

**State of Hawai'i  
Hawaii Housing Finance and  
Development Corporation**  
Financial and Compliance Audit  
June 30, 2012

Submitted by  
The Auditor  
State of Hawai'i

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**Hawaii Housing Finance and Development Corporation**  
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**June 30, 2012**

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**PART I**  
**Financial Statements**

## Report of Independent Auditors

The Auditor  
State of Hawai'i

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the Corporation) as of and for the year ended June 30, 2012, which collectively comprise the Corporation's basic financial statements as listed in the index. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Corporation are intended to present the financial position, changes in financial position and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawai'i that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the State of Hawai'i as of June 30, 2012, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Corporation, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the Neighborhood Stabilization Program and Low Income Housing Tax Credit funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2012 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The combining and individual non-major fund financial statements and reconciliation of cash and short-term investments are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The combining and individual non-major fund financial statements, reconciliation of cash and short-term investments, and schedule of expenditures of federal awards are the responsibility of management, and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Accuity LLP

Honolulu, Hawai'i  
December 10, 2012

# State of Hawai'i

## Hawaii Housing Finance and Development Corporation

### Management's Discussion and Analysis

#### June 30, 2012

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The management of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the Corporation) offers readers of the Corporation's financial statements this narrative overview and analysis of their financial activities for the fiscal year ended (FYE) June 30, 2012. This document should be read in conjunction with the audited financial statements. All amounts presented in tables, unless otherwise indicated, are expressed in thousands of dollars.

#### **Introduction**

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

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

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

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

This discussion and analysis is intended to serve as an introduction to the financial statements of the Corporation for the period ended June 30, 2012. The financial statements consist of Management's Discussion and Analysis, the basic financial statements, related notes to the financial statements and other required supplementary information. These components are described below:

#### **Basic Financial Statements**

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

- The first two statements are Corporation-wide financial statements that provide information about the Corporation's overall financial position and results of operations. These statements are presented on an accrual basis of accounting and consist of the Statement of Net Assets and the Statement of Activities.
- The remaining statements are the fund financial statements of the Corporation's governmental funds, for which activities are funded primarily from appropriations from the State, the Corporation's major and non-major proprietary funds, which operate similar to business-type activities, and the Corporation's fiduciary fund. The governmental funds are presented on a modified accrual basis of accounting while the proprietary and fiduciary funds are presented on an accrual basis of accounting.
- The basic financial statements also present budgetary comparison statements, which are required.

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

**Government-wide Financial Statements**

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

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

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

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

**Fund Financial Statements**

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

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The Corporation has three types of funds:

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

**Notes to Financial Statements**

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

**Supplementary Information**

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

Supplementary information also includes the Schedule of Expenditures of Federal Awards (SEFA). The SEFA reports federal awards to the Corporation on an accrual basis of accounting for the year ended June 30, 2012.

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**Government-wide Financial Analysis**

As noted earlier, the *statement of net assets* presents all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of the Corporation's financial statements. As indicated below, as of June 30, 2012, the Corporation's total net asset balance was approximately \$543,291,000, an increase of \$45,333,000 (or 9.1%) from the previous year.

**Government-Wide Condensed Statement of Net Assets**  
**June 30, 2012 and 2011**  
**(in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2012	2011	2012	2011	2012	2011	
Current assets	\$ 33,032	\$ 6,507	\$ 213,132	\$ 317,252	\$ 246,164	\$ 323,759	-24.0%
Assets held by trustee	-	-	259,351	267,712	259,351	267,712	-3.1%
Capital assets	139	237	96,850	102,335	96,989	102,572	-5.4%
Other assets	9,862	9,862	461,331	340,270	471,193	350,132	34.6%
Total assets	\$ 43,033	\$ 16,606	\$ 1,030,664	\$ 1,027,569	\$ 1,073,697	\$ 1,044,175	2.8%
Current liabilities	\$ 32	\$ 7	\$ 80,686	\$ 131,987	\$ 80,718	\$ 131,994	-38.8%
Long-term liabilities	-	-	449,688	414,223	449,688	414,223	8.6%
Total liabilities	32	7	530,374	546,210	530,406	546,217	-2.9%
Net assets							
Invested in capital assets, net of related debt	139	237	27,584	29,683	27,723	29,920	-7.3%
Restricted	9,862	9,862	233,151	242,363	243,013	252,225	-3.7%
Unrestricted	33,000	6,500	239,555	209,313	272,555	215,813	26.3%
Total net assets	43,001	16,599	500,290	481,359	543,291	497,958	9.1%
Total liabilities and net assets	\$ 43,033	\$ 16,606	\$ 1,030,664	\$ 1,027,569	\$ 1,073,697	\$ 1,044,175	2.8%

Current assets decreased by approximately \$77,595,000 (or 24%) during 2012 primarily related to decreases in cash and cash equivalents and investments in State Treasury of approximately \$60,723,000, a decrease in current receivables of \$43,388,000, and an increase in the due from State of Hawai'i of \$26,500,000. The decrease in receivables comprised of decreases in mortgage loans of approximately \$47,762,000 offset by increases in notes and loans receivable of approximately \$1,536,000 and an increase in accrued interest of approximately \$2,921,000.

Assets held by trustee result from the trust indentures of the revenue bond funds requiring cash and investments to be held by a trustee. These assets decreased by approximately \$8,361,000 (or 3.1%) during 2012 due primarily to a net decrease in the bonds payable of approximately \$6,068,000 in the Multifamily Housing Revenue Bond Fund and a net decrease of approximately \$7,215,000 in the Single Family Mortgage Purchase Revenue Bond Fund due to either repayments or defeasance. 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 \$9,212,000 (or 3.7%) during 2012.

Capital assets decreased by approximately \$5,583,000 (or 5.4%) during 2012 primarily due to depreciation expense of \$5,240,000.

Other assets increased by approximately \$121,061,000 (or 34.6%) during 2012 primarily due to an increase of approximately \$96,184,000 of new mortgage loans issued by the Rental Housing Trust Fund and the Multifamily Housing Revenue Bond Fund (primarily related to the Hale Mohalu II, Koo'loa'ula Apartments, and Wilikina Apartments Projects) and an increase in notes and loans of approximately

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\$27,282,000 issued by the Dwelling Unit Revolving Fund primarily related to the Kamakana Villages, Holomua, Meheula Senior Project, and the Maili III Self Help Project.

Current liabilities decreased by approximately \$51,276,000 (or 38.8%) during 2012 primarily due to a decrease in the current portion of revenue bonds payable of approximately \$51,225,000.

Long-term liabilities increased by approximately \$35,465,000 (or 8.6%) primarily due to the issuance of revenue bonds (relating to the Hale Mohalu II, Koo‘loa‘ula Apartments, and Wilikina Apartments Projects).

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

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

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

**Government-Wide Statement of Activities**  
**Years Ended June 30, 2012 and 2011**  
**(in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2012	2011	2012	2011	2012	2011	
<b>Revenues</b>							
Program revenues							
Charges for services	\$ -	\$ -	\$ 41,829	\$ 40,562	\$ 41,829	\$ 40,562	3.1%
Operating grants and contributions	17,989	48,642	7,315	5,706	25,304	54,348	-53.4%
General revenues							
State allotted appropriations, net of lapses	36,500	36,500	-	-	36,500	36,500	0.0%
Net increase (decrease) in fair value of equity in cash and cash equivalents and investments in State Treasury	-	-	(444)	4,125	(444)	4,125	-110.8%
Total revenues	<u>54,489</u>	<u>85,142</u>	<u>48,700</u>	<u>50,393</u>	<u>103,189</u>	<u>135,535</u>	-23.9%
<b>Expenses</b>							
Governmental activities							
Expenditures	18,087	38,894	-	-	18,087	38,894	-53.5%
Business-type activities							
Rental assistance program	-	-	1,765	1,623	1,765	1,623	8.7%
Housing development program	-	-	5,784	5,368	5,784	5,368	7.7%
Multi-family mortgage loan programs	-	-	5,096	2,699	5,096	2,699	88.8%
Single-family mortgage loan program	-	-	6,278	6,594	6,278	6,594	-4.8%
Rental housing program	-	-	18,951	18,847	18,951	18,847	0.6%
Others	-	-	1,895	1,577	1,895	1,577	20.2%
Total expenses	<u>18,087</u>	<u>38,894</u>	<u>39,769</u>	<u>36,708</u>	<u>57,856</u>	<u>75,602</u>	-23.5%
Net change before transfers	36,402	46,248	8,931	13,685	45,333	59,933	-24.4%
Transfers	(10,000)	(30,000)	10,000	29,013	-	(987)	-100.0%
Change in net assets	<u>26,402</u>	<u>16,248</u>	<u>18,931</u>	<u>42,698</u>	<u>45,333</u>	<u>58,946</u>	-23.1%
<b>Net assets</b>							
Beginning of year	<u>16,599</u>	<u>351</u>	<u>481,359</u>	<u>438,661</u>	<u>497,958</u>	<u>439,012</u>	13.4%
End of year	<u>\$ 43,001</u>	<u>\$ 16,599</u>	<u>\$ 500,290</u>	<u>\$ 481,359</u>	<u>\$ 543,291</u>	<u>\$ 497,958</u>	9.1%

# State of Hawai'i

## Hawaii Housing Finance and Development Corporation

### Management's Discussion and Analysis

#### June 30, 2012

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#### Governmental Activities

For the fiscal year ended June 30, 2012, total net assets of the governmental activities increased by approximately \$26,402,000, from \$16,599,000 in 2011 to \$43,001,000 in 2012. The increase is primarily due to the State allotted Capital Improvements Program (CIP) of \$ 26,000,000 related to the Senior Residence at Iwilei, \$10,000,000 Rental Housing Trust Fund Infusion, and \$7,000,000 Low Income Housing Tax Credit Loans, net of \$16,500,000 in State allotted appropriations that were transferred to other funds or lapsed in 2012.

#### Business-type Activities

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

For the fiscal year ending June 30, 2012, business-type activities increased the Corporation's net assets by approximately \$18,931,000 after transfers of \$10,000,000. Key elements of this increase are as follows:

- Total revenues of \$48,700,000 exceeded total expenses by \$8,931,000. Revenues primarily consisted of \$41,829,000 in charges for services for 2012, while the \$39,769,000 in expenses primarily consisted of operating expenses for the Corporation's various business-type functions.
- Net transfers increased net assets by the \$10,000,000 General Obligation Bond Fund infusion into the Rental Housing Trust Fund as previously noted in Governmental Activities.

#### Financial Analysis of the Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirement.

#### Governmental Funds

At June 30, 2012, the Corporation's governmental funds reported total fund balances of \$42,862,000.

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

- The *Neighborhood Stabilization Program Fund* was established for the purpose of stabilizing communities that have suffered from foreclosures and abandonment through the purchase and redevelopment of foreclosed and abandoned homes and residential properties. The fund had no ending fund balance at June 30, 2012 as all revenues recognized were expended.
- The *Low Income Housing Tax Credit Fund* is a major financing tool for non-profit and for-profit developers to construct or rehabilitate affordable rental housing. Under the program, HHFDC awards federal and state tax credits that may be used to obtain a dollar-for-dollar offset (tax credit) in income tax liability for 10 years or may be syndicated to generate substantial project equity. The fund had no ending fund balance at June 30, 2012 as all revenues recognized were expended.

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- The *General Obligation Bond Fund* is used to transfer proceeds from the State's issuance of general obligation bonds to the Corporation for subsequent use by the Corporation's other funds. As previously mentioned under Governmental Activities, the fund transferred a total of \$10,000,000 to the Rental Housing Trust Fund during the fiscal year and had a fund balance of \$33,000,000 as of June 30, 2012.

**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 \$21,864,000 in 2012, compared to an increase of \$25,668,000 in 2011. The 2012 increase in net assets consisted of conveyance tax collections of approximately \$10,540,000, loan interest income of \$1,333,000, and \$333,000 of interest on investments, less fair value adjustments of approximately \$190,000 and operating expenses of approximately \$156,000. As previously mentioned, a \$10,000,000 infusion was also made into the Rental Housing Trust Fund.

Conveyance taxes decreased by approximately \$1,450,000 (or 12.1%) to \$10,540,000 in 2012 from \$11,990,000 in 2011, due to a decrease in real estate activity compared to last year. Interest income on cash balances decreased due to lower interest yields. The fair value adjustment related to the fund's share of the State Treasury Investment Pool decreased by approximately \$1,959,000 during 2012.

- 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 \$343,000 in 2012, which was due primarily to operating expenses of \$5,784,000 exceeding operating revenues of \$4,382,000 offset by interest income of \$ 1,245,000, and a \$186,000 decrease in the fair value of the fund's equity in cash and cash equivalents and investments in State Treasury.
- The *Hawaii Rental Housing System Revenue Bond Fund* accounts for special funds for housing projects or systems of housing projects financed from proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State. The fund had a loss before transfers of approximately \$1,864,000 in 2012, which was a decrease of approximately \$670,000 (or 26.5%) from the loss before transfers of \$2,534,000 in 2011. The decrease in the loss before transfers is due to an increase in rental revenues.
- The *Single Family Mortgage Purchase Revenue Bond Fund* accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest, and earnings from such loans and investment of such funds. Net assets in the fund increased by approximately \$679,000, as a result of operating and nonoperating revenues of \$4,432,000 and \$2,553,000, respectively, offset by operating expenses of \$5,889,000 and nonoperating expenses of \$418,000.

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- The *Multifamily Housing Revenue Bond Fund* accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing at below market interest rates to facilitate the construction or rehabilitation of affordable housing projects. Net assets in the fund increased by approximately \$30,000 primarily as a result of operating revenues which is comprised mostly of interest income on mortgage loans exceeding operating expenses, which is comprised mostly of interest expense.

**Capital Assets and Debt Administration**

**Capital Assets**

As of June 30, 2012, the Corporation had invested approximately \$96,989,000 (net of accumulated depreciation of \$104,474,000) in a broad range of capital assets. This amount represents a decrease of approximately \$5,583,000 (or 5.4%) over the prior year, primarily due to depreciation expense of \$5,240,000.

**Corporation’s Capital Assets**  
**June 30, 2012 and 2011**  
**(in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total		Percent Change
	2012	2011	2012	2011	2012	2011	
Land	\$ -	\$ -	\$ 43,355	\$ 43,355	\$ 43,355	\$ 43,355	0.0%
Buildings and improvements	-	-	155,122	155,564	155,122	155,564	-0.3%
Equipment	568	568	2,418	2,383	2,986	2,951	1.2%
Total	568	568	200,895	201,302	201,463	201,870	-0.2%
Accumulated depreciation	(429)	(331)	(104,045)	(98,967)	(104,474)	(99,298)	5.2%
Total capital assets, net	\$ 139	\$ 237	\$ 96,850	\$ 102,335	\$ 96,989	\$ 102,572	-5.4%

**Debt Administration**

Through June 30, 2012, approximately \$2.53 billion of revenue bonds have been issued. The revenue bonds are payable solely from the revenues and other monies and assets of the Revenue Bond Funds and other assets of the Corporation pledged under the various bond indentures. Revenue bonds payable, net of premiums and deferred charges, decreased by approximately \$15,765,000 to approximately \$446,544,000 at June 30, 2012 from \$462,309,000 at June 30, 2011. During the year ended June 30, 2012, the Corporation issued \$50,000,000 in new bonds for the Single Family Mortgage Purchase Revenue Bond System and \$62,258,000 in new bonds for the Multifamily Housing System. Bond redemptions were approximately \$57,365,000, \$2,495,000 and \$68,325,000 for the Single Family Mortgage Purchase, Hawaii Rental Housing System and Multifamily Housing Revenue Bond Funds, respectively.

As of June 30, 2012, Moody’s Investors Service’s rating of the Corporation continued to be A2 with a negative outlook. The Corporation’s bond ratings for the Single Family Mortgage Purchase Revenue Bond program were as follows:

- Standard & Poor’s Rating Services: AA+
- Moody’s Investors Service: Aaa
- Fitch Ratings: AAA

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Management’s Discussion and Analysis**  
**June 30, 2012**

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**Currently Known Facts, Decisions or Conditions**

- On July 26, 2012, the Corporation issued \$11,500,000 of Multifamily Housing Revenue Bonds 2012 Series A. Proceeds from the sale of those bonds will be used to finance development and construction of the Senior Residence at Iwilei Project. Concurrently with the issuance of the 2012 Series A, \$21,500,000 of Series B bonds were issued in the form of draw-down bonds. Proceeds from the sale of those bonds will also be used for the Iwilei Project as needed.
- On November 29, 2012, the Corporation issued \$7,350,000 of Multifamily Housing Revenue Bonds 2012 Series. Proceeds from the sale of those bonds will be used for the development and construction of the Hale Makana O Nanakuli project as needed.
- The Corporation is currently exploring options to expand the use of Public-Private Partnerships (PPP) to operate its affordable rental housing projects. A PPP is a contractual arrangement between public and private sector entities that pools together and shares the skills and resources, as well as the risks and rewards, of each sector to achieve the common goal of delivering a public service. Through PPPs, HHFDC expects to achieve a more cost-efficient and effective means of not just developing, but also managing, maintaining, and operating affordable rental housing projects.

**Requests for Information**

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Statement of Net Assets**  
**June 30, 2012**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Assets</b>			
Current assets			
Equity in cash and cash equivalents and investments in State Treasury	\$ 12,568	\$ 160,044,895	\$ 160,057,463
Cash in banks	21,115	2,575,443	2,596,558
Receivables			
Mortgage loans	-	1,253,130	1,253,130
Notes and loans	-	7,713,317	7,713,317
Accrued interest	-	14,300,336	14,300,336
Tenant receivables, less allowance for doubtful accounts of \$2,099,316	-	52,639	52,639
Other receivables, less allowance for doubtful accounts of \$1,758	-	2,585,715	2,585,715
	-	25,905,137	25,905,137
Due from State	33,000,000	-	33,000,000
Due from other governments	91,611	-	91,611
Internal balances	(92,906)	92,906	-
Inventories – development in progress and dwelling units	-	24,099,420	24,099,420
Prepaid expenses and other assets	-	353,796	353,796
Deposits held in trust	-	5,717	5,717
Deferred bond issuance costs	-	55,132	55,132
Total current assets	<u>33,032,388</u>	<u>213,132,446</u>	<u>246,164,834</u>
Assets held by Trustees under revenue bond programs			
Cash and cash equivalents	-	76,274,697	76,274,697
Investments	-	183,076,676	183,076,676
	-	259,351,373	259,351,373
Other receivables	-	815,406	815,406
Due from other State departments	-	11,990,589	11,990,589
Investments	-	7,149,250	7,149,250
Mortgage loans, net of allowance for loan losses of \$321,489	-	344,530,794	344,530,794
Notes and loans, net of current portion	9,861,610	94,936,075	104,797,685
Restricted deposits and funded reserves	-	465,317	465,317
Deferred bond insurance costs, net of current portion	-	1,443,469	1,443,469
Capital assets, net	138,659	96,849,978	96,988,637
Total assets	<u>\$ 43,032,657</u>	<u>\$ 1,030,664,697</u>	<u>\$ 1,073,697,354</u>

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Statement of Net Assets**  
**June 30, 2012**

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Liabilities and Net Assets</b>			
Current liabilities			
Accounts payable	\$ 32,388	\$ 805,833	\$ 838,221
Accrued expenses			
Interest	-	5,565,054	5,565,054
Other	-	3,483,258	3,483,258
Due to other State departments, net	-	3,298,041	3,298,041
Security deposits	-	2,467,311	2,467,311
Note payable	-	13,743	13,743
Mortgages payable	-	45,900	45,900
Revenue bonds payable, net	-	4,981,643	4,981,643
Deferred income	-	23,251,330	23,251,330
Deferred gain on sale of units and land	-	1,848,493	1,848,493
Estimated future costs of development	-	34,925,690	34,925,690
Total current liabilities	<u>32,388</u>	<u>80,686,296</u>	<u>80,718,684</u>
Noncurrent liabilities			
Deferred fees	-	205,872	205,872
Arbitrage rebate payable	-	2,343,466	2,343,466
Note payable	-	196,212	196,212
Mortgages payable	-	5,380,163	5,380,163
Revenue bonds payable, net	-	441,562,354	441,562,354
Total noncurrent liabilities	<u>-</u>	<u>449,688,067</u>	<u>449,688,067</u>
Total liabilities	32,388	530,374,363	530,406,751
Commitments and contingencies			
Net assets			
Invested in capital assets, net of related debt	138,659	27,583,553	27,722,212
Restricted by legislation and contractual agreements	9,861,610	233,151,294	243,012,904
Unrestricted	<u>33,000,000</u>	<u>239,555,487</u>	<u>272,555,487</u>
Total net assets	<u>43,000,269</u>	<u>500,290,334</u>	<u>543,290,603</u>
Total liabilities and net assets	<u>\$ 43,032,657</u>	<u>\$ 1,030,664,697</u>	<u>\$ 1,073,697,354</u>

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Statement of Activities**  
**Year Ended June 30, 2012**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Functions/Programs</b>						
Governmental activities						
Low income housing service and assistance program	\$ 18,087,119	\$ -	\$ 17,988,801	\$ (98,318)	\$ -	\$ (98,318)
Total governmental activities	18,087,119	-	17,988,801	(98,318)	-	(98,318)
Business-type activities						
Rental assistance program	1,765,047	68,700	722,803	-	(973,544)	(973,544)
Housing development program	5,784,211	2,736,667	2,890,412	-	(157,132)	(157,132)
Multi-family mortgage loan program	5,096,274	16,866,316	312,948	-	12,082,990	12,082,990
Single-family mortgage loan program	6,278,211	3,635,106	3,350,306	-	707,201	707,201
Rental housing program	18,950,765	16,886,888	38,605	-	(2,025,272)	(2,025,272)
Others	1,894,352	1,635,215	466	-	(258,671)	(258,671)
Total business-type activities	39,768,860	41,828,892	7,315,540	-	9,375,572	9,375,572
Total	\$ 57,855,979	\$ 41,828,892	\$ 25,304,341	(98,318)	9,375,572	9,277,254
<b>General revenues</b>						
State allotted appropriations, net of lapses				36,500,000	-	36,500,000
Net transfers				(10,000,000)	10,000,000	-
Net decrease in fair value of equity in cash and cash equivalents and investments in State Treasury				-	(444,023)	(444,023)
Total general revenues and transfers				26,500,000	9,555,977	36,055,977
Change in net assets				26,401,682	18,931,549	45,333,231
<b>Net assets</b>						
Beginning of year				16,598,587	481,358,785	497,957,372
End of year				\$ 43,000,269	\$ 500,290,334	\$ 543,290,603

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2012**

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	<b>Neighborhood Stabilization Program Fund</b>	<b>Low Income Housing Tax Credit Fund</b>	<b>General Obligation Bond Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>					
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ -	\$ -	\$ 12,568	\$ 12,568
Cash in banks	252	264	-	20,599	21,115
Notes and loans receivable	-	-	-	9,861,610	9,861,610
Due from State	-	-	33,000,000	-	33,000,000
Due from other governments	67,981	-	-	23,630	91,611
Total assets	<u>\$ 68,233</u>	<u>\$ 264</u>	<u>\$ 33,000,000</u>	<u>\$ 9,918,407</u>	<u>\$ 42,986,904</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ -	\$ -	\$ -	\$ 32,388	\$ 32,388
Due to other funds	68,233	264	-	24,409	92,906
Total liabilities	<u>68,233</u>	<u>264</u>	<u>-</u>	<u>56,797</u>	<u>125,294</u>
<b>Fund balances</b>					
Restricted	-	-	-	9,861,610	9,861,610
Committed	-	-	33,000,000	-	33,000,000
Total fund balances	<u>-</u>	<u>-</u>	<u>33,000,000</u>	<u>9,861,610</u>	<u>42,861,610</u>
Total liabilities and fund balances	<u>\$ 68,233</u>	<u>\$ 264</u>	<u>\$ 33,000,000</u>	<u>\$ 9,918,407</u>	<u>\$ 42,986,904</u>

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Governmental Funds**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**June 30, 2012**

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Total fund balances – governmental funds		\$ 42,861,610
Amount reported for governmental activities in the statement of net assets are different because		
Capital assets used in governmental activities are not current financial resources and therefore not reported in the funds. These assets consist of the following		
Equipment	\$ 567,704	
Accumulated depreciation	<u>(429,045)</u>	
Total capital assets		<u>138,659</u>
Net assets of governmental activities		<u>\$ 43,000,269</u>

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

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Change in Fund Balances**  
**Year Ended June 30, 2012**

	Neighborhood Stabilization Program Fund	Low Income Housing Tax Credit Fund	General Obligation Bond Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
State allotted appropriations, net of lapses	\$ -	\$ -	\$ 36,500,000	\$ -	\$ 36,500,000
Intergovernmental revenue	6,313,447	8,350,269	-	3,325,085	17,988,801
Total revenue	6,313,447	8,350,269	36,500,000	3,325,085	54,488,801
<b>Expenditures</b>					
Programs	6,183,331	8,350,269	-	3,257,571	17,791,171
Personnel services	83,691	-	-	31,669	115,360
Administration	22,603	-	-	28,534	51,137
Professional services	23,822	-	-	7,311	31,133
Total expenditures	6,313,447	8,350,269	-	3,325,085	17,988,801
Other financing uses					
Transfers out	-	-	(10,000,000)	-	(10,000,000)
Change in fund balances	-	-	26,500,000	-	26,500,000
<b>Fund balances</b>					
Beginning of year	-	-	6,500,000	9,861,610	16,361,610
End of year	\$ -	\$ -	\$ 33,000,000	\$ 9,861,610	\$ 42,861,610

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Governmental Funds**  
**Reconciliation of the Governmental Funds Statement of Revenues,**  
**Expenditures and Change in Fund Balances to the Statement of Activities**  
**Year Ended June 30, 2012**

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Net change in fund balances – total governmental funds		\$ 26,500,000
Amounts reported for governmental activities in the statement of activities are different because		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays during the year		
Depreciation expense	<u>\$ (98,318)</u>	<u>(98,318)</u>
Change in net assets – governmental activities		<u>\$ 26,401,682</u>

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Budgetary Comparison Statement – Neighborhood Stabilization Program Fund**  
**Year Ended June 30, 2012**

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	<b>Original and Final Budgets</b>	<b>Budgetary Actual</b>
<b>Revenues</b>		
Intergovernmental revenue	\$ 6,313,447	\$ 6,313,447
<b>Expenditures</b>		
Programs	6,183,331	6,183,331
Personnel services	83,691	83,691
Administration	22,603	22,603
Professional services	23,822	23,822
Excess of revenues over expenditures	\$ -	-
<b>Fund balance</b>		
Beginning of year		-
End of year		\$ -

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Budgetary Comparison Statement – Low Income Housing Tax Credit Fund**  
**Year Ended June 30, 2012**

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	<b>Original and Final Budgets</b>	<b>Budgetary Actual</b>
<b>Revenues</b>		
Intergovernmental revenue	\$ 8,350,269	\$ 8,350,269
<b>Expenditures</b>		
Programs	<u>8,350,269</u>	<u>8,350,269</u>
Excess of revenues over expenditures	<u>\$ -</u>	-
<b>Fund balance</b>		
Beginning of year		-
End of year		<u>\$ -</u>

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

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Proprietary Funds  
Statement of Net Assets  
June 30, 2012**

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
<b>Assets</b>							
Current assets							
Equity in cash and cash equivalents and investments in State Treasury	\$ 58,204,644	\$ 73,473,396	\$ -	\$ -	\$ -	\$ 28,366,855	\$ 160,044,895
Cash in banks	-	374,665	2,012,748	-	-	188,030	2,575,443
Receivables							
Mortgage loans	389,113	-	-	407,374	456,643	-	1,253,130
Notes and loans	-	7,713,317	-	-	-	-	7,713,317
Accrued interest	4,154,699	7,110,023	-	1,206,590	945,792	883,232	14,300,336
Tenant receivables, less allowance for doubtful accounts of \$2,099,316	-	43,087	-	-	-	9,552	52,639
Other receivables, less allowance for doubtful accounts of \$1,758	-	2,447,143	-	-	109,347	29,225	2,585,715
Total receivables	4,543,812	17,313,570	-	1,613,964	1,511,782	922,009	25,905,137
Due from other funds	-	615,000	-	-	1,070,041	2,187,472	3,872,513
Due from other State departments	-	2,285,563	-	-	-	-	2,285,563
Inventories – development in progress and dwelling units	-	24,099,420	-	-	-	-	24,099,420
Prepaid expenses and other assets	-	200,200	9,797	6,314	-	137,485	353,796
Deposits held in trust	-	-	-	-	-	5,717	5,717
Deferred bond issuance costs	-	-	55,132	-	-	-	55,132
Total current assets	62,748,456	118,361,814	2,077,677	1,620,278	2,581,823	31,807,568	219,197,616
Assets held by Trustees under revenue bond programs							
Cash and cash equivalents	-	-	26,665,396	49,609,301	-	-	76,274,697
Investments	-	-	-	183,076,676	-	-	183,076,676
	-	-	26,665,396	232,685,977	-	-	259,351,373
Other receivables	-	-	815,406	-	-	-	815,406
Due from other State departments	-	11,990,589	-	-	-	-	11,990,589
Investments	-	-	-	-	-	7,149,250	7,149,250
Mortgage loans, net of allowance for loan losses of \$321,489	172,378,803	432,260	-	1,768,249	166,812,146	3,139,336	344,530,794
Notes and loans, net of current portion	-	94,936,075	-	-	-	-	94,936,075
Restricted deposits and funded reserves	-	-	-	-	-	465,317	465,317
Deferred bond issuance costs, net of current portion	-	-	640,080	803,389	-	-	1,443,469
Capital assets, net	-	27,487,599	65,146,965	-	-	4,215,414	96,849,978
Total assets	\$ 235,127,259	\$ 253,208,337	\$ 95,345,524	\$ 236,877,893	\$ 169,393,969	\$ 46,776,885	\$ 1,036,729,867

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

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Proprietary Funds  
Statement of Net Assets  
June 30, 2012**

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
<b>Liabilities and Net Assets</b>							
Current liabilities							
Accounts payable	\$ -	\$ 20,999	\$ 341,415	\$ 34,095	\$ -	\$ 409,324	\$ 805,833
Accrued expenses							
Interest	-	-	2,122,815	2,496,447	945,792	-	5,565,054
Other	60,741	2,128,518	268,616	466,115	71,880	487,388	3,483,258
Due to other funds	186	-	737,456	765,210	-	2,276,755	3,779,607
Due to other State departments	-	5,573,604	-	-	-	10,000	5,583,604
Security deposits	-	73,879	1,103,418	-	-	1,290,014	2,467,311
Note payable	-	13,743	-	-	-	-	13,743
Mortgages payable	-	-	-	-	-	45,900	45,900
Revenue bonds payable, net	-	-	2,585,000	1,940,000	456,643	-	4,981,643
Deferred income	-	23,251,330	-	-	-	-	23,251,330
Deferred gain on sale of units and land	-	1,848,493	-	-	-	-	1,848,493
Estimated future costs of development	-	34,925,690	-	-	-	-	34,925,690
Total current liabilities	60,927	67,836,256	7,158,720	5,701,867	1,474,315	4,519,381	86,751,466
Noncurrent liabilities							
Deferred fees	-	-	-	205,872	-	-	205,872
Arbitrage rebate payable	-	-	-	2,343,466	-	-	2,343,466
Note payable	-	196,212	-	-	-	-	196,212
Mortgages payable	-	-	-	-	-	5,380,163	5,380,163
Revenue bonds payable, net	-	-	87,710,803	187,039,405	166,812,146	-	441,562,354
Total noncurrent liabilities	-	196,212	87,710,803	189,588,743	166,812,146	5,380,163	449,688,067
Total liabilities	60,927	68,032,468	94,869,523	195,290,610	168,286,461	9,899,544	536,439,533
Commitments and contingencies							
Net assets							
Invested in capital assets, net of related debt	-	27,277,644	1,516,558	-	-	(1,210,649)	27,583,553
Restricted by legislation and contractual agreements	-	-	-	232,685,977	-	465,317	233,151,294
Unrestricted	235,066,332	157,898,225	(1,040,557)	(191,098,694)	1,107,508	37,622,673	239,555,487
Total net assets	235,066,332	185,175,869	476,001	41,587,283	1,107,508	36,877,341	500,290,334
Total liabilities and net assets	\$ 235,127,259	\$ 253,208,337	\$ 95,345,524	\$ 236,877,893	\$ 169,393,969	\$ 46,776,885	\$ 1,036,729,867

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Change in Net Assets**  
**Year Ended June 30, 2012**

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
<b>Operating revenues</b>							
Interest on mortgages, notes, loans and mortgage-backed securities	\$ 1,332,554	\$ 1,645,548	\$ -	\$ 3,634,710	\$ 4,504,493	\$ 117,716	\$ 11,235,021
Net increase in fair value of mortgage-backed securities	-	-	-	797,262	-	-	797,262
Conveyance tax	10,540,247	-	-	-	-	-	10,540,247
Rental	-	1,850,596	15,397,254	-	-	580,737	17,828,587
Other	5,028	886,071	912,098	396	483,365	1,583,005	3,869,963
Total operating revenues	<u>11,877,829</u>	<u>4,382,215</u>	<u>16,309,352</u>	<u>4,432,368</u>	<u>4,987,858</u>	<u>2,281,458</u>	<u>44,271,080</u>
<b>Operating expenses</b>							
Programs	-	1,546,648	8,132,763	-	-	-	9,679,411
Personnel services	96,094	2,838,548	208,091	687,734	137,330	1,565,393	5,533,190
Depreciation	-	177,110	4,803,613	-	-	161,365	5,142,088
Housing assistance payments	-	-	-	-	-	1,606,420	1,606,420
Administration	34,194	943,662	75,609	286,571	15,687	404,753	1,760,476
Provision for losses	-	4,023	2,590	-	-	19,298	25,911
Loan servicing fees	-	-	-	10,080	-	-	10,080
Professional services	25,576	251,800	60,541	48,335	27,166	133,100	546,518
Insurance	-	12,282	187,981	6,803	33,300	101,815	342,181
Repairs and maintenance	529	6,148	28,255	-	-	169,638	204,570
Utilities	-	-	-	1,469	-	101,441	102,910
Capital expenses	-	5,078	225,048	-	-	-	230,126
Trustee fees	-	-	4,557	33,136	-	-	37,693
Interest expense	-	-	4,258,646	4,814,403	4,716,416	-	13,789,465
Other	-	(1,088)	79,087	-	8,263	-	86,262
Total operating expenses	<u>156,393</u>	<u>5,784,211</u>	<u>18,066,781</u>	<u>5,888,531</u>	<u>4,938,162</u>	<u>4,263,223</u>	<u>39,097,301</u>
Operating income (loss) carried forward	<u>11,721,436</u>	<u>(1,401,996)</u>	<u>(1,757,429)</u>	<u>(1,456,163)</u>	<u>49,696</u>	<u>(1,981,765)</u>	<u>5,173,779</u>

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Change in Net Assets**  
**Year Ended June 30, 2012**

	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	11,721,436	(1,401,996)	(1,757,429)	(1,456,163)	49,696	(1,981,765)	5,173,779
<b>Nonoperating revenues (expenses)</b>							
Interest income	332,534	1,244,864	38,605	2,553,037	-	446,335	4,615,375
Net decrease in the fair value of equity in cash and cash equivalents and investments in State Treasury	(190,429)	(185,610)	-	-	-	(67,984)	(444,023)
Net increase (decrease) in fair value of other investments	-	-	-	-	(19,586)	277,563	257,977
Interest expense	-	-	-	-	-	(107,017)	(107,017)
Amortization of deferred bond insurance costs	-	-	(107,434)	(97,876)	-	-	(205,310)
Arbitrage rebate	-	-	(1,000)	(320,001)	-	-	(321,001)
Other expense	-	-	(36,428)	-	-	(1,803)	(38,231)
Total nonoperating revenues (expenses)	142,105	1,059,254	(106,257)	2,135,160	(19,586)	547,094	3,757,770
Income (loss) before transfers	11,863,541	(342,742)	(1,863,686)	678,997	30,110	(1,434,671)	8,931,549
Transfers in	10,000,000	-	-	-	-	-	10,000,000
Change in net assets	21,863,541	(342,742)	(1,863,686)	678,997	30,110	(1,434,671)	18,931,549
<b>Net assets</b>							
Beginning of year	213,202,791	185,518,611	2,339,687	40,908,286	1,077,398	38,312,012	481,358,785
End of year	\$ 235,066,332	\$ 185,175,869	\$ 476,001	\$ 41,587,283	\$ 1,107,508	\$ 36,877,341	\$ 500,290,334

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

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2012**

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
<b>Cash flows from operating activities</b>							
Cash received from tenants	\$ -	\$ 1,433,957	\$ 15,480,144	\$ -	\$ -	\$ 524,395	\$ 17,438,496
Cash received from borrowers							
Principal repayments	1,386,095	321,982	-	982,256	129,510,166	111,781	132,312,280
Interest income	891,793	-	-	3,002,491	4,372,920	106,432	8,373,636
Cash received from sale of land	-	66,346	-	-	-	-	66,346
Cash received from conveyance taxes	10,540,247	-	-	-	-	-	10,540,247
Cash received for payments on mortgage-backed securities	-	-	-	15,626,801	-	-	15,626,801
Cash payments for issuance of loans receivable	(52,598,411)	(29,145,454)	-	(204,688)	(126,772,634)	-	(208,721,187)
Interest payments	-	(59,754)	(4,303,838)	(5,121,690)	(4,460,333)	-	(13,945,615)
Payments to employees	(94,540)	(2,838,548)	(208,091)	(687,734)	(137,330)	(1,638,684)	(5,604,927)
Payments to suppliers	(60,299)	(2,688,355)	(9,026,349)	(253,469)	(53,149)	(2,255,247)	(14,336,868)
Cash receipts from (payments to) other funds	118	1,715,119	148,958	527,144	(354,312)	(330,848)	1,706,179
Other cash receipts	5,028	938,872	778,762	-	503,229	1,591,680	3,817,571
Net cash provided by (used in) operating activities	<u>(39,929,969)</u>	<u>(30,255,835)</u>	<u>2,869,586</u>	<u>13,871,111</u>	<u>2,608,557</u>	<u>(1,890,491)</u>	<u>(52,727,041)</u>
<b>Cash flows from noncapital financing activities</b>							
Principal paid on revenue bond maturities and redemptions	-	-	-	(57,065,470)	-	-	(57,065,470)
Proceeds from new bond issuance	-	-	-	50,000,000	-	-	50,000,000
Arbitrage rebate paid	-	-	(1,000)	(257,664)	-	-	(258,664)
Transfers in	10,000,000	-	-	-	-	-	10,000,000
Net cash provided by (used in) noncapital financing activities	<u>10,000,000</u>	<u>-</u>	<u>(1,000)</u>	<u>(7,323,134)</u>	<u>-</u>	<u>-</u>	<u>2,675,866</u>
Subtotal carried forward	<u>(29,929,969)</u>	<u>(30,255,835)</u>	<u>2,868,586</u>	<u>6,547,977</u>	<u>2,608,557</u>	<u>(1,890,491)</u>	<u>(50,051,175)</u>

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

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**Year Ended June 30, 2012**

	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	(29,929,969)	(30,255,835)	2,868,586	6,547,977	2,608,557	(1,890,491)	(50,051,175)
<b>Cash flows from capital and related financing activities</b>							
Principal paid on revenue bond maturities and redemptions	-	-	(2,493,884)	-	(57,302,231)	-	(59,796,115)
Proceeds from new bond issuance	-	-	-	-	51,234,699	-	51,234,699
Principal paid on mortgage loans and notes payable	-	(13,608)	-	-	-	(43,401)	(57,009)
Interest payments	-	-	-	-	-	(108,416)	(108,416)
Sale (purchase) of capital assets	-	-	408,546	-	-	(65,976)	342,570
Net cash used in capital and related financing activities	-	(13,608)	(2,085,338)	-	(6,067,532)	(217,793)	(8,384,271)
<b>Cash flows from investing activities</b>							
Purchase of investments	-	-	-	(2,676,685,172)	-	(1,801)	(2,676,686,973)
Proceeds from maturities of investments	-	-	-	2,710,462,145	-	-	2,710,462,145
Interest received	332,534	1,244,864	-	2,553,037	-	446,303	4,576,738
Change in fair value of equity in cash and cash equivalents and investments in State Treasury	(190,429)	(185,610)	-	-	-	(67,984)	(444,023)
Net cash provided by investing activities	142,105	1,059,254	-	36,330,010	-	376,518	37,907,887
Net increase (decrease) in cash and cash equivalents	(29,787,864)	(29,210,189)	783,248	42,877,987	(3,458,975)	(1,731,766)	(20,527,559)
<b>Cash and cash equivalents</b>							
Beginning of year	87,992,508	103,058,250	27,894,896	6,731,314	3,458,975	30,757,685	259,893,628
End of year	\$ 58,204,644	\$ 73,848,061	\$ 28,678,144	\$ 49,609,301	\$ -	\$ 29,025,919	\$ 239,366,069
<b>Components of cash and cash equivalents</b>							
Equity in cash and cash equivalents and investments in State Treasury	\$ 58,204,644	\$ 73,473,396	\$ -	\$ -	\$ -	\$ 28,366,855	\$ 160,044,895
Cash in banks	-	374,665	2,012,748	-	-	188,030	2,575,443
Deposits held in trust	-	-	-	-	-	5,717	5,717
Cash and cash equivalents held by Trustee	-	-	26,665,396	49,609,301	-	-	76,274,697
Restricted deposits and funded reserves	-	-	-	-	-	465,317	465,317
Cash and cash equivalents	\$ 58,204,644	\$ 73,848,061	\$ 28,678,144	\$ 49,609,301	\$ -	\$ 29,025,919	\$ 239,366,069

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

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Proprietary Funds  
Statement of Cash Flows  
Year Ended June 30, 2012**

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Multifamily Housing Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
<b>Cash flows from operating activities</b>							
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities							
Operating income (loss)	\$ 11,721,436	\$ (1,401,996)	\$ (1,757,429)	\$ (1,456,163)	\$ 49,696	\$ (1,981,765)	\$ 5,173,779
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities							
Net increase in fair value of mortgage-backed securities	-	-	-	(797,262)	-	-	(797,262)
Depreciation	-	177,110	4,803,613	-	-	161,365	5,142,088
Provision for losses	-	4,023	2,590	-	-	19,298	25,911
Changes in assets and liabilities							
Mortgage loans receivable	(51,212,316)	(28,823,477)	-	982,256	2,737,532	111,779	(76,204,226)
Accrued interest receivable	(440,761)	(1,705,302)	-	(632,219)	(131,573)	(11,284)	(2,921,139)
Tenant receivables	-	(2,872)	-	-	-	(6,803)	(9,675)
Other receivables	-	51,713	(54,249)	-	28,127	(695,346)	(669,755)
Due from other funds	-	(8,061)	-	-	(354,312)	1,653,045	1,290,672
Due from other State departments	-	1,723,180	-	-	-	-	1,723,180
Inventories – development in progress and dwelling units	-	(61,857)	-	-	-	-	(61,857)
Prepaid expenses and other assets	-	-	-	893	-	(17,893)	(17,000)
Investments	-	-	-	15,626,683	-	-	15,626,683
Accounts payable	-	(12,182)	(301,323)	824	-	42,950	(269,731)
Accrued interest payable	1,554	-	(45,192)	(38,983)	256,083	-	173,462
Other accrued expenses	-	434,724	39,963	129,995	23,004	860,253	1,487,939
Due to other funds	118	-	148,958	527,144	-	(1,983,017)	(1,306,797)
Security deposits	-	(5,017)	101,956	-	-	(43,073)	53,866
Deferred income	-	(408,750)	(69,301)	-	-	-	(478,051)
Deferred refunding costs	-	-	-	(149,765)	-	-	(149,765)
Deferred fees	-	-	-	(322,292)	-	-	(322,292)
Deferred gain on sale of units and land	-	66,351	-	-	-	-	66,351
Estimated future costs of development	-	(283,422)	-	-	-	-	(283,422)
Net cash provided by (used in) operating activities	\$ (39,929,969)	\$ (30,255,835)	\$ 2,869,586	\$ 13,871,111	\$ 2,608,557	\$ (1,890,491)	\$ (52,727,041)

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Fiduciary Fund – Private Purpose Trust Fund**  
**Statement of Fiduciary Net Assets**  
**June 30, 2012**

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

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

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2012**

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

**Financial Reporting Entity**

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

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

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

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

The financial statements of the Corporation are intended to present the financial position, changes in financial position, and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawai'i (the State) that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the State of Hawai'i as of June 30, 2012, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation's financial activities.

**Government-Wide and Fund Financial Statements**

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

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2012**

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requirements of a particular function. State allotments and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues. The Corporation employs an indirect cost allocation system. The Corporation provides certain administrative services to its various funds. The cost of these services is allocated to the funds based on estimates of benefits provided to the funds.

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

The fund financial statements are provided for governmental funds, proprietary funds and fiduciary fund. Major individual governmental fund and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column. The Corporation's fiduciary fund is presented in the fund financial statements. Since by definition the fiduciary fund's assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities as obligations of the government, its funds are not incorporated into the government-wide statements.

**Measurement Focus and Basis of Accounting**

***Government-Wide Financial Statements***

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

***Governmental Fund Financial Statements***

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

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

Expenditures generally are recorded when a liability is incurred. Modifications to the accrual basis of accounting include employees' vested vacation, which is recorded as an expenditure when utilized or paid. The amount of unmatured long-term indebtedness related to accumulated vacation at June 30, 2012 has been reported in the government-wide financial statements.

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2012**

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***Proprietary Funds and Fiduciary Fund***

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

The proprietary funds have the option under Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Corporation has elected to not apply FASB statements after the applicable date.

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

**Fund Accounting**

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

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

**Governmental Funds**

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2012**

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

***Proprietary Funds***

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

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

The other funds include the Fee Simple Residential Revolving Fund, Rental Assistance Revolving Fund, Housing Finance Revolving Fund, Kekuiani Gardens Project Fund, Disbursing Fund, Grant-In-Aid Fund, Hamakua Fund and Waiialua Fund.

**State of Hawai'i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2012**

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The Corporation reports the following as major proprietary funds:

- Rental Housing Trust Fund provides developers of qualified rental housing projects with loans and/or grants for the development, predevelopment, construction, acquisition, preservation and rehabilitation of rental housing units.
- Dwelling Unit Revolving Fund accounts for state funds used for acquiring, developing, selling, leasing and renting residential, commercial and industrial properties, providing mortgage and interim financing, rental income, sales proceeds and interest earnings from the financing and investment of such funds.
- Hawaii Rental Housing System Revenue Bond Fund accounts for special funds to account for housing projects or systems of housing projects financed from the proceeds of bonds secured under the same trust indenture. The fund accounts for six multifamily rental housing projects located throughout the State of Hawai'i.
- Single Family Mortgage Purchase Revenue Bond Fund accounts for the proceeds from the issuance of bonds used to make below-market interest rate mortgage loans and the repayment, interest, and earnings from such loans and investment of such funds.
- Multifamily Housing Revenue Bond Fund accounts for the proceeds from the issuance of bonds to provide interim construction loans and/or permanent financing to facilitate the construction or rehabilitation of affordable rental housing projects.

***Fiduciary Fund***

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

**Equity in Cash and Cash Equivalents and Investments in State Treasury**

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

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

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

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Financial Statements**  
**June 30, 2012**

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In October 2012, DAGS informed state agencies participating in the State Treasury Investment Pool that the State’s investments in auction rate securities would be adjusted as of and for the year ended June 30, 2012 and that each participating State agency would be allocated a portion of the adjustment. The Corporation’s total allocated adjustment for fiscal 2012 amounted to a decrease of approximately \$444,000.

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

**Investments**

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

**Inventories**

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

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

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

**Interfund Receivables and Payables**

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

**Capital Assets**

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

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

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

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

	<b>Governmental Activities</b>	<b>Proprietary Funds and Business Type Activities</b>
Building and building improvements	25 years	10–40 years
Equipment	7 years	1–10 years

**Deferred Revenues**

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

**Amortization**

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

**Accrued Vacation**

Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the proprietary funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$211,000. Accrued vacation, which is included in other accrued expenses in the statement of net assets, changed during 2012 as follows:

<b>Balance July 1, 2011</b>	\$ 623,868
Additions	436,714
Reductions	<u>282,455</u>
<b>Balance at June 30, 2012</b>	<u>\$ 778,127</u>

**Accumulated Sick Leave Pay**

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawai'i (ERS). Accumulated sick leave at June 30, 2012 amounted to approximately \$2,056,000.

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

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

**Risk Management**

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

**Governmental Fund Balances**

The Corporation accounts for governmental fund balances in accordance with GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. GASB 54's hierarchical fund balance classification structure is based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

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

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

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

**Deficit Balances**

The Kekuilani Gardens Project Fund has a net deficit as of June 30, 2012. Rental increases at the Kekuilani Gardens Project, effective July 1, 2011, are expected to assist the project in eliminating the deficit.

**Use of Estimates**

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

**New Accounting Pronouncements**

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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The objective of this Statement is to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and American Institute of Certified Public Accountants pronouncements. The requirements of this Statement are effective for reporting periods beginning after December 15, 2011. Management does not expect that this Statement will have a material effect on the Corporation's financial statements.

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

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

In April 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. This Statement amends GASB Statement No. 10, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. This Statement also amends GASB Statement No. 62, by modifying the specific guidance on accounting for operating lease payments that vary from a straight-line basis. The provisions of this Statement are effective for periods beginning after December 15, 2012, with earlier application encouraged. Management does not expect that this Statement will have a material effect on the Corporation's financial statements and has no plans for early implementation.

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

**2. Budgeting and Budgetary Control**

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

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

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All expenditures of these appropriated funds are made pursuant to the appropriations in the fiscal 2012 – 2013 biennial budget. The Neighborhood Stabilization Program and Low Income Housing Tax Credit funds have a legally appropriated annual budget.

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

The legal level of budgetary control is maintained at the appropriation line item level by department, program, and source of funds as established in the appropriations act. The Governor is authorized to transfer appropriations between programs within the same department and source of funds; however, transfers of appropriations between departments generally require legislative authorization. Records and reports reflecting the detail level of control are maintained by and are available at the Corporation. During the fiscal year ended June 30, 2012, there were no expenditures in excess of available appropriations at the legal level of budgetary control.

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

The Corporation’s annual budget is prepared on the budgetary basis of accounting with several differences from the preparation of the statement of revenues, expenditures and change in fund balances under generally accepted accounting principles (GAAP), principally related to (1) encumbrance of purchase orders and contract obligations, (2) accrued revenues and expenditures, and (3) unbudgeted programs (federal award programs). However, for the year ended June 30, 2012, there were no differences between the budgetary amounts and the amounts presented in accordance with GAAP.

**3. Deposits**

At June 30, 2012, total cash and cash equivalents reported in the statement of net assets consisted of the following:

	<b>Governmental</b>	<b>Business-Type</b>	<b>Total</b>
Equity in cash and cash equivalents and investments in State Treasury	\$ 12,568	\$ 160,044,895	\$ 160,057,463
Cash in banks (book balance)	21,115	2,575,443	2,596,558
Deposits held in trust	-	5,717	5,717
Cash and cash equivalents held by Trustee	-	76,274,697	76,274,697
Restricted deposits and funded reserves	-	465,317	465,317
Total cash	<u>\$ 33,683</u>	<u>\$ 239,366,069</u>	<u>\$ 239,399,752</u>

The bank balance of cash in bank was approximately \$2,632,000, of which \$500,000 was covered by federal depository insurance and \$2,132,000 was covered by collateral held by the pledging financial institution’s trust department or agent in the Corporation’s name.

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**4. Investments**

Investments at June 30, 2012 are summarized by maturity (in years) as follows:

	Less than 1	Greater than 1 and up to 5	Greater than 5 and up to 10	Greater than 10 and up to 20	Greater than 20	Fair Value
Mortgage-backed securities	\$ -	\$ -	\$ 7,149,250	\$ 48,586,009	\$ 30,801,704	\$ 86,536,963
Repurchase agreements	-	469,777	308,160	32,845,109	-	33,623,046
U.S. treasury bills	70,065,917	-	-	-	-	70,065,917
Total investments	<u>\$ 70,065,917</u>	<u>\$ 469,777</u>	<u>\$ 7,457,410</u>	<u>\$ 81,431,118</u>	<u>\$ 30,801,704</u>	<u>\$ 190,225,926</u>

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

Investments held by trustees under revenue bond programs	\$ 183,076,676
Investments – noncurrent	<u>7,149,250</u>
Total investments	<u>\$ 190,225,926</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, 2012, Federal National Mortgage Association (FNMA) mortgage-backed securities were rated Aaa, AAA, and AA+ by Moody’s, Fitch, and Standard & Poor’s, respectively. The Fund’s investments in repurchase agreements and money market funds are not rated. U.S. Treasury securities and securities of the Government National Mortgage Association are not considered to have credit risk exposure.
- **Concentration of Credit Risk** – The Corporation has no limit on the amount the Corporation may invest in any one issuer. As of June 30, 2012, the Corporation’s investments were primarily with the Federal National Mortgage Association, the U.S. Treasury, and Societe Generale. These investments are 45%, 37%, and 16%, 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.

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

Mortgage loans and notes and loans receivable at June 30, 2012 comprised the following:

	<b>Mortgage Loans</b>	<b>Notes and Loans</b>
Mortgage loans bearing interest up to 11%, maturing at various dates through 2070	\$ 346,105,413	\$ -
Promissory notes bearing interest up to 4.72%, maturing in 2066	-	94,936,075
Promissory notes bearing interest up to 6%, maturing in 2013	-	7,713,317
Non-interest bearing promissory notes, maturing at various dates through 2056	-	9,861,610
Allowance for loan losses	<u>(321,489)</u>	<u>-</u>
	345,783,924	112,511,002
Less: Current portion	<u>(1,253,130)</u>	<u>(7,713,317)</u>
	<u>\$ 344,530,794</u>	<u>\$ 104,797,685</u>

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

The promissory notes are collateralized by a second mortgage on the improvements of Kukui Gardens (see Note 13). The non-interest bearing notes are collateralized by real property.

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**6. Capital Assets**

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<b>Governmental activities</b>				
Depreciable assets				
Equipment	\$ 567,704	\$ -	\$ -	\$ 567,704
Accumulated depreciation				
Equipment	(330,727)	(98,318)	-	(429,045)
Governmental activities capital assets, net	<u>\$ 236,977</u>	<u>\$ (98,318)</u>	<u>\$ -</u>	<u>\$ 138,659</u>
<b>Business-type activities</b>				
Depreciable assets				
Building and improvements	\$ 155,564,260	\$ -	\$ (442,000)	\$ 155,122,260
Equipment	2,383,092	34,310	-	2,417,402
	157,947,352	34,310	(442,000)	157,539,662
Accumulated depreciation				
Building and improvements	(97,020,191)	(5,073,912)	65,119	(102,028,984)
Equipment	(1,947,534)	(68,176)	-	(2,015,710)
	(98,967,725)	(5,142,088)	65,119	(104,044,694)
	58,979,627	(5,107,778)	(376,881)	53,494,968
Land	43,355,010	-	-	43,355,010
Business-type activities capital assets, net	<u>\$ 102,334,637</u>	<u>\$ (5,107,778)</u>	<u>\$ (376,881)</u>	<u>\$ 96,849,978</u>

Depreciation expense for the year ended June 30, 2012 was charged to functions as follows:

<b>Governmental activities</b>		
Low income housing service and assistance		<u>\$ 98,318</u>
<b>Business-type activities</b>		
Housing development program		\$ 338,475
Rental housing program		4,803,613
Total depreciation expense – business-type activities		<u>\$ 5,142,088</u>

At June 30, 2012, capital assets for the proprietary funds consisted of the following:

	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Total
Buildings and improvements	\$ 142,210,330	\$ 7,489,178	\$ 5,422,752	\$ 155,122,260
Equipment	2,132,221	204,257	80,924	2,417,402
	144,342,551	7,693,435	5,503,676	157,539,662
Less: Accumulated depreciation	(95,382,435)	(6,301,494)	(2,360,765)	(104,044,694)
	48,960,116	1,391,941	3,142,911	53,494,968
Land	16,186,849	26,095,658	1,072,503	43,355,010
Net capital assets	<u>\$ 65,146,965</u>	<u>\$ 27,487,599</u>	<u>\$ 4,215,414</u>	<u>\$ 96,849,978</u>

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**7. Revenue Bond Funds – Reserve Requirements**

Under the trust indentures between the Corporation and the trustees for the Single Family Mortgage Purchase Revenue Bonds, investment assets and cash are required to be held by the trustees in various accounts and funds, including debt service reserve accounts, loan funds and mortgage loan reserve funds. The uses of these assets are restricted by the terms of the indentures.

At June 30, 2012, the following debt service reserves and mortgage loan reserves were required by the indentures under Revenue Bond Programs in the Single Family Mortgage Purchase Revenue Bond Fund.

Debt service reserve requirements	\$ 11,952,000
Mortgage loan reserve requirements	<u>749,000</u>
	<u>\$ 12,701,000</u>

At June 30, 2012, approximately \$18,043,000 and \$1,918,000 of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively, and are included in assets held by trustees in the statement of net assets.

Under the trust indenture agreement between the Corporation and the trustee for the Hawaii Rental Housing System Revenue Bond Fund, the Corporation is required to provide net revenues (as defined in the trust indenture agreement) together with lawfully available funds of at least 1.25 times the aggregate debt service on outstanding bonds during the bond year. Additionally, the Corporation is to provide net revenues (as defined in the trust indenture agreement) of at least 1.10 times the aggregate debt service on outstanding bonds during the bond year. At June 30, 2012, 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 and net revenues (as defined in the trust indenture agreement) of 1.08 times the aggregate debt service on outstanding bonds during the year. The Corporation has not formally notified the trustee of its non-compliance, however, in accordance with the terms of the trust agreement, 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, 2012.

**8. Mortgage and Note Payable**

The Kekuilani Gardens Project (Kekuilani) entered into a mortgage agreement in December 1996 in the amount of \$5,213,614 with the U.S. Department of Agriculture (USDA) Farmers Home Administration, now known as the USDA – Rural Development (RD). The mortgage loan bears annual interest at 7.25% and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$11,059 and matures on December 1, 2046. At June 30, 2012, the balance outstanding on the mortgage loan was \$4,916,210.

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Kekuilani also entered into an interest credit and rental assistance agreement in December 1996 with the USDA – RD, which reduces Kekuilani’s principal and interest payments. During the period, Kekuilani realized approximately \$256,000 of interest credit reducing the interest expense from approximately \$363,000 to \$107,000.

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 annual interest at 1% and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$1,475 and matures on December 5, 2046. At June 30, 2012, the balance outstanding on the mortgage loan was \$509,853.

The Dwelling Unit Revolving Fund (DURF) also has one mortgage note payable to the USDA – RD. The note was originated in October 1994, and is payable in monthly installments of \$1,315, including annual interest at 1%, due in October 2026. The note is collateralized by property and rental receipts. At June 30, 2012, the balance outstanding on the mortgage note was \$209,955.

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

	<b>Balance at July 1, 2011</b>	<b>Addition</b>	<b>Reductions</b>	<b>Balance at June 30, 2012</b>	<b>Less Current Portion</b>
Mortgage payable	\$ 5,469,464	\$ -	\$ (43,401)	\$ 5,426,063	\$ 45,900
Note payable	223,562	-	(13,607)	209,955	13,743
Total	<u>\$ 5,693,026</u>	<u>\$ -</u>	<u>\$ (57,008)</u>	<u>\$ 5,636,018</u>	<u>\$ 59,643</u>

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

<b>Year ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 60,000	\$ 362,000	\$ 422,000
2014	62,000	360,000	422,000
2015	65,000	357,000	422,000
2016	68,000	354,000	422,000
2017	71,000	350,000	421,000
2018 – 2022	419,000	1,692,000	2,111,000
2023 – 2027	534,000	1,564,000	2,098,000
2028 – 2032	645,000	1,386,000	2,031,000
2033 – 2037	897,000	1,134,000	2,031,000
2038 – 2042	1,257,000	774,000	2,031,000
2043 – 2047	1,558,000	262,000	1,820,000
	<u>\$ 5,636,000</u>	<u>\$ 8,595,000</u>	<u>\$ 14,231,000</u>

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**9. Revenue Bonds Payable**

Through June 30, 2012, approximately \$2.53 billion of revenue bonds have been issued. The revenue bonds are payable from and collateralized by the revenues and other monies and assets of the revenue bond funds and other assets of the Corporation pledged under the indentures.

Revenue bonds payable at June 30, 2012 consist of the following issuances:

**Hawaii Rental Housing System revenue bonds**

2004 Series A

Serial bonds maturing annually through 2014 (3.60% to 3.70%)	\$ 3,110,000
Term bonds maturing in 2015 through 2034 (3.80% to 4.75%)	<u>67,455,000</u>
	70,565,000

2004 Series B

Serial bonds maturing annually through 2030 (4.00% to 6.00%)	14,285,000
Term bonds maturing in 2031 through 2034 (6.50%)	<u>5,590,000</u>
	<u>19,875,000</u>

Total Hawaii Rental Housing System revenue bonds	<u>\$ 90,440,000</u>
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<b>Single Family Mortgage Purchase revenue bonds</b>	
1997 Series A	
Term bonds maturing annually through 2031 (5.75%)	\$ 1,235,000
1998 Series A	
Serial bonds maturing annually through 2013 (5.20% to 5.25%)	1,945,000
Term bonds maturing in 2014 through 2019 (5.35%)	5,925,000
Placed bonds maturing in 2019 through 2031 (5.40%)	<u>14,920,000</u>
	22,790,000
1998 Series B	
Term bonds maturing in 2019 through 2029 (5.30%)	7,505,000
1998 Series C	
Term bonds maturing in 2019 through 2021 (5.35%)	2,755,000
2000 Series A	
Term bonds maturing in 2021 through 2028 (6.275%)	1,800,000
2002 Series A	
Serial bonds maturing annually through 2013 (4.65% to 4.80%)	745,000
Term bonds maturing in 2014 through 2034 (5.30% to 5.375%)	9,885,000
Placed bonds maturing in 2023 through 2033 (5.375%)	<u>2,655,000</u>
	13,285,000
2002 Series B	
Term bonds maturing in 2026 through 2028 (5.25%)	1,360,000
2005 Series A	
Term bonds maturing in 2027 through 2037 (5.00%)	2,330,000
2005 Series B	
Serial bonds maturing annually through 2016 (3.65% to 3.90%)	2,075,000
Term bonds maturing in 2016 through 2021 (4.125%)	190,000
Planned Amortization Class bonds maturing through 2027 (3.70% to 4.30%)	<u>14,260,000</u>
	16,525,000
2009 Series A	
Term bonds maturing in 2042 (0.027%)	70,000,000
2009 Series A-1	
Term bonds maturing in 2026 through 2042 (2.40%)	<u>30,000,000</u>
	100,000,000
2011 Series A	
Serial bonds maturing through 2019 (0.06% to 2.90%)	7,005,000
2011 Series B	
Serial bonds maturing in 2020 through 2023 (2.95% to 3.45%)	4,365,000
Term bonds maturing in 2023 through 2026 (3.875%)	4,200,000
Planned Amortization Class bonds maturing in 2015 through 2026 (4.50%)	<u>4,430,000</u>
	12,995,000
Total Single Family Mortgage Purchase revenue bonds	<u>\$ 189,585,000</u>

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<b>Multifamily Housing revenue bonds</b>	
2002 Series (Hale Hoaloha Project)	
Mortgage installment bonds maturing annually through 2018 (6.75% until 2012 and 7.75% thereafter)	\$ 1,419,005
2005 Series (Kauhale Olu Project)	
Mortgage installment bonds maturing annually through 2026 (6.375%)	5,161,093
2007 Series A (Kukui Gardens Project)	
Mortgage installment bonds maturing annually through 2042 (3.92%)	10,386,986
Mortgage installment bonds maturing annually through 2042 (6.25%)	3,270,000
2008 Series (Kahului Town Terrace Project)	
Mortgage installment bonds maturing annually through 2026 (4.25%)	1,885,827
2009 Series (Lokahi Kau Project)	
Mortgage installment bonds maturing annually through 2042 (5.52%)	19,830,000
2011 Series A (Kuhio Park Terrace Project)	
Mortgage installment bonds maturing in 2014 through 2029 (1.25% to 3.95%)	3,180,000
Term bonds maturing in 2028 through 2029 (4.75% to 4.95%)	<u>29,170,000</u>
	32,350,000
2011 Series B (Kuhio Park Terrace Project)	
Term bonds maturing in 2014 (1.25%)	33,650,000
2011 Series A (Ewa Villages Apartments)	
Term bonds maturing in 2021 through 2029 (3.95% to 5.10%)	3,630,000
2011 Series B (Ewa Villages Apartments)	
Term bonds maturing in 2016 (3.25%)	4,451,179
2012 Series (Hale Mohalu)	
Term bonds maturing in 2014 (3.63%)	21,534,699
2012 Series A (Ko‘oloa‘ula Apartments)	
Serial bonds maturing in 2023 through 2034 (3.13% to 4.00%)	5,900,000
2012 Series B (Ko‘oloa‘ula Apartments)	
Serial bonds maturing in 2018 (0.18%)	11,800,000
2012 Series A (Wilikina Apartments)	
Serial bonds maturing in 2022 through 2047 (4.25% to 6.75%)	9,250,000
2012 Series B (Wilikina Apartments)	
Serial bonds maturing in 2014 (1%)	<u>2,750,000</u>
Total Multifamily Housing revenue bonds	<u>\$ 167,268,789</u>

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

The Single Family Mortgage Purchase and Hawaii Rental Housing System revenue bonds with designated maturity dates and the Multifamily Housing revenue bonds may be redeemed at the option of the Corporation commencing in 2007 for the Single Family Mortgage Purchase 1997 Series, subject to a redemption premium which ranges up to 2%; 2008 for the Single Family Mortgage Purchase 1998 Series, subject to a redemption premium that ranges up to 1.5%; 2010 for the Single Family Mortgage Purchase 2000 Series; 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; 2021 for both the Multifamily Housing Ewa Villages Apartments and Kuhio Park Terrace Project 2011 Series A; 2013 for the Multifamily Housing Kuhio Park Terrace Project 2011 Series B; and 2022 for the Multifamily Housing Koo‘loa‘ula Apartments Phase I 2012 Series A and Wilikina Apartments Series A. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become

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available from undisbursed bond proceeds, principal payments and prepayments of mortgages, excess amounts in the debt service reserve account or excess revenues (as defined in the bond indentures).

During the year ended June 30, 2012, early redemptions totaled \$53,590,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2011	Additions	Reductions	Balance at June 30, 2012
Single Family Mortgage Purchase	\$ 196,950,000	\$ 50,000,000	\$ (57,365,000)	\$ 189,585,000
Hawaii Rental Housing System	92,935,000	-	(2,495,000)	90,440,000
Multifamily Housing	173,336,321	62,257,832	(68,325,364)	167,268,789
	<u>463,221,321</u>	<u>112,257,832</u>	<u>(128,185,364)</u>	<u>447,293,789</u>
Add: Unamortized premium	506,917	-	(37,489)	469,428
Less: Deferred refunding amount	(1,419,704)	-	200,484	(1,219,220)
Total	<u>\$ 462,308,534</u>	<u>\$ 112,257,832</u>	<u>\$ (128,022,369)</u>	<u>446,543,997</u>
Less: Current portion				<u>(4,981,643)</u>
Total				<u>\$ 441,562,354</u>

The approximate annual debt service requirements through 2017 and in five-year increments thereafter to maturity for revenue bonds are as follows:

Year ending June 30,	Principal	Interest	Total
2013	\$ 4,982,000	\$ 19,382,000	\$ 24,364,000
2014	64,658,000	19,199,000	83,857,000
2015	5,588,000	18,428,000	24,016,000
2016	9,958,000	17,962,000	27,920,000
2017	5,425,000	17,804,000	23,229,000
2018 – 2022	58,260,000	84,195,000	142,455,000
2023 – 2027	53,493,000	72,862,000	126,355,000
2028 – 2032	99,537,000	50,067,000	149,604,000
2033 – 2037	41,944,000	27,452,000	69,396,000
2038 – 2042	100,659,000	16,572,000	117,231,000
2043 – 2047	2,790,000	508,000	3,298,000
	<u>\$ 447,294,000</u>	<u>\$ 344,431,000</u>	<u>\$ 791,725,000</u>

In order to ensure the exclusion of interest on the Corporation’s Hawaii Rental Housing System revenue bonds and Single Family Mortgage Purchase 2009 Series A revenue bonds from gross income for federal income tax purposes, the Corporation calculates rebates due to the U.S. Treasury annually. The rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. At June 30, 2012, the Corporation determined that approximately \$2,343,000 of rebates was due to the U.S. Treasury.

Interest expense of approximately \$13,896,000 was included as direct function expenses in the government-wide statement of activities during the year ended June 30, 2012.

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**10. Conduit Debt Obligations**

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

As of June 30, 2012, there were sixteen series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of approximately \$167,269,000 reported as Multifamily Housing Revenue bonds.

**11. Leases**

**Lessee**

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

The minimum rental commitments under operating leases are as follows:

<b>Year ending June 30,</b>	
2013	\$ 872,000
2014	923,000
2015	938,000
2016	953,000
2017	968,000
2018 – 2022	5,079,000
2023 – 2027	5,216,000
2028 – 2032	5,823,000
2033 – 2037	3,639,000
2038 – 2042	4,367,000
2043 – 2047	4,367,000
2048 – 2052	5,240,000
2053 – 2056	4,192,000
	<u>\$ 42,577,000</u>

Rent expense for the year ended June 30, 2012 totaled approximately \$920,000.

**Lessor**

The Corporation leases land with a carrying value of approximately \$25,849,000 to various developers and home buyers. The leases expire at various dates through 2085. Lease rental income for the year ended June 30, 2012 was approximately \$977,000.

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

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The future minimum lease rent from these operating leases at June 30, 2012 is as follows:

<b>Year ending June 30,</b>	
2013	\$ 483,000
2014	490,000
2015	507,000
2016	542,000
2017	553,000
2018 – 2022	2,590,000
2023 – 2027	2,956,000
2028 – 2032	1,819,000
2033 – 2037	465,000
2038 – 2042	66,000
2043 – 2046	19,000
	<u>\$ 10,490,000</u>

**12. Commitments and Contingencies**

**Construction Contracts**

At June 30, 2012, the Dwelling Unit Revolving Fund and Housing Finance Revolving Fund had outstanding commitments to expend approximately \$64,608,000 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, 2012.

**Loan Commitments**

At June 30, 2012, the Rental Housing Trust Fund had aggregate outstanding loan commitments of approximately \$1,635,000.

**Development Costs**

The Kapolei development project primarily consists of eight residential villages and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2012, all but remnant residential parcels and 35 acres of business mixed-use land have been developed and sold. The estimated future cost of development is recorded as a liability on the accompanying statement of net assets and relates primarily to the completion of certain infrastructure improvements at this project. This liability represents estimated amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands. The Villages of Leiali‘i is in West Maui and is located on public trust (ceded) land owned by the State of Hawai‘i. Development of Leiali‘i has been delayed due to lawsuits seeking to prevent the Corporation’s sale or transfer of this land. As of June 30, 2012, the Corporation has remaining development rights for most of the Leiali‘i project. Development costs related to Leiali‘i were approximately \$20.2 million at June 30, 2012. Management believes that the future revenues from these projects will meet or exceed the development costs at June 30, 2012 and the remaining costs to be incurred on the project.

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

Also, the Corporation has other development costs and dwelling units of approximately \$2.6 million at June 30, 2012.

**Torts and Litigation**

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

**Insurance**

The State maintains certain insurance coverage to satisfy the bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2012, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Corporation's portion of the State's workers' compensation liability was not material at June 30, 2012.

**13. Kukui Gardens**

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

To assist in financing the acquisition and redevelopment of the Project, the State contributed \$25 million to DURF during December 2007. Additionally, the Multifamily Housing Revenue Bond Fund issued \$45 million of revenue bonds to provide conduit financing to EAH for their acquisition of the Project's improvements and operating cash, as well as to provide capital for rental operations and the planned renovation of the apartment units. Upon completion of the renovations, \$34,605,000 of the bonds were scheduled to be redeemed leaving \$10,395,000 of permanent bonds outstanding to their stated maturity. In 2010, due to unfavorable global economic conditions, EAH requested and Citicorp Municipal Mortgage Inc., bondholder, agreed to increase the permanent bonds by \$3,270,000 to \$13,665,000, which decreased the redemption at conversion to \$31,335,000 from \$34,605,000. In May 2012, the Project was completed and a payment of \$31,335,000 was received. Accordingly, the Multifamily Housing Revenue Bond Fund has both notes receivable and revenue bonds payable of approximately \$13,665,000 related to the Project on the accompanying statement of net assets as of June 30, 2012. Currently, \$3,270,000 of the note bears interest at a fixed rate of 6.25% and matures through January 2042, while the remaining

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\$10,395,000 bears interest at a rate of 3.92% and matures annually through January 2042. The note includes monthly payments of principal and interest with principal payments that range from approximately \$2,000 to \$41,000. Any unpaid principal and accrued interest, together with any other expenses are due upon maturity.

Additionally, EAH executed three promissory notes to DURF in an aggregate amount of \$29,055,000, including approximately \$4,055,000 related to cash advanced from DURF to EAH and \$25 million related to the terms of the land lease. Additionally, DURF recorded \$25 million of deferred income on the accompanying statement of net 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, 2012 related to the Project was approximately \$23,251,000. The notes bear interest at 4.72% and are for a term of 58 years, with a final maturity date of December 17, 2065. Repayment of the notes is distributed into three periods as follows: (1) December 18, 2007 to December 31, 2012, no payments due; (2) January 1, 2013 to December 31, 2042, beginning April 1, 2013, 85% of the residual cash flow generated by the rental operations of the Project after expenses, as defined; and (3) January 1, 2043 to December 17, 2065, beginning April 1, 2043, 90% of the residual cash flow generated by the rental operations of the Project after expenses, as defined, with any unpaid principal sum and accrued interest together with any other costs, expenses and other charges due to be paid at maturity.

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

During the year ended June 30, 2012, DURF recognized approximately \$1.6 million of interest income related to the outstanding promissory notes. As of June 30, 2012, DURF has recorded approximately \$6.8 million of interest income receivable related to the outstanding promissory notes, which is due beginning on April 1, 2013.

#### **14. Benefit Plans**

Substantially all employees of the Corporation participate in the State's various employee benefit plans, including the State ERS, post-employment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State's benefit plans, refer to the State of Hawai'i and ERS CAFRs. The State's CAFR can be found at the DAGS website. The ERS CAFR can be found at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

##### **Employees' Retirement System**

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

The Corporation's contributions for fiscal years 2012, 2011 and 2010 of approximately \$445,000, \$417,000 and \$393,000, respectively, were equal to the required contributions for each year.

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

The State contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire. Act 88 established the EUTF during the 2001 legislative session and is codified in Chapter 87A, HRS.

The Corporation contributed approximately \$236,000, \$201,000 and \$172,000, respectively for fiscal years 2012, 2011 and 2010.

**Required Supplementary information and Disclosures**

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

**State Policy**

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

**Allocated OPEB Cost**

The following table shows the components of the annual OPEB cost that has been allocated to the Corporation for the year ended June 30, 2012:

<b>Balance at July 1, 2011</b>	\$ 1,810,532
Additions	876,559
Deletions	<u>(236,343)</u>
<b>Balance at June 30, 2012</b>	<u>\$ 2,450,748</u>

**Deferred Compensation Plan**

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

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

**15. Related Party Transactions**

Amounts due from other State of Hawai'i departments include approximately \$505,000 of miscellaneous advances previously made to other departments and approximately \$13,771,000 of amounts due from the Department of Hawaiian Home Lands (DHHL) related to a previous agreement to transfer certain land development rights to DHHL. Pursuant to this agreement, DHHL was required to commence 15 annual \$2.2 million payments to the Corporation in December 2004. Effective at that time, the Corporation recorded the sale of the land and development rights at the net present value of the estimated future cash flow from DHHL using an imputed interest rate

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of approximately 3.3%. As of June 30, 2012, amounts due from DHHL include approximately \$13,771,000 of principal, net of approximately \$1,867,000 of imputed interest, and approximately \$238,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately \$477,000 during the year ended June 30, 2012.

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 \$1,206,000 during the year ended June 30, 2012. 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, 2012, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately \$1,103,000, which was allocated as office rental expense to various funds of the Corporation. In addition, DAGS incurred approximately \$986,000 in rent to the Hawaii Rental Housing System Revenue Bond Fund for leased space in the Pohulani building. The term of the lease with DAGS matures in August 2022 and the minimum annual rental is determined annually by negotiation within a range of 97% to 103% of the previous year’s minimum rent.

**16. Interfund Receivables and Payables**

The composition of interfund balances as of June 30, 2012 is as follows:

Receivable Fund	Payable Fund	Amount
Dwelling Unit Revolving Fund	Other Non-major Enterprise Funds	\$ 615,000
Multifamily Housing Revenue Bond Fund	Other Non-major Enterprise Funds	1,070,041
Other Non-major Enterprise Funds	Rental Housing Trust Fund	186
Other Non-major Enterprise Funds	Hawaii Rental Housing System Revenue Bond Fund	737,456
Other Non-major Enterprise Funds	Single Family Mortgage Purchase Revenue Bond Fund	765,210
Other Non-major Enterprise Funds	Other Non-major Enterprise Funds	<u>684,620</u>
	Total Proprietary interfund balances	<u>\$ 3,872,513</u>
Other Non-major Enterprise Funds	Other Non-major Governmental Funds	\$ 24,409
Other Non-major Enterprise Funds	Low Income Housing Tax Credit Fund	264
Other Non-major Enterprise Funds	Neighborhood Stabilization Program Fund	<u>68,233</u>
	Total Governmental interfund balances	<u>\$ 92,906</u>

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

**17. Subsequent Events**

In July 2012, the Corporation issued \$33 million in revenue bonds for the Multifamily Housing Revenue Bond Fund. In November 2012, the Corporation issued \$7.35 million in revenue bonds for the Multifamily Housing Revenue Bond Fund.

## **Supplementary Information**

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**Non-major Governmental Funds**  
**Combining Balance Sheet**  
**June 30, 2012**

	Home Program Fund	Tax Credit Assistance Program Fund	National Foreclosure Mitigation Counseling Program Fund	Emergency Homeowners' Loan Program Fund	Total Non-major Governmental Funds
<b>Assets</b>					
Equity in cash and cash equivalents and investments in State Treasury	\$ -	\$ -	\$ 12,568	\$ -	\$ 12,568
Cash in banks	-	279	-	20,320	20,599
Notes and loans receivable	-	9,861,610	-	-	9,861,610
Due from other governments	19,630	-	3,550	450	23,630
Total assets	<u>\$ 19,630</u>	<u>\$ 9,861,889</u>	<u>\$ 16,118</u>	<u>\$ 20,770</u>	<u>\$ 9,918,407</u>
<b>Liabilities and Fund Balances</b>					
Liabilities					
Accounts payable	\$ -	\$ -	\$ 12,068	\$ 20,320	\$ 32,388
Due to other funds	19,630	279	4,050	450	24,409
Total liabilities	<u>19,630</u>	<u>279</u>	<u>16,118</u>	<u>20,770</u>	<u>56,797</u>
Fund balances – restricted	<u>-</u>	<u>9,861,610</u>	<u>-</u>	<u>-</u>	<u>9,861,610</u>
Total liabilities and fund balances	<u>\$ 19,630</u>	<u>\$ 9,861,889</u>	<u>\$ 16,118</u>	<u>\$ 20,770</u>	<u>\$ 9,918,407</u>

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**Non-major Governmental Funds**  
**Combining Statement of Revenues, Expenditures and Change in Fund Balances**  
**Year Ended June 30, 2012**

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	<b>Home Program Fund</b>	<b>Tax Credit Assistance Program Fund</b>	<b>National Foreclosure Mitigation Counseling Program Fund</b>	<b>Emergency Homeowners' Loan Program Fund</b>	<b>Total Non-major Governmental Funds</b>
<b>Revenues</b>					
Intergovernmental	\$ 3,078,265	\$ -	\$ 213,363	\$ 33,457	\$ 3,325,085
<b>Expenditures</b>					
Programs	3,014,323	-	210,241	33,007	3,257,571
Personnel services	31,669	-	-	-	31,669
Administration	28,084	-	-	450	28,534
Professional services	4,189	-	3,122	-	7,311
	<u>3,078,265</u>	<u>-</u>	<u>213,363</u>	<u>33,457</u>	<u>3,325,085</u>
Total expenditures					
Change in fund balance	-	-	-	-	-
<b>Fund balances</b>					
Beginning of year	-	9,861,610	-	-	9,861,610
End of year	<u>\$ -</u>	<u>\$ 9,861,610</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,861,610</u>

See accompanying independent auditors' report.

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Non-major Enterprise Funds  
Combining Statement of Net Assets  
June 30, 2012**

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	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Grant-In-Aid Fund	Hamakua Fund	Waiialua Fund	Total
<b>Assets</b>										
Current assets										
Equity in cash and cash equivalents and investments in State Treasury	\$ 8,234	\$ 62,607	\$ 23,510,924	\$ 3,894,452	\$ -	\$ 889,850	\$ -	\$ -	\$ 788	\$ 28,366,855
Cash in banks	-	-	-	-	42,269	8,452	137,309	-	-	188,030
Receivables										
Accrued interest	-	32	866,549	13,486	-	-	-	1,851	1,314	883,232
Tenant receivables, less allowance for doubtful accounts of \$190,947	-	-	-	-	9,552	-	-	-	-	9,552
Other	-	2,733	-	-	26,492	-	-	-	-	29,225
	<u>-</u>	<u>2,765</u>	<u>866,549</u>	<u>13,486</u>	<u>36,044</u>	<u>-</u>	<u>-</u>	<u>1,851</u>	<u>1,314</u>	<u>922,009</u>
Due from other funds	-	-	-	2,155,185	-	32,287	-	-	-	2,187,472
Prepaid expenses and other assets	-	-	137,485	-	-	-	-	-	-	137,485
Deposits held in trust	-	5,717	-	-	-	-	-	-	-	5,717
Total current assets	<u>8,234</u>	<u>71,089</u>	<u>24,514,958</u>	<u>6,063,123</u>	<u>78,313</u>	<u>930,589</u>	<u>137,309</u>	<u>1,851</u>	<u>2,102</u>	<u>31,807,568</u>
Investments	-	-	7,149,250	-	-	-	-	-	-	7,149,250
Mortgage loans, net of allowance for loan losses of \$187,568	-	-	2,249,985	889,351	-	-	-	-	-	3,139,336
Restricted deposits and funded reserves	-	-	-	-	465,317	-	-	-	-	465,317
Capital assets, net	-	-	-	-	4,149,438	65,976	-	-	-	4,215,414
Total assets	<u>\$ 8,234</u>	<u>\$ 71,089</u>	<u>\$ 33,914,193</u>	<u>\$ 6,952,474</u>	<u>\$ 4,693,068</u>	<u>\$ 996,565</u>	<u>\$ 137,309</u>	<u>\$ 1,851</u>	<u>\$ 2,102</u>	<u>\$ 46,776,885</u>
<b>Liabilities and Net Assets</b>										
Current liabilities										
Accounts payable	\$ -	\$ 4,992	\$ -	\$ 825	\$ 266,942	\$ 136,565	\$ -	\$ -	\$ -	\$ 409,324
Other accrued expenses	-	6	62,848	415,664	8,810	-	-	-	60	487,388
Due to other funds	-	-	-	1,422,868	-	850,000	-	1,851	2,036	2,276,755
Due to other State departments	-	-	-	-	-	10,000	-	-	-	10,000
Security deposits	-	5,717	-	1,241,752	42,545	-	-	-	-	1,290,014
Mortgages payable	-	-	-	-	45,900	-	-	-	-	45,900
Total current liabilities	<u>-</u>	<u>10,715</u>	<u>62,848</u>	<u>3,081,109</u>	<u>364,197</u>	<u>996,565</u>	<u>-</u>	<u>1,851</u>	<u>2,096</u>	<u>4,519,381</u>
Mortgages payable, net of current portion	-	-	-	-	5,380,163	-	-	-	-	5,380,163
Total liabilities	<u>-</u>	<u>10,715</u>	<u>62,848</u>	<u>3,081,109</u>	<u>5,744,360</u>	<u>996,565</u>	<u>-</u>	<u>1,851</u>	<u>2,096</u>	<u>9,899,544</u>
Commitments and contingencies										
Net assets										
Invested in capital assets, net of related debt	-	-	-	-	(1,276,625)	65,976	-	-	-	(1,210,649)
Restricted by legislation and contractual agreements	-	-	-	-	465,317	-	-	-	-	465,317
Unrestricted	<u>8,234</u>	<u>60,374</u>	<u>33,851,345</u>	<u>3,871,365</u>	<u>(239,984)</u>	<u>(65,976)</u>	<u>137,309</u>	<u>-</u>	<u>6</u>	<u>37,622,673</u>
Total net assets	<u>8,234</u>	<u>60,374</u>	<u>33,851,345</u>	<u>3,871,365</u>	<u>(1,051,292)</u>	<u>-</u>	<u>137,309</u>	<u>-</u>	<u>6</u>	<u>36,877,341</u>
Total liabilities and net assets	<u>\$ 8,234</u>	<u>\$ 71,089</u>	<u>\$ 33,914,193</u>	<u>\$ 6,952,474</u>	<u>\$ 4,693,068</u>	<u>\$ 996,565</u>	<u>\$ 137,309</u>	<u>\$ 1,851</u>	<u>\$ 2,102</u>	<u>\$ 46,776,885</u>

See accompanying independent auditors' report.

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Non-major Enterprise Funds  
Combining Statement of Revenues, Expenses and Change in Net Assets  
Year Ended June 30, 2012**

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Grant-In-Aid Fund	Hamakua Fund	Waialua Fund	Total
<b>Operating revenues</b>										
Interest on mortgages, notes, loans and mortgage-backed securities	\$ -	\$ -	\$ 68,625	\$ 49,084	\$ -	\$ -	\$ -	\$ -	\$ 7	\$ 117,716
Rental	-	-	-	28,014	552,723	-	-	-	-	580,737
Other	-	-	75	1,558,117	24,813	-	-	-	-	1,583,005
Total operating revenues	-	-	68,700	1,635,215	577,536	-	-	-	7	2,281,458
<b>Operating expenses</b>										
Personnel services	-	-	77,275	1,440,927	47,191	-	-	-	-	1,565,393
Depreciation	-	-	-	-	161,365	-	-	-	-	161,365
Housing assistance payments	-	-	1,606,420	-	-	-	-	-	-	1,606,420
Administration	-	-	68,237	237,054	99,462	-	-	-	-	404,753
Provision for losses	-	-	-	-	19,298	-	-	-	-	19,298
Professional services	1,719	2,552	11,887	97,439	19,503	-	-	-	-	133,100
Insurance	-	-	-	83,727	18,088	-	-	-	-	101,815
Repairs and maintenance	-	-	1,228	2,653	165,757	-	-	-	-	169,638
Utilities	-	-	-	-	101,441	-	-	-	-	101,441
Total operating expenses	1,719	2,552	1,765,047	1,861,800	632,105	-	-	-	-	4,263,223
Operating income (loss)	(1,719)	(2,552)	(1,696,347)	(226,585)	(54,569)	-	-	-	7	(1,981,765)
<b>Nonoperating revenues (expenses)</b>										
Interest income	629	354	445,240	-	-	-	112	-	-	446,335
Net decrease in fair value of equity in cash and cash equivalents and investments in State Treasury	(1,125)	(137)	(60,617)	(6,105)	-	-	-	-	-	(67,984)
Net increase in fair value of other investments	-	-	277,563	-	-	-	-	-	-	277,563
Interest expense	-	-	-	-	(107,017)	-	-	-	-	(107,017)
Other expense	-	-	-	(30,000)	-	-	-	29,073	(876)	(1,803)
Total nonoperating revenues (expenses)	(496)	217	662,186	(36,105)	(107,017)	-	112	29,073	(876)	547,094
Change in net assets	(2,215)	(2,335)	(1,034,161)	(262,690)	(161,586)	-	112	29,073	(869)	(1,434,671)
<b>Net assets</b>										
Beginning of year	10,449	62,709	34,885,506	4,134,055	(889,706)	-	137,197	(29,073)	875	38,312,012
End of year	\$ 8,234	\$ 60,374	\$ 33,851,345	\$ 3,871,365	\$ (1,051,292)	\$ -	\$ 137,309	\$ -	\$ 6	\$ 36,877,341

See accompanying independent auditors' report.

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Non-major Enterprise Funds  
Combining Statement of Cash Flows  
Year Ended June 30, 2012**

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Grant-In-Aid Fund	Hamakua Fund	Waialua Fund	Total
<b>Cash flows from operating activities</b>										
Cash received from (paid to) tenants	\$ -	\$ -	\$ -	\$ (17,051)	\$ 541,446	\$ -	\$ -	\$ -	\$ -	\$ 524,395
Cash received from borrowers										
Principal repayments	-	-	-	111,207	-	-	-	-	574	111,781
Interest income	-	-	57,341	49,084	-	-	-	-	7	106,432
Payments to employees	-	-	(77,275)	(1,440,927)	(120,482)	-	-	-	-	(1,638,684)
Payments to suppliers	(1,719)	(2,546)	(1,689,292)	(264,738)	(296,952)	-	-	-	-	(2,255,247)
Cash payments to other funds	-	-	(130)	(282,633)	-	(19,005)	-	(29,073)	(7)	(330,848)
Other cash receipts	-	-	74	1,529,918	24,813	7,802	-	29,073	-	1,591,680
Net cash provided by (used in) operating activities	(1,719)	(2,546)	(1,709,282)	(315,140)	148,825	(11,203)	-	-	574	(1,890,491)
<b>Cash flows from capital and related financing activities</b>										
Principal paid on mortgage loans	-	-	-	-	(43,401)	-	-	-	-	(43,401)
Purchase of capital assets	-	-	-	-	-	(65,976)	-	-	-	(65,976)
Interest payments	-	-	-	-	(108,416)	-	-	-	-	(108,416)
Net cash used in capital and related financing activities	-	-	-	-	(151,817)	(65,976)	-	-	-	(217,793)
<b>Cash flows from investing activities</b>										
Purchase of investments	-	-	-	(1,801)	-	-	-	-	-	(1,801)
Interest received	629	322	445,240	-	-	-	112	-	-	446,303
Change in fair value of equity in cash and cash equivalents and investments in State Treasury	(1,125)	(137)	(60,617)	(6,105)	-	-	-	-	-	(67,984)
Net cash provided by (used in) investing activities	(496)	185	384,623	(7,906)	-	-	112	-	-	376,518
Net increase (decrease) in cash and cash equivalents	(2,215)	(2,361)	(1,324,659)	(323,046)	(2,992)	(77,179)	112	-	574	(1,731,766)
<b>Cash and cash equivalents</b>										
Beginning of year	10,449	70,685	24,835,583	4,217,498	510,578	975,481	137,197	-	214	30,757,685
End of year	\$ 8,234	\$ 68,324	\$ 23,510,924	\$ 3,894,452	\$ 507,586	\$ 898,302	\$ 137,309	\$ -	\$ 788	\$ 29,025,919

See accompanying independent auditors' report.

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Non-major Enterprise Funds  
Combining Statement of Cash Flows  
Year Ended June 30, 2012**

	University of Hawai'i Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project Fund	Disbursing Fund	Grant-In-Aid Fund	Hamakua Fund	Waialua Fund	Total
<b>Components of cash and cash equivalents</b>										
Equity in cash and cash equivalents and investments in State Treasury	\$ 8,234	\$ 62,607	\$ 23,510,924	\$ 3,894,452	\$ -	\$ 889,850	\$ -	\$ -	\$ 788	\$ 28,366,855
Cash in banks	-	-	-	-	42,269	8,452	137,309	-	-	188,030
Deposits held in trust	-	5,717	-	-	-	-	-	-	-	5,717
Restricted deposits and funded reserves	-	-	-	-	465,317	-	-	-	-	465,317
Cash and cash equivalents	<u>\$ 8,234</u>	<u>\$ 68,324</u>	<u>\$ 23,510,924</u>	<u>\$ 3,894,452</u>	<u>\$ 507,586</u>	<u>\$ 898,302</u>	<u>\$ 137,309</u>	<u>\$ -</u>	<u>\$ 788</u>	<u>\$ 29,025,919</u>
<b>Cash flows from operating activities</b>										
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities										
Operating income (loss)	\$ (1,719)	\$ (2,552)	\$ (1,696,347)	\$ (226,585)	\$ (54,569)	\$ -	\$ -	\$ -	\$ 7	\$ (1,981,765)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities										
Depreciation	-	-	-	-	161,365	-	-	-	-	161,365
Provision for losses	-	-	-	-	19,298	-	-	-	-	19,298
Changes in assets and liabilities										
Mortgage loans receivable	-	-	-	111,205	-	-	-	-	574	111,779
Accrued interest receivable	-	-	(11,284)	-	-	-	-	-	-	(11,284)
Tenant receivables	-	-	-	-	(6,803)	-	-	-	-	(6,803)
Other receivables	-	(688,880)	-	-	(6,466)	-	-	-	-	(695,346)
Due from other funds	-	-	-	1,672,050	-	(19,005)	-	-	-	1,653,045
Prepaid expenses and other assets	-	-	(17,893)	-	-	-	-	-	-	(17,893)
Accounts payable	-	1,140	-	-	34,008	7,802	-	-	-	42,950
Other accrued expenses	-	687,746	16,372	156,135	-	-	-	-	-	860,253
Due to other funds	-	-	(130)	(1,982,880)	-	-	-	-	(7)	(1,983,017)
Security deposits	-	-	-	(45,065)	1,992	-	-	-	-	(43,073)
Net cash provided by (used in) operating activities	<u>\$ (1,719)</u>	<u>\$ (2,546)</u>	<u>\$ (1,709,282)</u>	<u>\$ (315,140)</u>	<u>\$ 148,825</u>	<u>\$ (11,203)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 574</u>	<u>\$ (1,890,491)</u>

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Reconciliation of Cash and Short-Term Investments**  
**June 30, 2012**

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The Corporation’s cash and short-term investments consist of the following as of June 30, 2012:

Equity in State Treasury investment pool – Government-wide	\$ 160,057,463
Equity in State Treasury investment pool – Fiduciary Funds	203,484
Cash in banks	2,596,558
Cash and cash equivalents held by trustees	76,274,697
Deposits held in trust	5,717
Restricted deposits and funded reserves	465,317
	<u>\$ 239,603,236</u>

Total cash and short-term investments are in agreement with the State Comptroller’s central accounting records as of June 30, 2012, as reconciled below:

	<b>Appropriation Symbol</b>	<b>Balance at June 30, 2012</b>
<b>Cash in State Treasury</b>		
Special Funds	S-02-800-B	\$ 203,484
	S-12-374-B	62,979
	S-12-213-B	12,068
	S-11-376-B	4,000
	S-12-325-B	788
	S-12-377-B	2,508
	S-07-375-B	21,920
	S-08-375-B	166,336
	S-09-375-B	84,797
	S-10-375-B	274,326
	S-09-376-B	7,000
	S-11-375-B	1,024,602
	S-12-378-B	23,674,988
	S-12-314-B	493,959
	S-12-320-B	219,416
	S-12-321-B	125,836
	S-12-375-B	72,556,521
	S-12-376-B	3,777,408
Trust Funds	T-12-930-B	<u>58,736,247</u>
		<u>161,449,183</u>
Total cash held in State Treasury, as reported by State Comptroller’s accounting records		<u>161,449,183</u>

See accompanying independent auditors’ report.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Reconciliation of Cash and Short-Term Investments**  
**June 30, 2012**

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	<b>Balance at June 30, 2012</b>
<b>Reconciling items</b>	
Journal vouchers not recorded by DAGS	22,631
Journal vouchers not recorded on books	(4,569)
Fair value adjustment – cash held in State Treasury Investment Pool	(1,194,568)
Other	(11,730)
	<u>(1,188,236)</u>
<b>Cash and short-term investments held outside State Treasury</b>	
Cash in bank	2,596,558
Cash held by trustees	76,274,697
Deposits held in trust	5,717
Restricted deposits and funded reserves	465,317
	<u>79,342,289</u>
Cash and short-term investments on Statement of Net Assets	<u>\$ 239,603,236</u>

See accompanying independent auditors' report.

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2012**

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<b>Federal Grantor/Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Federal Expenditures</b>
<b>U.S. Department of Housing and Urban Development</b>		
HOME Investment Partnership Program	14.239	\$ 3,078,265 *
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii –		
Neighborhood Stabilization Program	14.228	6,313,447
Emergency Homeowners' Loan Program	14.323	33,457
<b>U.S. Department of Treasury</b>		
Passed through The Neighborhood Reinvestment Corporation –		
National Foreclosure Mitigation Counseling	21.000	<u>213,363</u>
Total federal expenditures		<u>\$ 9,638,532</u>

\*Denotes major federal program.

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

**State of Hawai‘i**  
**Hawaii Housing Finance and Development Corporation**  
**Notes to Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2012**

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**1. Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State of Hawai‘i, Hawaii Housing Finance and Development Corporation (the Corporation) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**2. Subrecipients**

Of the federal expenditures presented in the schedule of expenditures of federal awards, the Corporation provided federal awards to subrecipients as follows:

<b>Program Title</b>	<b>CFDA Number</b>	<b>Amount Provided to Subrecipients</b>
<b>U.S. Department of Housing and Urban Development</b>		
HOME Investment Partnership Program	14.239	\$ 3,014,323
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii – Neighborhood Stabilization Program	14.228	6,183,331
Emergency Homeowners’ Loan Program	14.323	33,007
<b>U.S. Department of Treasury</b>		
National Foreclosure Mitigation Counseling	21.000	<u>213,311</u>
Total federal expenditures		<u>\$ 9,443,972</u>

**3. Loans Outstanding**

The Corporation had \$9,861,610 of loan balances outstanding and advances awarded as of and for the year ended June 30, 2012.

See accompanying independent auditors’ report.

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



CERTIFIED PUBLIC ACCOUNTANTS

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

The Auditor  
State of Hawai'i

The Board of Directors  
Hawaii Housing Finance and Development Corporation

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawai'i, Hawaii Housing Finance and Development Corporation (the Corporation) as of and for the year ended June 30, 2012, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated December 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in Finding Nos. 2010-01 and 2009-01 of the accompanying schedule of findings and questioned costs, which we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

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

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

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

*Accuity LLP*

Honolulu, Hawai'i  
December 10, 2012



CERTIFIED PUBLIC ACCOUNTANTS

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

The Auditor  
State of Hawai'i

The Board of Directors  
Hawaii Housing Finance and Development Corporation

**Compliance**

We have audited the State of Hawai'i, Hawaii Housing Finance and Development Corporation's (the Corporation) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2012. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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

In our opinion, the Corporation complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

## **Internal Control Over Compliance**

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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

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

*Accuity LLP*

Honolulu, Hawai'i  
December 10, 2012

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012**

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

**Financial Statements**

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major programs:

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

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

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

Identification of major programs:

**CFDA**

<b>Number</b>	<b>Name of Federal Program</b>
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

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012**

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**Section II – Financial Statement Findings**

No current year financial statement findings.

**Section III – Federal Award Findings and Questioned Costs**

No current year federal award findings and questioned costs.

**State of Hawai'i  
Hawaii Housing Finance and Development Corporation  
Schedule of Findings and Questioned Costs  
Year Ended June 30, 2012**

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The following is the status of the prior year findings.

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

**Financial Statement Finding**

**Finding Nos. 2010-01 and 2009-01: Financial Reporting (Significant Deficiency)**

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

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

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

**Status**

Unresolved. A formal valuation analysis was not performed as of June 30, 2012.

**Management Response**

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

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

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