# KEKUILANI GARDENS

# FmHA PROJECT No. 02-06

# FINANCIAL STATEMENTS

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**Year Ended June 30, 2009**

Submitted by

THE AUDITOR
STATE OF HAWAII

ENDO & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

June 16, 2010

Board of Directors
State of Hawaii
Hawaii Housing Finance and
Development Corporation
677 Queen Street, Suite 300
Honolulu, Hawaii 96813

Herein we submit our report on the financial statements of the Kekuilani Gardens, FmHA Project No. 02-06 (the "Project"), as of and for the year ended June 30, 2009. Our audit was performed in accordance with the terms of our contract with the Project.

**Objectives of the Audit**

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Project's financial statements as of and for the year ended June 30, 2009.

More specifically, the objectives of the audit are as follows:

1. To conduct a general audit of the financial transactions and accounting records of the Project, in order to provide a basis for an opinion on the financial statements of the Project.

2. To ascertain whether or not expenditures have been made and all revenues and other receipts to which the Project is entitled have been collected and accounted for in accordance with laws, rules and regulations, and policies and procedures of the State of Hawaii, Hawaii Housing Finance and Development Corporation (the "Corporation") and, where applicable, the federal government.

3. To examine internal controls to determine its adequacy in assuring that there is effective control over and proper accounting of revenues, expenditures, assets and liabilities.

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4. To determine whether the Project has complied with the laws and regulations that may have a material effect on the financial statements.

5. To determine the current status of the audit recommendations included in the prior year's report on compliance and internal control.

## Scope of the Audit

Our audit was performed in accordance with generally accepted auditing standards as prescribed by the American Institute of Certified Public Accountants and *Government Auditing Standards,* issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the Project for the year ended June 30, 2009.

## Organization of the Report

This report is presented in three parts as follows:

- The management's discussion and analysis
- The financial statements and related notes of the Project as of and for the year ended June 30, 2009, and our opinion on the financial statements.
- Other required report.

We would like to express our appreciation to the personnel of the State of Hawaii, Hawaii Housing Finance and Development Corporation, and in particular to Mr. Peter Nelson, Ms. Cynthia Okubo, the staff of Realty Laua for the assistance and cooperation we received during the course of our audit.

Yours truly,

Jack Endo

ENDO & COMPANY

## KEKUILANI GARDENS

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# MANAGEMENT'S DISCUSSION AND ANALYSIS

KEKUILANI GARDENS

MANAGEMENT'S DISCUSSION
AND ANALYSIS

June 30, 2009 and 2008

This section of the Kekuilani Gardens, FmHA Project No. 02-06 (the "Project") annual financial report presents management's discussion and analysis of the Project's financial performance during the year ended June 30, 2009. It should be read in conjunction with the Project's financial statements which follows this section.

## Financial Highlights

- The Project's deficit in total net assets increased by $163,000 in 2009 over 2008, an increase of 45.8%.
- The Project's rental income increased by $7,000 in 2009 over 2008, an increase of 1.7%.
- Low investment yields and approved withdrawals to cover operating expenditures resulted in a decrease in investment income of $12,000, a 80.0% decrease in 2009 over 2008.
- The Project's general operating and administrative expenses increased by $39,000 in 2009 over 2008, an increase of 12.4%.

## Overview of the Financial Statements

The financial statements consists of three (3) parts: management's discussion and analysis, the financial statements and notes to financial statements, and other report. These components are described below:

*Financial Statements*

The financial statements reports information about the Project using accounting methods similar to those used by private sector companies. The *Statement of Net Assets* provide both short-term and long-term information about the Project's financial position, and reflects the Project's financial condition at the end of the year. All of the current year's revenues and expenses are accounted for in the *Statement of Revenue, expense and change in net assets* on an accrual basis, i.e., revenues are recognized when earned and expenses recognized when incurred.

**Overview of the Financial Statements** (continued)

The *Statement of Net Assets* presents all of the Project's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the Project's net assets may serve as an useful indicator of whether the financial position of the Project is improving or deteriorating.

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information reflecting changes in the Project's net assets during the year, i.e. the results of its operations for the fiscal year.

The *Notes to Financial Statements* explains information reflected in the financial statements.

*Other Report*

Following the *Notes to Financial Statements* is the *Report on Compliance and on Internal Control Over Financial Reporting.*

KEKUILANI GARDENS

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009 and 2008

## Financial Analysis

As mentioned previously, the *Statement of Net Assets* serves as an indicator of the Project's financial position. The Statement of Net Assets includes all the Project's assets and liabilities, and provides information about the nature and the amounts of investment in resources (assets) and the obligations (liabilities) of the Project.

As of June 30, 2009 and 2008, the Project's net assets were as follows:

| | (Rounded to the nearest $1,000) | |
|---|---|---|
| | 2009 | 2008 |
| ASSETS | | |
| Current assets | $ 26,000 | $ 49,000 |
| Deposits held in trust | 33,000 | 31,000 |
| Restricted deposits and funded reserves | 459,000 | 591,000 |
| Capital assets, net of accumulated depreciation | 4,634,000 | 4,640,000 |
| TOTAL ASSETS | $ 5,152,000 | $ 5,311,000 |
| LIABILITIES | | |
| Current liabilities | $ 132,000 | $ 87,000 |
| Long-term liabilities | 5,539,000 | 5,580,000 |
| TOTAL LIABILITIES | 5,671,000 | 5,667,000 |
| NET ASSETS | | |
| Invested in capital assets, net of debt | (912,000) | (945,000) |
| Restricted | 459,000 | 591,000 |
| Unrestricted | (66,000) | (2,000) |
| TOTAL NET ASSETS (DEFICIT) | (519,000) | (356,000) |
| TOTAL LIABILITIES AND NET ASSETS | $ 5,152,000 | $ 5,311,000 |

**Financial Analysis** (continued)

Net assets of the Project decreased by $163,000 from a deficit of $356,000 in 2008 to a deficit of $519,000 in 2009.

Capital assets are used to provide housing to low and moderate income persons. Although the Project's investment in its capital assets is reported net of debt, the resources needed to repay this debt must be provided by other sources, since the capital assets, mainly the building, cannot be used to liquidate these liabilities.

Restricted assets are held in separate accounts with the mortgagee and are generally not available for operating purposes. Unrestricted assets, if available, may be used to finance day to day operations without any constraints established by debt, or other legal requirements.

The changes in net assets reflects the Project's current year's revenues and expenses on an accrual basis of accounting. The changes in net assets for the years ended June 30, 2009 and 2008, are follows:

| | (Rounded to the nearest $1,000) 2009 | 2008 |
|---|---|---|
| Rental income | $ 418,000 | $ 411,000 |
| Financial revenues | 3,000 | 15,000 |
| Other revenues | 23,000 | 20,000 |
| | 444,000 | 446,000 |
| General operating and administrative expenses | (353,000) | (314,000) |
| Depreciation | (168,000) | (156,000) |
| Deficit before other nonoperating revenues and expenses | (77,000) | (24,000) |
| Other nonoperating revenues and (expenses) | (124,000) | (115,000) |
| Loss before transfer | (201,000) | (139,000) |
| Transfer - CIP | 38,000 | - |
| Decrease in net assets | $ (163,000) | $ (139,000) |

**Financial Analysis** (continued)

The increase in general operating and maintenance expenses from $314,000 in 2008 to $353,000 in 2009, an increase of $39,000 or 12.4%, is principally a result of a increase in professional services.

## Capital Assets and Debt Administration

*Capital Assets*

The Project's investment in capital assets amounted to $4,634,000 and $4,640,000, net of accumulated depreciation of $1,943,000 and $1,774,000 as of June 30, 2009 and 2008, respectively. Capital assets includes land, land improvements, building, furnishings, and portable building equipment. Building represented 76.0% and 75.9% of total capital assets in 2009 and 2008, respectively. See Note (1) of the Project's financial statements for additional information regarding the Project's capital assets.

The Project's capital assets, net of accumulated depreciation are as follows:

| | (Rounded to the nearest $1,000) 2009 | 2008 |
|---|---|---|
| Capital Assets, net of accumulated depreciation | | |
| Building | $ 3,521,000 | $3,520,000 |
| Land | 1,073,000 | 1,073,000 |
| Land improvements | 40,000 | 47,000 |
| TOTAL CAPITAL ASSETS | $ 4,634,000 | $4,640,000 |

## Capital Assets and Debt Administration (continued)

*Debt Administration*

As of June 30, 2009 and 2008, the Project had long-term debt of $5,507,000 and $5,548,000, respectively, which is comprised of an USDA insured mortgage note. See Note (4) of the Project's financial statements for additional information on the mortgage note.

| | (Rounded to the nearest $1,000) 2009 | 2008 |
|---|---|---|
| Mortgage payable | $ 5,546,000 | $5,585,000 |
| Less current portion | (39,000) | (37,000) |
| TOTAL LONG-TERM DEBT | $ 5,507,000 | $5,548,000 |

The Project's total debt decreased by $39,000 and $35,000 in 2009 and 2008, respectively. The Project did not incur additional debt during 2009 and 2008.

## Currently Known Facts, Decisions or Conditions

In the coming fiscal year, the Management company will be working with the Property Management Division of the Corporation to:

1. Continue reviewing Physical Needs Assessment (PNA) and Capital Needs Assessment (CNA) to plan and develop long term projects.

2. Monitor completed exterior repair and painting work as stipulated in the awarded Request for Proposal (RFP).

**Currently Known Facts, Decisions, or Conditions** (continued)

3. Requesting a rent increase that will accommodate the rising operating expenses and allow for the necessary deposits to the replacement funds account.

4. Take the necessary actions to improve the renovation time on vacated units thus maintaining an occupancy rate better than 95%.

5. Closely monitor delinquent accounts for better control and collections.

# FINANCIAL STATEMENTS

ENDO & COMPANY

CERTIFIED
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ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

To The Auditor
State of Hawaii

To the Board of Directors
Hawaii Housing Finance & Development Corporation
Kekuilani Gardens

We have audited the accompanying statement of net assets of

**KEKUILANI GARDENS, FmHA Project No. 02-06** (the "Project"),

as of June 30, 2009, and the related statement of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Project'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Project, as of June 30, 2009, and the changes in its net assets, and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards,* we have also issued a report, dated June 16, 2010, on our consideration of the Project's internal control over financial reporting. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The management's discussion and analysis and the accompanying supplementary information are presented for purposes of additional analysis and is not a required part of the basic financial statements of the Project. Such supplemental 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 financial statements taken as a whole.

This report is intended solely for the information and use of management, others within the organization, State of Hawaii and the U.S. Department of Agriculture and is not intended to be and should not be used by other than these specified parties.

Endo & Company

June 16, 2010
Honolulu, Hawaii

KEKUILANI GARDENS
F.H.A. Project No.: 140-35073-LDI-L8

STATEMENT OF NET ASSETS

June 30, 2009

ASSETS

| | | |
|---|---|---|
| CURRENT ASSETS | | |
| Cash-operations | | $ 6,454 |
| Tenants' rent receivable | 147,844 | |
| Allowance for doubtful accounts | (143,600) | |
| Net Tenant Accounts Receivable | | 4,244 |
| Accounts receivable-USDA | | 13,075 |
| Accounts receivable – operation | | 1,135 |
| Prepaid expenses | | 1,960 |
| TOTAL CURRENT ASSETS | | 26,868 |
| TENANTS DEPOSITS HELD IN TRUST | | 32,859 |
| RESTRICTED DEPOSITS AND FUNDED RESERVES | | |
| Reserve for replacement | 347,186 | |
| Reserve for tax and insurance | 58,860 | |
| General | 53,253 | |
| TOTAL RESTRICTED DEPOSITS AND FUNDED RESERVES | | 459,299 |
| CAPITAL ASSETS, at cost | | |
| Building | 5,317,904 | |
| Land | 1,072,500 | |
| Land improvements | 104,849 | |
| Furniture and equipment | 80,924 | |
| Total Capital Assets | 6,576,177 | |
| Accumulated depreciation | 1,942,655 | |
| NET CAPITAL ASSETS | | 4,633,522 |
| TOTAL ASSETS | | $ 5,152,548 |

The accompanying Notes to Financial Statements is an integral part of this statement.

KEKUILANI GARDENS
F.H.A. Project No.: 140-35073-LDI-L8

# STATEMENT OF NET ASSETS

June 30, 2009

## LIABILITIES

| | | |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts payable-operations | $ 79,792 | |
| Accrued interest payable | 9,346 | |
| Deferred rent | 3,780 | |
| Current portion of mortgage payable | 39,200 | |
| TOTAL CURRENT LIABILITIES | | $ 132,118 |
| LONG-TERM LIABILITIES | | |
| Tenants' security deposits | 32,548 | |
| Mortgage payable, less current portion above | 5,506,654 | |
| TOTAL LONG-TERM LIABILITIES | | 5,539,202 |
| TOTAL LIABILITIES | | 5,671,320 |

## NET ASSETS

| | | |
|---|---|---|
| Unrestricted net assets | (65,739) | |
| Temporarily restricted net assets | 459,299 | |
| Invested in Capital Assets, net of related debt | (912,332) | |
| TOTAL NET ASSETS | | $ (518,772) |

The accompanying Notes to Financial Statements is an integral part of this statement.

KEKUILANI GARDENS
FmHA Project No. 02-06

STATEMENT OF REVENUES, EXPENSE
AND CHANGE IN NET ASSET

Year Ended June 30, 2009

| | |
|---|---|
| REVENUES | |
| Rent revenue | $ 417,482 |
| Financial revenue | 3,356 |
| Other revenue | 23,253 |
| TOTAL REVENUES | 444,091 |
| EXPENSES | |
| Administrative expenses | 91,293 |
| Bad debts | 8,244 |
| Operating and maintenance expenses | 17,569 |
| Salaries and wages | 121,001 |
| Taxes and insurance | 35,175 |
| Utilities | 80,100 |
| TOTAL EXPENSES | 353,382 |
| INCOME FROM OPERATIONS | 90,709 |
| NON-OPERATING INCOME AND (EXPENSE) | |
| Interest subsidy income | 255,801 |
| Depreciation | (168,199) |
| Interest expense | (379,746) |
| TOTAL NON-OPERATING INCOME (EXPENSE) | (292,144) |
| LOSS BEFORE TRANSFER | (201,435) |
| Transfer - CIP | 38,528 |
| CHANGE IN NET ASSETS | (162,907) |
| TOTAL NET ASSETS, beginning of year | (355,865) |
| TOTAL NET ASSETS, end of year | $ (518,772) |

The accompanying Notes to Financial Statements is an integral part of this statement.

KEKUILANI GARDENS
F.H.A. Project No.: 140-35073-LDI-L8

## STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

| | |
|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES: | |
| Rental receipts | $ 411,451 |
| Interest receipts | 3,356 |
| Other operating receipts | 24,066 |
| Total Receipts | 438,873 |
| | |
| Administrative | 72,616 |
| Utilities | 83,566 |
| Taxes and insurance | 28,336 |
| Salaries and wages | 75,420 |
| Operating and maintenance | 25,974 |
| Interest on mortgages | 114,599 |
| Total disbursements | 400,511 |
| | |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 38,362 |
| | |
| CASH FLOW FROM INVESTING ACTIVITIES: | |
| Purchase of capital assets | (123,000) |
| Net change in general reserve | 10,283 |
| Net change in reserve for tax and insurance | (311) |
| Net change in reserve for replacement | 121,243 |
| Net change in tenants' deposits held in trust | (878) |
| | |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 7,337 |
| | |
| CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES - Principal payments of capital debt | (39,245) |
| | |
| NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES | (39,245) |
| | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 6,454 |
| | |
| CASH, beginning of year | - |
| | |
| CASH, end of year | $ 6,454 |

The accompanying Notes to Financial Statements is an integral part of this statement.

KEKUILANI GARDENS
F.H.A. Project No.: 140-35073-LDI-L8

STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

| | |
|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Change in total net assets from operations | $(201,435) |
| Adjustments to reconcile change in total net assets to net cash provided by operating activities: | |
| Depreciation expense | 168,199 |
| Allowance for doubtful accounts | (2,900) |
| (Increase) decrease in certain asset accounts | |
| Tenants' rent receivable | 22,511 |
| Accounts receivable | 570 |
| Accounts receivable - USDA | 10,848 |
| Prepaid expense | (1,960) |
| Increase (decrease) in certain liability accounts | |
| Accounts payable - operations | 44,322 |
| Bank overdraft | (9,349) |
| Accrued interest | 8,347 |
| Deferred Rent | (791) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | $ 38,362 |

The accompanying Notes to Financial Statements is an integral part of this statement.

# NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

## (1) History of the Project

Kekuilani Gardens, FmHA Project No. 02-06 (the "Project") is a low-income residential housing project purchased by the State of Hawaii, Housing and Community Development Corporation of Hawaii (HCDCH) on December 17, 1996. The Project is located in Kapolei, Hawaii and consists of 56 two-bedroom apartments in seven two-story, walk-up, multifamily buildings, including one apartment unit being used as the resident manager's lodging.

In accordance with Act 92, SLH 2003, effective July 1, 2003, the functions and employees of HCDCH were transferred to the State of Hawaii, 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. Effectively July 1, 2006 HCDCH was bifurcated into (1) the Hawaii Public Housing Administration and (2) the Hawaii Housing Finance and Development Corporation (the "Corporation"). The Project falls under the management of the Corporation.

The accompanying financial statements are those of the Project and do not represent the financial statements of the Corporation.

## (2) Summary of significant accounting policies

The significant accounting policies followed by the Project are summarized below:

**Basis of accounting** - The financial statements of the Project are prepared on the accrual basis of accounting.

(2) Summary of significant accounting policies (continued)

**Reporting Entity** - The Corporation is administratively attached to the State of Hawaii, Department of Business, Economic Development and Tourism.

**Capital Assets** - Building, land improvements, equipment and furniture are reflected in the Statement of Net Assets at cost. Depreciation expense is computed by the straight-line method over estimated lives from one to one hundred years, as follows:

| | |
|---|---|
| Building | 5 - 100 years |
| Land improvements | 5 - 100 years |
| Furniture and equipment | 1 - 25 years |

Effective July 1, 2001, the Project adopted the policy of capitalizing only equipment and furniture with acquisition amounts of $5,000 or more. Equipment and furniture with acquisition amounts of $5,000 or less acquired before July 1, 2001 will continue to be depreciated in accordance with the policies previously established.

**Use of estimates** - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain 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 expenses during the reporting period. Actual results could differ from those estimates.

**Rental income** - Rental income is recognized under the operating method whereby income is recognized as rents becomes due and expenses including depreciation, are charged against such revenue as incurred. Generally, rental arrangements with tenants are initially for a one year period. The resident manager is given free rent and a salary for services rendered. A significant portion of the Project's rent revenue is received as rental subsidies from the U.S. Department of Agriculture.

(2) Summary of significant accounting policies (continued)

**Statement of cash flows** - For purposes of the statement of cash flows, the Project considers all highly liquid investments purchased with an original maturity of three months or less to be cash or cash equivalents.

(3) Capital Assets

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

| | Balance July 1, 2008 | Additions | Deductions | Balance June 30, 2009 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 1,072,500 | $ - | $ - | $ 1,072,500 |
| Total capital assets not being depreciated | 1,072,500 | - | - | 1,072,500 |
| Capital assets being depreciated: | | | | |
| Buildings | 5,156,376 | 161,528 | - | 5,317,904 |
| Land improvements | 104,849 | - | - | 104,849 |
| Furniture and equipment | 80,924 | - | - | 80,924 |
| Total capital assets being depreciated | 5,342,149 | 161,528 | - | 5,503,677 |
| Total capital assets | 6,414,649 | 161,528 | - | 6,576,177 |
| Less accumulated depreciation for: | | | | |
| Buildings | 1,636,538 | 160,621 | - | 1,797,159 |
| Land improvements | 57,416 | 7,504 | - | 64,920 |
| Furniture and equipment | 80,502 | 74 | - | 80,576 |
| Total accumulated depreciation | 1,774,456 | 168,199 | - | 1,942,655 |
| Total capital assets, net | $ 4,640,193 | $ (6,671) | $ - | $ 4,633,522 |

(4) Mortgage payable

| | |
|---|---|
| The Project entered into a mortgage agreement in December, 1996 in the amount of $5,213,614 with the U. S. Department of Agriculture Rural Development. The mortgage loan bears interest at 7.25% and is collateralized by the rental property. The monthly installments for principal and interest are $11,059, with a maturity date of December 1, 2046. | $4,999,796 |
| The Project entered into a mortgage agreement in December 1996 in the amount of $696,267 with the Rental Housing Trust Fund Commission. The mortgage loan bears interest at 1.0% and is collateralized by the rental property. Beginning in the sixth year of the loan, the principal and interest payments will be supplemented by annual payments equal to 25% of the annual net cash flow available from the Project and used to pay down the principal. The monthly installments for principal and interest are $1,475, with a maturity date of December 5, 2046. | 546,058 |
| Total mortgage payable | 5,545,854 |
| Less: Current portion | (39,200) |
| Long -term portion | $5,506,654 |

KEKUILANI GARDENS
FmHA Project No. 02-06

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(4) Mortgage payable (continue)

As part of the mortgage agreement with the U. S. Department of Agriculture, the Project entered into an Interest Credit and Rental Assistance Agreement which reduces the Project's principal and interest payments. During the period the Project realized $255,801 of interest credits which reduced interest expense from $379,746 to $123,945.

As of June 30, 2009, aggregate principal and interest maturities for the next five years and thereafter are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2010 | $ 39,200 | $ 367,017 | $ 406,217 |
| 2011 | 41,343 | 364,876 | 406,219 |
| 2012 | 43,636 | 362,583 | 406,219 |
| 2013 | 46,093 | 360,126 | 406,219 |
| 2014 | 48,726 | 357,492 | 406,218 |
| 2015-2019 | 290,266 | 1,740,828 | 2,031,094 |
| 2020-2024 | 391,324 | 1,639,770 | 2,031,094 |
| 2025-2029 | 535,080 | 1,496,014 | 2,031,094 |
| 2030-2034 | 740,057 | 1,291,037 | 2,031,094 |
| 2034-2038 | 1,032,838 | 998,256 | 2,031,094 |
| 2039-2043 | 1,451,574 | 579,519 | 2,031,093 |
| 2044-2046 | 885,717 | 78,603 | 964,320 |
| | $ 5,545,854 | $ 9,636,121 | $ 15,181,975 |

(5) Restricted deposits

Under the Regulatory Agreement, the Project is required to set aside amounts for the replacement of property and other project expenditures approved by the U. S. Department of Agriculture and Rural Development. The restricted funds of $459,299 on June 30, 2009, are held in separate accounts and generally are not available for operating purposes.

(5) Restricted deposits (continue)

Use of the reserve account is contingent upon the U. S. Department of Agriculture and Rural Development's prior written approval.

(6) Rent increases

Under the Regulatory Agreement, the Project may not increase rents charged to tenants without the prior approval by U. S. Department of Agriculture and Rural Development.

(7) Management fee

The management agreement was extended from February 1, 2009 to March 31, 2009 with Realty Laua LLC for monthly rental fee of $2,090 plus related taxes. On April 1, 2009 the Project entered into a three year management agreement with Realty Laua LLC with two options to extend for an additional one year period for a total not to exceed $122,000. The management fee was $25,080 for 2009. In addition, the managing agent also performs bookkeeping, maintenance and payroll functions for the Project. For the year ended June 30, 2009, the Project reimbursed the managing agent $156,176 for payroll, related payroll taxes and insurance expense.

(8) Housing assistance payment contract

The Project receives housing assistance payments on behalf of qualified tenants in accordance with the Multiple Family Housing Interest Credit and Rental Assistance Agreement with the U. S. Department of Agriculture Farmer's Home Administration.

(9) Property and liability insurance

Since the Corporation is a component of the State of Hawaii, the Project is covered under the property and liability insurance policy of the State of Hawaii which insures real and personal property in the amount of $10,000,000.

(10) Current vulnerability due to certain concentration

The Project's sole asset is a 56-unit apartment project. The Project's operations are concentrated in the multifamily real estate market located in Kapolei, Hawaii. In addition, the Project operates in a heavily regulated environment. The operations of the Project are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, the U. S. Department of Agriculture Farmer's Home Administration (USDA Farmer's Home). Such administrative directives, rules and regulations are subject to changes by an act of congress or administrative changes mandated by USDA Farmer's Home. Such changes may occur with little notice or adequate funding to pay for the related cost, including the additional administrative burden, to comply with the changes.

# REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

ENDO & COMPANY

CERTIFIED
PUBLIC
ACCOUNTANTS

# REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Auditor
State of Hawaii

To the Board of Directors
Hawaii Housing Finance and Development Corporation
Kekuilani Gardens

We have audited the financial statements of

**KEKUILANI GARDENS, FmHA Project No. 02-06** (the "Project"),

as of and for the year ended June 30, 2009, and have issued our report thereon dated June 30, 2009. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standard,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Project's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives, and circulars, 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,

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Internal Control Over Financial Reporting

we do not express such an opinion. We noted no matters involving noncompliance over financial reporting and its operations that we considered to be material weaknesses required to be reported under *Government Auditing Standard.*

In planning and performing our audit, we considered the Project's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal controls over financial reporting would not necessarily disclose all matters in internal controls that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended solely for the information and use of the board of commissioner, management, others within the organization and U. S. Department of Agriculture and is not intended to be and should not be used by anyone other than these specified parties.

Endo & Company

June 16, 2010
Honolulu, Hawaii