	-	-	-	-	-	-	2,733
	-	3,256	981,058	107,055	10,463	-	-	-	1,986	2,799	1,106,617
Due from other funds	-	-	-	2,646,475	-	29,715	-	-	-	-	2,676,190
Internal balances	-	-	-	67,962	-	2,238	-	-	-	-	70,200
Prepaid expenses and other assets	-	-	117,906	-	-	-	-	-	-	-	117,906
Deposits held in trust	-	5,717	-	-	-	-	-	-	-	-	5,717
Total current assets	477,868	70,507	26,063,364	5,832,943	49,581	976,001	167,922	136,923	1,986	43,080	33,820,175
Investments	-	-	6,726,225	4,474	-	-	-	-	-	-	6,730,699
Mortgage Loans, net of current portion	-	-	2,249,985	1,105,820	-	-	-	-	18	693	3,356,516
Restricted Deposits and Funded Reserves	-	-	-	-	459,328	-	-	-	-	-	459,328
Capital Assets, less accumulated depreciation	-	-	-	-	4,523,003	-	-	-	-	-	4,523,003
Total assets	\$ 477,868	\$ 70,507	\$ 35,039,574	\$ 6,943,237	\$ 5,031,912	\$ 976,001	\$ 167,922	\$ 136,923	\$ 2,004	\$ 43,773	\$ 48,889,721

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Net Assets - Nonmajor Other Enterprise Funds (continued)
June 30, 2009

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Liabilities and Net Assets											
Current Liabilities:											
Accounts payable	\$ -	\$ 3,852	\$ -	\$ 825	\$ 30,657	\$ 116,001	\$ -	\$ -	\$ -	\$ -	\$ 151,335
Accrued expenses:											
Other	-	18,599	26,640	216,671	-	-	-	-	-	-	261,910
Due to other funds	-	-	70	1,972,614	-	850,000	-	-	28,476	39,408	2,890,568
Due to State of Hawaii	-	-	-	-	-	10,000	-	-	-	-	10,000
Security deposits	-	5,717	-	989,941	29,567	-	-	-	-	-	1,025,225
Mortgage note payable	-	-	-	-	39,000	-	-	-	-	-	39,000
Total current liabilities	-	28,168	26,710	3,180,051	99,224	976,001	-	-	28,476	39,408	4,378,038
Mortgage Payable, net of current portion	-	-	-	-	5,488,409	-	-	-	-	-	5,488,409
Commitments and Contingencies											
Net Assets -											
Invested in capital assets, net of related debt	-	-	-	-	(1,004,406)	-	-	-	-	-	(1,004,406)
Restricted by legislation and contractual agreements	-	-	-	-	459,328	-	-	-	-	-	459,328
Unrestricted	477,868	42,339	35,012,864	3,763,186	(10,643)	-	167,922	136,923	(26,472)	4,365	39,568,352
Total net assets	477,868	42,339	35,012,864	3,763,186	(555,721)	-	167,922	136,923	(26,472)	4,365	39,023,274
Total liabilities and net assets	\$ 477,868	\$ 70,507	\$ 35,039,574	\$ 6,943,237	\$ 5,031,912	\$ 976,001	\$ 167,922	\$ 136,923	\$ 2,004	\$ 43,773	\$ 48,889,721

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Revenues and Expenses - Nonmajor Other Enterprise Funds
Year Ended June 30, 2009

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Operating Revenues:											
Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease	\$ 530,300	\$ -	\$ 68,437	\$ 61,868	\$ -	\$ -	\$ -	\$ -	\$ 12	\$ 154	\$ 660,771
Rental	-	-	-	-	472,167	-	-	-	-	-	472,167
Other	-	111	24	1,705,692	27,899	-	13,688	-	-	-	1,747,414
Total operating revenues	530,300	111	68,461	1,767,560	500,066	-	13,688	-	12	154	2,880,352
Operating Expenses:											
Personnel services	5,392	-	67,189	1,322,216	44,200	-	8,265	-	-	-	1,447,262
Depreciation	-	-	-	-	155,718	-	-	-	-	-	155,718
Housing assistance payments	-	-	1,430,919	-	-	-	-	-	-	-	1,430,919
Administration	272	671	69,493	196,156	35,029	-	-	-	-	-	301,621
Professional services	11,752	2,918	12,810	61,772	15,578	-	-	-	2,555	2,554	109,939
Insurance	-	-	-	-	15,152	-	-	-	-	-	15,152
Repairs and maintenance	287	-	1,043	2,870	208,156	-	-	-	-	-	212,356
Utilities	-	-	-	-	79,779	-	-	-	-	-	79,779
Other	5	-	-	2,552	39,582	-	31,252	-	-	-	73,391
Total operating expenses	17,708	3,589	1,581,454	1,585,566	593,194	-	39,517	-	2,555	2,554	3,826,137
Operating income (loss)	512,592	(3,478)	(1,512,993)	181,994	(93,128)	-	(25,829)	-	(2,543)	(2,400)	(945,785)
Nonoperating Revenues (Expenses):											
Interest income:											
Interest income	-	2,975	1,125,695	75,018	3,638	-	-	279	-	-	1,207,605
Net decrease in the fair value of pooled cash and investments	(23,150)	(2,978)	(1,210,240)	(119,190)	-	-	-	-	-	-	(1,355,558)
Net increase in fair value of investments	-	-	185,596	-	-	-	-	-	-	-	185,596
Loss on early termination of investment in financing lease	(932,003)	-	-	-	-	-	-	-	-	-	(932,003)
Write-off of unamortized deferred bond issuance costs	(229,748)	-	-	-	-	-	-	-	-	-	(229,748)
Interest expense	(607,481)	-	-	-	(122,223)	-	-	-	-	-	(729,704)
Amortization of deferred bond issuance costs	(14,746)	-	-	-	-	-	-	-	-	-	(14,746)
Other revenues	31,705	-	-	-	-	-	-	-	-	-	31,705
Total nonoperating (expenses) revenues	(1,775,423)	(3)	101,051	(44,172)	(118,585)	-	-	279	-	-	(1,836,853)
(Loss) income before operating transfers	(1,262,831)	(3,481)	(1,411,942)	137,822	(211,713)	-	(25,829)	279	(2,543)	(2,400)	(2,782,638)
Intergovernmental Transfers	-	-	-	(20,000,000)	38,528	-	-	-	-	-	(19,961,472)
Transfers	-	-	-	20,000,000	-	-	-	-	(469)	-	19,999,531
Change in net assets	\$ (1,262,831)	\$ (3,481)	\$ (1,411,942)	\$ 137,822	\$ (173,185)	\$ -	\$ (25,829)	\$ 279	\$ (3,012)	\$ (2,400)	\$ (2,744,579)

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Changes in Fund Net Assets - Nonmajor Other Enterprise Funds
Year Ended June 30, 2009

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuailani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Net Assets, July 1, 2008	\$ 1,740,699	\$ 45,820	\$ 36,424,806	\$ 3,625,364	\$ (382,536)	\$ -	\$ 193,751	\$ 136,644	\$ (23,460)	\$ 6,765	\$ 41,767,853
Change in Net Assets	(1,262,831)	(3,481)	(1,411,942)	137,822	(173,185)	-	(25,829)	279	(3,012)	(2,400)	(2,744,579)
Net Assets, June 30, 2009	<u>\$ 477,868</u>	<u>\$ 42,339</u>	<u>\$ 35,012,864</u>	<u>\$ 3,763,186</u>	<u>\$ (555,721)</u>	<u>\$ -</u>	<u>\$ 167,922</u>	<u>\$ 136,923</u>	<u>\$ (26,472)</u>	<u>\$ 4,365</u>	<u>\$ 39,023,274</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Cash Flows - Nonmajor Other Enterprise Funds
Year Ended June 30, 2009

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Cash Flows from Operating Activities:											
Cash received from renters	\$ -	\$ -	\$ -	\$ -	\$ 483,634	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 483,634
Cash received from borrowers:											
Principal repayments	-	-	-	192,395	-	-	-	-	469	3,468	196,332
Interest income	-	-	-	126,986	-	-	-	-	12	154	127,152
Cash received from net investment in financing lease	1,053,774	-	-	-	-	-	-	-	-	-	1,053,774
Cash payments to employees	(5,392)	-	(67,189)	(1,322,216)	(44,200)	-	-	-	-	-	(1,438,997)
Cash (payments to) receipts from suppliers	(12,316)	7,868	(1,519,810)	(205,193)	(412,829)	(6,191)	(32,078)	-	(2,555)	(163)	(2,183,267)
Cash (payments to) receipts from other funds	(18,546)	-	128	(375,279)	-	(58,794)	-	-	2,543	-	(449,948)
Other cash receipts	59,658	111	24	1,705,692	29,474	-	6,249	-	-	-	1,801,208
Net cash provided by (used in) operating activities	1,077,178	7,979	(1,586,847)	122,385	56,079	(64,985)	(25,829)	-	469	3,459	(410,112)
Cash Flows from Noncapital Financing Activities:											
Intergovernmental transfers	-	-	-	(20,000,000)	-	-	-	-	-	-	(20,000,000)
Transfers	-	-	-	20,000,000	-	-	-	-	(469)	-	19,999,531
Net cash provided by (used in) noncapital financing activities	-	-	-	-	-	-	-	-	(469)	-	(469)
Cash Flows from Capital and Related Financing Activities:											
Early termination of investment in financing lease	13,576,813	-	-	-	-	-	-	-	-	-	13,576,813
Principal paid on revenue bond maturities and redemptions	(13,820,000)	-	-	-	-	-	-	-	-	-	(13,820,000)
Principal paid on mortgage loans	-	-	-	-	(58,182)	-	-	-	-	-	(58,182)
Purchase of capital assets	-	-	-	-	(480)	-	-	-	-	-	(480)
Interest paid	(807,027)	-	-	-	(122,223)	-	-	-	-	-	(929,250)
Net cash used in capital and related financing activities	(1,050,214)	-	-	-	(180,885)	-	-	-	-	-	(1,231,099)
Cash Flows from Investing Activities:											
Proceeds from maturities of investments	-	-	-	2,582	-	-	-	-	-	-	2,582
Receipts of interest	-	2,743	970,360	-	3,638	-	-	279	-	-	977,020
Change in fair value of pooled cash and investments	(23,150)	(2,978)	(1,210,240)	(119,190)	-	-	-	-	-	-	(1,355,558)
Net decrease in restricted deposits and funded reserves	-	-	-	-	131,102	-	-	-	-	-	131,102
Net cash (used in) provided by investing activities	(23,150)	(235)	(239,880)	(116,608)	134,740	-	-	279	-	-	(244,854)
Net increase (decrease) in cash and cash equivalents	3,814	7,744	(1,826,727)	5,777	9,934	(64,985)	(25,829)	279	-	3,459	(1,886,534)
Cash and Cash Equivalents, July 1, 2008	474,054	53,790	26,791,127	3,005,674	29,184	1,009,033	193,751	136,644	-	36,822	31,730,079
Cash and Cash Equivalents, June 30, 2009	\$ 477,868	\$ 61,534	\$ 24,964,400	\$ 3,011,451	\$ 39,118	\$ 944,048	\$ 167,922	\$ 136,923	\$ -	\$ 40,281	\$ 29,843,545

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Cash Flows - Nonmajor Other Enterprise Funds (continued)
Year Ended June 30, 2009

	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Pineapple Workers and Retirees Housing Assistance Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Cash Flows from Operating Activities:											
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:											
Operating income (loss)	\$ 512,592	\$ (3,478)	\$ (1,512,993)	\$ 181,994	\$ (93,128)	\$ -	\$ (25,829)	\$ -	\$ (2,543)	\$ (2,400)	\$ (945,785)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:											
Depreciation	-	-	-	-	155,718	-	-	-	-	-	155,718
Changes in assets and liabilities:											
Mortgage loans receivables	-	-	-	82,605	-	-	-	-	469	3,468	86,542
Accrued interest receivable on mortgages, notes and loans	-	-	(68,437)	65,118	-	-	-	-	-	-	(3,319)
Tenant receivables	-	-	-	-	13,771	-	-	-	-	-	13,771
Other receivables	59,658	-	-	-	1,575	-	-	-	-	-	61,233
Due from other funds	(18,546)	-	58	(340,920)	-	(25,683)	-	-	-	-	(385,091)
Prepaid expenses and other assets	-	-	(12,727)	-	-	-	-	-	-	-	(12,727)
Net investment in financing lease	523,474	-	-	-	-	-	-	-	-	-	523,474
Accounts payable	-	-	-	-	(19,553)	(6,191)	-	-	-	-	(25,744)
Other accrued expenses	-	11,457	7,182	58,157	-	-	-	-	-	-	76,796
Due to other funds	-	-	70	(34,359)	-	(33,111)	-	-	2,543	2,391	(62,466)
Security deposits	-	-	-	109,790	(2,304)	-	-	-	-	-	107,486
Net cash provided by (used in) operating activities	\$ 1,077,178	\$ 7,979	\$ (1,586,847)	\$ 122,385	\$ 56,079	\$ (64,985)	\$ (25,829)	\$ -	\$ 469	\$ 3,459	\$ (410,112)

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Reconciliation of Cash and Short-Term Investments

June 30, 2009

The Corporation's cash and short-term investments consists of the following as of June 30, 2009:

Equity in State Treasury investment pool - Government Wide	\$ 185,547,372
Equity in State Treasury investment pool - Fiduciary Funds	203,484
Cash in banks	2,651,444
Cash and cash equivalents held by trustees	28,489,974
Deposits held in trust	5,717
	<u>\$ 216,897,991</u>

Total cash and short-term investments are in agreement with the State Comptroller's central accounting records as of June 30, 2009, as reconciled below:

	Appropriation symbol	June 30, 2009
Cash in State Treasury		
Bond Funds	B-07-403-B	\$ 240,252
General Funds	G-09-409-B	26,000,000
Special Funds		
	S-02-800-B	203,484
	S-07-375-B	301,122
	S-08-375-B	931,870
	S-09-213-B	6,529
	S-09-314-B	300,000
	S-09-316-B	167,922
	S-09-320-B	286,085
	S-09-321-B	124,678
	S-09-325-B	40,281
	S-09-339-B	428,925
	S-09-374-B	64,512
	S-09-375-B	80,582,928
	S-09-376-B	2,576,447
	S-09-377-B	501,018
	S-09-378-B	26,174,640
Trust Funds	T-09-930-B	<u>82,599,698</u>
Total cash held in State Treasury, as reported by State Comptroller's accounting records carried forward		<u>\$ 221,530,391</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Reconciliation of Cash and Short-Term Investments

June 30, 2009

	June 30, 2009
	<u> </u>
Subtotal brought forward	\$ 221,530,391
Reconciling items:	
Journal vouchers not recorded by DAGS	200
Reflected as Due from State on Statement of Net Assets	(26,240,252)
Fair value adjustment - cash held in State Treasury Investment Pool	(9,540,073)
Other	<u>590</u>
	<u>(35,779,535)</u>
Cash and short-term investments held outside State Treasury:	
Cash in bank	2,651,444
Cash held by trustees	28,489,974
Deposits held in trust	<u>5,717</u>
	<u>31,147,135</u>
Cash and short-term investments on Statement of Net Assets	<u><u>\$ 216,897,991</u></u>

See accompanying independent auditor's report.

SECTION II

COMPLIANCE AND INTERNAL CONTROL

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

The Auditor
State of Hawaii

Board of Directors
Hawaii Housing Finance and Development Corporation

We have audited the financial statements of the Hawaii Housing Finance and Development Corporation (the Corporation) as of and for the year ended June 30, 2009, and have issued our report thereon dated March 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. Significant deficiencies are described in the accompanying schedule of findings and questioned costs as item 09-01.

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

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

might be significant deficiencies or material weaknesses. However, we consider the significant deficiency described above, item 09-01, to be a material weakness.

Compliance and Other Matters

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

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

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 29, 2010



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

The Auditor
State of Hawaii

Board of Directors
Hawaii Housing Finance and Development Corporation

Compliance

We have audited the compliance of Hawaii Housing Finance and Development Corporation (Corporation) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, *Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2009. The Corporation's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2009.

Internal Control Over Compliance

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

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

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

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

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 29, 2010

Hawaii Housing Finance and Development Corporation

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2009

<u>Federal Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures ^{1,2}</u>
U.S. Department of Housing and Urban Development:		
HOME Investment Partnership Program	14.239	\$ 6,451,084
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii - Neighborhood Stabilization Program	14.228	65,200
U.S. Department of Treasury:		
Passed through The Neighborhood Reinvestment Corporation - National Foreclosure Mitigation Counseling	21.000	157,206
Total federal expenditures		<u>\$ 6,673,490</u>

¹ The accompanying schedule of expenditures of federal awards is prepared on the accrual basis of accounting.

² Of the federal expenditures presented in the schedule, the Corporation provided federal awards to subrecipients totaling \$6,357,532.

The accompanying notes are an integral part of this schedule.

Hawaii Housing Finance and Development Corporation

Schedule of Findings and Questioned Costs
Year ended June 30, 2009

Section I – Summary of Auditor's Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number	Name of Federal Program
14.239	HOME Investment Partnership Program

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

Auditee qualified as low-risk auditee? ☐ Yes ☒ No

Hawaii Housing Finance and Development Corporation

Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2009

Section II – Financial Statement Findings

Finding No.: 09-01 Financial Reporting

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

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

Effect: The Corporation's financial statements reflect ongoing estimates related to the sufficiency of certain liabilities and the realizability of certain assets. The most significant of these estimates are the \$32.9 million of estimated costs to complete the Kapolei project and the realizability of \$19.7 million of development costs related to the Leialii project. For these examples, management annually updates project status reports, but these reports generally roll forward stale-dated information and do not document certain key issues, such as management's conclusions as to the sufficiency of the estimates to complete the Kapolei project or the realizability of development costs related to the Leialii project. In order to complete the auditing of these estimates, it was necessary for the audit team to have discussions with management to obtain sufficient support related to the representations included in these estimates.

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

Hawaii Housing Finance and Development Corporation

Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2009

Section II – Financial Statement Findings (continued)

Management Response: Management acknowledges the repeat finding relative to financial reporting. A Corrective Action Plan, dated February 6, 2009, outlines how the existing monitoring processes would be converted into a more formalized risk assessment process to ensure that financial reporting related to changes in operations and/or Management's conclusions are accurately documented in a timely manner. The Fiscal Manager was identified as the lead for development of the formal risk assessment program.

Unfortunately, the Fiscal Manager position has been vacant since mid-2009. Due to the current State budget deficit and resultant hiring freeze, we have not been able to hire a suitable replacement. A request to fill the Fiscal Manager position is under review by the Department of Budget and Finance. Assuming we are able to fill this key position, we anticipate hiring a person with financial expertise in June 2010.

Expected Completion Date: September 2010

Responsible Party: Karen Seddon

Contact Number: (808) 587-0641

Section III – Federal Award Findings and Questioned Costs

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

Section IV – Summary Schedule of Prior Audit Findings

Financial Statement Findings:

Finding No.: 08-01 Financial Reporting

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

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

Hawaii Housing Finance and Development Corporation

Schedule of Findings and Questioned Costs (continued)

Year ended June 30, 2009

Section IV – Summary Schedule of Prior Audit Findings (continued)

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

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

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

Current Year Status: Finding still applicable. See 09-01.

Hawaii Housing Finance and Development Corporation

Schedule of Findings and Questioned Costs (continued)
Year ended June 30, 2009

Section IV – Summary Schedule of Prior Audit Findings (continued)

Federal Award Findings and Questioned Costs:

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