

Hawaii Housing Finance and Development Corporation

Financial Statements

June 30, 2007

Together with Independent Auditor's Report

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Hawaii Housing Finance and Development Corporation

Management Discussion and Analysis

June 30, 2007

The management of the Hawaii Housing Finance and Development Corporation (Corporation) offers readers of the Corporation's financial statements this narrative overview and analysis of their financial activities for the fiscal year ended (FYE) June 30, 2007. This document should be read in conjunction with the audited financial statements. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Introduction

The Hawaii Housing and Community Development Corporation of Hawaii (HCDCH) is a housing authority, established by the State Legislature effective July 1, 1988. HCDCH consolidated the former Hawaii Housing Authority, the Housing Finance and Development Corporation, and the Rental Housing Trust Fund Commission.

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 Administration (HPHA) and (2) the Hawaii Housing Finance and Development Corporation (the Corporation).

The Corporation administers the following major programs:

- Development programs
- Financing programs to facilitate affordable housing development
- Financing programs to assist first-time homebuyers

The Corporation assists in the delivery of affordable for-sale or rental housing throughout the State on a cost-effective basis, through the provision of financing and development tools and resources. The Corporation also provides incentives, through tax credits, to developers and owners of private rental housing projects where the monthly rents are affordable to tenants with incomes of 60% or lower of the area median income.

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 Senate of the State of Hawaii. Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui and Kauai. At least four of the public members shall have knowledge and expertise in public or private financing and development of affordable housing. At least one public member shall represent 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.

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Overview of the Financial Statements

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

1. Basic Financial Statements

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

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

2. Government-Wide Financial Statements

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

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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 whether the financial position of the Corporation is improving or deteriorating.
- 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 appropriations or by HUD contributions.
- Business-type activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users.

3. Fund Financial Statements

The fund financial statements provide more detailed information about the Corporation's most significant funds and not the Corporation as a whole. The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as a major fund or a non-major fund. In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 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 Corporation was required to implement these standards for the fiscal year ended June 30, 2002. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining section of the financial statements.

The Corporation has three types of funds:

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

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

4. Notes to Financial Statements

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

5. Required Supplementary Information

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

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Management Discussion and Analysis June 30, 2007

6. Other Information

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

Government-Wide Financial Analysis

As noted earlier, the *statement of net assets* presents all of the Corporation's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as a useful indicator of the Corporation's financial position. As indicated below, as of June 30, 2007, the Corporation's total net asset balance was \$314,397, an increase of \$31,427 (or 11.1%) from the previous year.

Government-Wide Condensed Statement of Net Assets June 30, 2007 and 2006 (In thousand of dollars)								
	Governmental Activities		Business Activities		Total		Total Percent Change	
	2007	2006	2007	2006	2007	2006		
Current assets	\$ 1,469	\$ 168	\$ 240,109	\$ 212,740	\$ 241,578	\$ 212,908	13.5%	
Assets held by trustee	-	-	318,715	329,550	318,715	329,550	-3.3%	
Capital assets	161	-	87,137	92,979	87,298	92,979	-6.1%	
Other assets	-	-	95,973	97,264	95,973	97,264	-1.3%	
Total assets	\$ 1,630	\$ 168	\$ 741,934	\$ 732,533	\$ 743,564	\$ 732,701	1.5%	
Current liabilities	\$ -	\$ 168	\$ 63,017	\$ 59,813	\$ 63,017	\$ 59,981	5.1%	
Long-term liabilities	-	-	366,150	389,750	366,150	389,750	-6.1%	
Total liabilities	-	168	429,167	449,563	429,167	449,731	-4.6%	
Net assets								
Invested in capital assets								
net of related debt	161	-	(18,981)	(15,106)	(18,820)	(15,106)	-24.6%	
Restricted	-	-	319,291	330,175	319,291	330,175	-3.3%	
Unrestricted	1,469	-	12,457	(32,099)	13,926	(32,099)	143.4%	
Total net assets	1,630	-	312,767	282,970	314,397	282,970	11.1%	
Total liabilities and net assets	\$ 1,630	\$ 168	\$ 741,934	\$ 732,533	\$ 743,564	\$ 732,701	1.5%	

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Current assets increased by \$28,670 (or 13.5%) during 2007 primarily related to an increase in cash of \$19,413 in the Rental Housing Trust Fund from the accumulation of conveyance taxes and an increase in cash of \$6,932 in the Dwelling Unit Revolving Fund related to proceeds from sales of land and units and a legal settlement.

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 \$10,835 (or 3.3%) during 2007 due to the use of these assets to redeem previously outstanding bonds. Restricted net assets, which represent resources that are subject to external restrictions on how they may be used, primarily include the assets held by trustee and decreased by \$10,884 (or 3.3%) during 2007.

Capital assets decreased by \$5,681 (or 6.1%) during 2007 primarily due to continued depreciation on assets during the year. Secondly, the balance declined due to the relief of assets that were sold during the year.

Long-term liabilities decreased by \$23,600 (or 6.1%) primarily due to principal payments on outstanding bonds during the year.

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.”

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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, 2007 and June 30, 2006 (In thousand of dollars)						Total Percent Change
		Governmental Activities		Business Activities		Total		
		2007	2006	2007	2006	2007	2006	
Revenues								
Program revenues:								
Charges for services	\$	-	\$ -	\$ 60,159	\$ 52,775	\$ 60,159	\$ 52,775	14.0%
Operating grants and contributions		4,135	2,721	18,972	1,893	23,107	4,614	400.8%
Capital grants and contributions		-	-	-	-	-	-	-
General revenues:								
State allotted appropriations, net of lapses		2,323	-	200	-	2,523	-	100.0%
Total revenues		<u>6,458</u>	<u>2,721</u>	<u>79,331</u>	<u>54,668</u>	<u>85,789</u>	<u>57,389</u>	49.5%
Expenses								
Governmental activities								
Expenditures - Disbursements		4,828	2,721	-	-	4,828	2,721	77.4%
Business-type activities								
Rental assistance program		-	-	1,622	1,833	1,622	1,833	-11.5%
Housing development program		-	-	6,429	5,353	6,429	5,353	20.1%
Multi-family mortgage loan programs		-	-	8,801	3,279	8,801	3,279	168.4%
Single-family mortgage loan program		-	-	13,728	15,849	13,728	15,849	-13.4%
Rental housing program		-	-	17,455	16,286	17,455	16,286	7.2%
Others		-	-	1,386	1,901	1,386	1,901	-27.1%
Total government-wide expenses		<u>4,828</u>	<u>2,721</u>	<u>49,421</u>	<u>44,501</u>	<u>54,249</u>	<u>47,222</u>	14.9%
Excess of revenues over expenses		<u>1,630</u>	<u>-</u>	<u>29,910</u>	<u>10,167</u>	<u>31,540</u>	<u>10,167</u>	208.3%
Transfers		<u>-</u>	<u>-</u>	<u>(113)</u>	<u>1,894</u>	<u>(113)</u>	<u>1,894</u>	-106.0%
Change in net assets		1,630	-	29,797	12,061	31,427	12,061	160.6%
Total net assets, beginning of year		<u>-</u>	<u>-</u>	<u>282,970</u>	<u>270,909</u>	<u>282,970</u>	<u>270,909</u>	4.5%
Total net assets, end of year	\$	<u>1,630</u>	<u>\$ -</u>	<u>\$312,767</u>	<u>\$ 282,970</u>	<u>\$314,397</u>	<u>\$ 282,970</u>	11.1%

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Governmental Activities

Total net assets of the governmental activities were \$1,630 at June 30, 2007. As there were no net assets related to these activities at June 30, 2006, the increase is due primarily to State allotted appropriations of \$2,323 and expenditures of \$693 for the General Fund.

Business-type Activities

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

For the fiscal year ending June 30, 2007, business-type activities increased the Corporation's net assets by \$29,797. Key elements of this increase are as follows:

- Charges for services increased by \$7,384 (or 14.0%) to \$60,159 in 2007 from \$52,775 in 2006 primarily as a result of an increase of \$7,170 in conveyance taxes to the Rental Housing Trust Fund during 2007. This increase in revenues was primarily due to the 20 percent increase in the fund's allocation of conveyance tax receipts to 50 percent in 2007 from 30 percent in 2006.
- Operating grants and contributions increased by \$17,079 to \$18,972 in 2007 from \$1,893 in 2006 primarily due to the improvement in the change in fair-value of mortgage-backed securities of \$10,037 in the Single Family Mortgage Purchase Revenue Bond Fund and \$1,962 in the Multifamily Housing Revenue Bond Fund.
- Expenses related to multifamily mortgage loan programs increased by \$5,522 to \$8,801 in 2007 from \$3,279 in 2006 primarily as a result of an intergovernmental expenditure of \$5,500 in the Rental Housing Trust Fund. This amount related to the funding of the Kahikolu Ohana Hale O Waianae Project to provide emergency and transitional housing in Waianae, pursuant to Section 124 of Act 178, SLH 2005, as amended by Act 160.

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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, 2007, the Corporation's governmental funds reported a combined ending fund balance of \$1,469, an increase of the same amount in comparison to the combined \$0 fund balance at June 30, 2006. The increase was primarily due to the following:

- The fund balance of the General Fund increased \$1,469, due to State allotted appropriations of \$2,323, less related expenditures of \$854.

Proprietary Funds

The proprietary fund consists of four major and several non-major funds. The four major funds are: 1) Rental Housing Trust Fund, 2) Dwelling Unit Revolving Fund, 3) Hawaii Rental Housing System Revenue Bond Fund and 4) Single Family Mortgage Purchase 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 \$21,633 in 2007, which was an increase of \$2,806 (or 14.9%) over the increase in net assets of \$18,827 in 2006. The 2007 increase in net assets consisted of conveyance tax collections of \$24,164 and interest income of \$3,104, less operating expenses of \$136 and an intergovernmental expenditure of \$5,500 related to the funding of the Kahikolu Ohana Hale O Waianae Project to provide emergency and transitional housing in Waianae, pursuant to Section 124 of Act 178, SLH 2005, as amended by Act 160, SLH 2006.

Conveyance taxes increased by \$7,170 (or 42.2%) to \$24,164 in 2007 from \$16,994 in 2006 primarily due to the 20 percent increase in the fund's allocation of conveyance tax receipts to 50 percent in 2007 from 30 percent in 2006. Interest income on cash balances increased by \$975 (or 88.4%) to \$2,078 in 2007 from \$1,103 in 2006 primarily due to a higher average balance and slightly higher interest rates during 2007.

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- The *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, which generates rental income, sales proceeds and interest earnings from the financing and investment of such funds. The fund had an increase in net assets of \$6,084 in 2007, which was an increase of \$2,799 (or 85.2%) over the increase in net assets of \$3,285 in 2006. The 2007 increase in net assets consisted of operating income of \$2,368 and nonoperating income of \$3,716. Operating income increased by \$3,021 to \$2,368 in 2007 from an operating loss of \$653 in 2006 primarily due to an increase in the gain on the sale of land and units by \$1,609 (or 133%) to \$2,819 in 2007 from \$1,210 in 2006 and the receipt of a legal settlement of \$1,307 during 2007. Nonoperating income increased by \$856 to \$3,716 in 2007 from \$2,863 in 2006 due to an increase in interest income resulting from a higher average balance and slightly higher interest rates during 2007.
- 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. Net assets decreased by \$1.0 million during the current year. The fund had a decrease in net assets, and a loss before transfers, of \$1,029 in 2007, which was a decrease of \$351 (or 51.8%) from the loss before transfers of \$678 in 2006. The increase in the loss before transfers of the fund is primarily due to the increase in operating expenses of \$818 (or 7.1%) to \$12,353 in 2007 from \$11,535 in 2006. This increase in operating expenses related to planned renovations at a housing project that took place during 2007. Operating revenues increased by \$399 (or 2.8%) to \$14,411 in 2007 from \$14,012 in 2006 and nonoperating expenses decreased by \$68 (or 2.2%) to \$3,087 in 2007 from \$2,477 in 2006.
- 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. The fund had an increase in net assets of \$2,819, which is an increase of \$9,830 over the decrease in net assets of \$7,011 in 2006. The increase in net assets was substantially due to the \$10,037 improvement in the decline in fair-value of mortgage-backed securities to a decline of \$34 in 2007 from a decline of \$10,071 in 2006. Additionally, the continued refinancing of mortgage-backed securities resulted in management continuing to use available cash to redeem the related bonds outstanding. Accordingly interest income from mortgage-backed securities declined by \$737 (or 7.9%) to \$9,272 in 2007 from \$10,009 in 2006 and interest income from cash declined by \$1,585 (or 17.8%) to \$7,305 in 2007 from \$8,891 in 2006. Also, interest expense related to outstanding bonds decreased by \$2,047 (or 18.0%) to \$11,348 in 2007 to \$13,395 in 2006.

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Management Discussion and Analysis
June 30, 2007

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2007, the Corporation had invested approximately \$87,298 (net of accumulated depreciation of \$78,188) in a broad range of capital assets. This amount represents a decrease of \$5,681 (or 6.1%) over the prior year, primarily due to the continued depreciation of buildings and improvements.

Corporation's Capital Assets
Years Ended June 30, 2007 and June 30, 2006
(In thousand of dollars)

	Governmental		Business		Total		Total Percent Change
	Activities		Activities				
	2007	2006	2007	2006	2007	2006	
Land	\$ -	\$ -	\$ 20,274	\$ 21,035	\$ 20,274	\$ 21,035	-3.6%
Buildings and improvements	-	-	142,407	143,434	142,407	143,434	-0.7%
Equipment	176	-	1,792	1,791	1,968	1,791	9.9%
Construction in progress	-	-	837	-	837	-	100.0%
Total	176	-	165,310	166,260	165,486	166,260	-0.5%
Accumulated depreciation	(15)	-	(78,173)	(73,281)	(78,188)	(73,281)	6.7%
Total Capital Assets, net	\$ 161	\$ -	\$ 87,137	\$ 92,979	\$ 87,298	\$ 92,979	-6.1%

Debt Administration

Through June 30, 2007, approximately \$2.13 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 decreased \$23,960 to \$364,642 at June 30, 2007 from \$388,602 at June 30, 2006. During the year ended June 30, 2007, the Corporation did not issue new bonds and had bond redemptions of approximately \$24,300. As defined in the bond indentures, under certain conditions, revenue bonds may be redeemed without premium prior to maturity. Included in the current year bond redemptions were early redemptions of \$15,600.

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During fiscal year 2007, Moody's Investors Service's rating of the Corporation continued to be A2 with a negative outlook. The Corporation's bond ratings for the Single Family Mortgage Purchase Revenue Bond program were as follows:

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

Currently Known Facts, Decisions, or Conditions

- On July 1, 2007, the Corporation redeemed \$13.5 million of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund, including \$8.6 million of early redemptions.

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.



A Hawaii Limited Liability Partnership

Independent Auditor's Report

Board of Directors

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 governmental funds and proprietary funds all as listed under "basic financial statements" in the accompanying table of contents of Hawaii Housing Finance and Development Corporation (Corporation) as of and for the year ended June 30, 2007. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the Corporation are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate other fund information of the State of Hawaii that is attributable to the transactions of the Corporation. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2007, 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 governmental funds and proprietary funds of the Corporation as of June 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 1 to 12 and Budgetary Comparison Schedules on page 70 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on Management's Discussion and Analysis or on the Budgetary Comparison Schedules.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Corporation's basic financial statements taken as a whole. The supplementary information as listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
February 14, 2008,
Except for Note 19 dated March 19, 2008

Hawaii Housing Finance and Development Corporation

Government -Wide
Statement of Net Assets
June 30, 2007

<u>Assets</u>	Governmental Activities	Business-type Activities	Total
Current Assets			
Cash	\$ 1,468,852	\$ 178,622,601	\$ 180,091,453
Receivables			
Mortgage loans	-	1,293,930	1,293,930
Notes and loans	-	5,009,862	5,009,862
Accrued interest	-	4,998,400	4,998,400
Tenant receivables, less allowance for doubtful receivables of \$1,457,622	-	195,059	195,059
Other	-	2,977,975	2,977,975
	<u>-</u>	<u>14,475,226</u>	<u>14,475,226</u>
Due from other funds	-	2,861,011	2,861,011
Due from other governments	71,356	-	71,356
Internal balances	(71,356)	71,356	-
Due from other State of Hawaii Departments	-	22,356,967	22,356,967
Inventories			
Developments in progress and dwelling units	-	20,848,606	20,848,606
Net investment in direct financing lease	-	546,705	546,705
Prepaid expenses and other assets	-	151,568	151,568
Deposits held in trust	-	40,190	40,190
Deferred bond discount and issuance costs	-	134,650	134,650
Total current assets	<u>1,468,852</u>	<u>240,108,880</u>	<u>241,577,732</u>
Assets Held by Trustees Under Revenue Bond Programs			
Cash	-	4,232,604	4,232,604
Investments	-	314,482,244	314,482,244
	<u>-</u>	<u>318,714,848</u>	<u>318,714,848</u>
Investments	-	6,388,436	6,388,436
Mortgage Loans, net of current portion	-	71,955,399	71,955,399
Restricted Deposits and Funded Reserves	-	576,029	576,029
Net Investment in Financing Lease, net of current portion	-	15,032,704	15,032,704
Deferred Bond Issuance Costs	-	2,021,400	2,021,400
Capital Assets, less accumulated depreciation	160,611	87,136,668	87,297,279
Total assets	<u>\$ 1,629,463</u>	<u>\$ 741,934,364</u>	<u>\$ 743,563,827</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Net Assets (continued)
June 30, 2007

<u>Liabilities and Net Assets</u>	Governmental Activities	Business-type Activities	Total
Current Liabilities			
Accounts payable	\$ -	\$ 2,687,354	\$ 2,687,354
Accrued expenses			
Interest	-	8,123,380	8,123,380
Other	-	831,881	831,881
Due to other funds	-	2,861,011	2,861,011
Due to State of Hawaii, including Office of Hawaiian Affairs	-	5,583,604	5,583,604
Security deposits	-	1,693,326	1,693,326
Notes payable	-	39,411	39,411
Mortgage payable	-	35,171	35,171
Revenue bonds payable, less deferred refunding cost	-	8,968,092	8,968,092
Deferred income	-	44,826	44,826
Deferred commitment fees	-	472,728	472,728
Deferred gain on sale of units and land	-	1,796,275	1,796,275
Estimated future costs of land sold	-	29,880,432	29,880,432
Total current liabilities	-	63,017,491	63,017,491
Deferred Commitment Fees, net of current portion	-	1,291,625	1,291,625
Arbitrage Rebate Payable	-	3,332,909	3,332,909
Notes Payable, net of current portion	-	265,695	265,695
Mortgage Payable, net of current portion	-	5,585,590	5,585,590
Revenue Bonds Payable, less deferred refunding costs, net of current portion	-	355,673,801	355,673,801
Commitments and Contingencies			
Net Assets			
Invested in capital assets, net of related debt	160,611	(18,981,332)	(18,820,721)
Restricted by legislation and contractual agreements	-	319,290,877	319,290,877
Unrestricted	1,468,852	12,457,708	13,926,560
Total net assets	1,629,463	312,767,253	314,396,716
Total liabilities and net assets	\$ 1,629,463	\$ 741,934,364	\$ 743,563,827

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Government-Wide
Statement of Activities
June 30, 2007

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities--						
Low income housing service and assistance program	\$ 4,828,418	\$ -	\$ 4,134,581	\$ -	\$ (693,837)	\$ (693,837)
Total governmental activities	4,828,418	-	4,134,581	-	(693,837)	(693,837)
Business-type activities:						
Rental assistance program	1,622,006	274,966	1,547,406	-	-	200,366
Housing development program	6,428,491	7,949,320	4,562,756	-	-	6,083,585
Multi-family mortgage loan programs	8,800,915	26,281,840	4,032,320	-	-	21,513,245
Single-family mortgage loan program	13,728,464	9,272,094	7,271,460	-	-	2,815,090
Rental housing program	17,454,515	14,829,557	1,460,995	-	-	(1,163,963)
Others	1,386,459	1,551,670	96,930	-	-	262,141
Total business-type activities	49,420,850	60,159,447	18,971,867	-	-	29,710,464
Total government-wide	\$ 54,249,268	\$ 60,159,447	\$ 23,106,448	\$ -	(693,837)	29,710,464
State Allotted Appropriations, net of lapses				2,323,300	200,000	2,523,300
Net Transfers				-	(113,049)	(113,049)
Total general revenues and transfers				2,323,300	86,951	2,410,251
Change in net assets				1,629,463	29,797,415	31,426,878
Net Assets, July 1, 2006				-	282,969,838	282,969,838
Net Assets, June 30, 2007				\$ 1,629,463	\$ 312,767,253	\$ 314,396,716

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Governmental Funds
 Balance Sheet
 June 30, 2007

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
<u>Assets</u>			
Cash	\$ 1,468,852	\$ -	\$ 1,468,852
Due from other agencies	-	71,356	71,356
Total assets	\$ 1,468,852	\$ 71,356	\$ 1,540,208
<u>Liabilities and Fund Balance</u>			
Liabilities --			
Internal balances	\$ -	\$ 71,356	\$ 71,356
Total liabilities	-	71,356	71,356
Fund Balances - Unrestricted			
Reserved for encumbrances	1,468,852	-	1,468,852
Total liabilities and fund balance	\$ 1,468,852	\$ 71,356	\$ 1,540,208

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Reconciliation of the Governmental Fund Balance to the
Statement of Net Assets
June 30, 2007

Total fund balance - governmental funds \$ 1,468,852

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

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

Equipment	175,834	
Accumulated depreciation	<u>(15,223)</u>	
Total capital assets		<u>160,611</u>
Net assets of governmental activities		<u>\$ 1,629,463</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2007

	General Fund	Nonmajor Governmental Fund	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
Revenues:			
State allotted appropriations	\$ 2,323,300	\$ -	\$ 2,323,300
Intergovernmental revenue	<u>-</u>	<u>4,134,581</u>	<u>4,134,581</u>
	2,323,300	4,134,581	6,457,881
Total revenues			
Expenditures:			
Low income housing services	653,957	-	653,957
Capital outlays	200,491	-	200,491
Project	-	4,023,836	4,023,836
Personal services	-	73,912	73,912
Administration	-	32,833	32,833
Professional services	<u>-</u>	<u>4,000</u>	<u>4,000</u>
Total expenditures	854,448	4,134,581	4,989,029
Change in fund balance	1,468,852	-	1,468,852
Fund Balance at July 1, 2006	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at June 30, 2007	<u>\$ 1,468,852</u>	<u>\$ -</u>	<u>\$ 1,468,852</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Reconciliation of the Change in Fund Balances of Governmental
Funds to the Statement of Activities
June 30, 2007

Net change in fund balances - total governmental funds \$ 1,468,852

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

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

Capital outlay	175,834	
Depreciation expense	<u>(15,223)</u>	
		<u>160,611</u>
Net assets of governmental activities		<u><u>\$ 1,629,463</u></u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Net Assets
June 30, 2007

<u>Assets</u>	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Current Assets:						
Cash	\$ 61,224,090	\$ 88,020,961	\$ 938,800	\$ -	\$ 28,438,750	\$ 178,622,601
Receivables:						
Mortgage loans	378,540	72,223	-	775,465	67,702	1,293,930
Notes and loans	-	1,936,214	-	-	3,073,648	5,009,862
Accrued interest	2,145,622	820,068	125,989	948,262	958,459	4,998,400
Tenant receivables, less allowance for doubtful accounts of \$1,457,622	-	10,204	151,163	-	33,692	195,059
Other	-	2,119,045	790,388	-	68,542	2,977,975
	<u>2,524,162</u>	<u>4,957,754</u>	<u>1,067,540</u>	<u>1,723,727</u>	<u>4,202,043</u>	<u>14,475,226</u>
Due from other funds	-	438,236	-	95,232	2,327,543	2,861,011
Internal balances	-	-	-	-	71,356	71,356
Due from other State of Hawaii Departments	-	22,356,967	-	-	-	22,356,967
Inventories	-	20,848,606	-	-	-	20,848,606
Net investment in financing lease	-	-	-	-	546,705	546,705
Prepaid expenses and other assets	-	29,952	845	8,476	112,295	151,568
Deposits held in trust	-	-	-	-	40,190	40,190
Deferred bond issuance costs	-	-	50,126	66,522	18,002	134,650
Total current assets	<u>63,748,252</u>	<u>136,652,476</u>	<u>2,057,311</u>	<u>1,893,957</u>	<u>35,756,884</u>	<u>240,108,880</u>
Assets Held by Trustees Under Revenue Bond Programs:						
Cash and cash equivalent	-	-	877,578	3,342,305	12,721	4,232,604
Investments	-	-	32,410,640	251,978,958	30,092,646	314,482,244
	<u>-</u>	<u>-</u>	<u>33,288,218</u>	<u>255,321,263</u>	<u>30,105,367</u>	<u>318,714,848</u>
Investments	-	-	-	-	6,388,436	6,388,436
Mortgage Loans, net of current portion	53,182,450	598,177	-	6,707,904	11,466,868	71,955,399
Restricted Deposits and Funded Reserves	-	-	-	-	576,029	576,029
Net Investment in Financing Lease, net of current portion	-	-	-	-	15,032,704	15,032,704
Deferred Bond Issuance Costs, net of current portion	-	-	730,382	1,046,524	244,494	2,021,400
Capital Assets, less accumulated depreciation	-	4,737,200	77,603,388	2,952	4,793,128	87,136,668
Total assets	<u>\$ 116,930,702</u>	<u>\$ 141,987,853</u>	<u>\$ 113,679,299</u>	<u>\$ 264,972,600</u>	<u>\$ 104,363,910</u>	<u>\$ 741,934,364</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

Statement of Net Assets (continued)

June 30, 2007

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
<u>Liabilities and Net Assets</u>						
Current Liabilities:						
Accounts payable	\$ -	\$ 726,489	\$ 1,747,405	\$ 43,540	\$ 169,920	\$ 2,687,354
Accrued expenses:						
Interest	11,532	-	1,738,349	5,437,469	936,030	8,123,380
Other	-	441,848	17,503	109,602	262,928	831,881
Due to other funds	1,390	36,844	193,866	354,331	2,274,580	2,861,011
Due to State of Hawaii, including Office of Hawaiian Affairs	-	5,573,604	-	-	10,000	5,583,604
Security deposits	-	32,303	850,555	-	810,468	1,693,326
Notes payable	-	39,411	-	-	-	39,411
Mortgage payable	-	-	-	-	35,171	35,171
Revenue bonds payable, less deferred refunding cost	-	-	2,310,000	5,795,000	863,092	8,968,092
Deferred income	-	12,117	32,709	-	-	44,826
Deferred commitment fees	-	-	-	472,728	-	472,728
Deferred gain on sale of units and land	-	1,796,275	-	-	-	1,796,275
Estimated future costs of land sold	-	29,880,432	-	-	-	29,880,432
Total current liabilities	12,922	38,539,323	6,890,387	12,212,670	5,362,189	63,017,491
Deferred Commitment Fees, net of current portion	-	-	-	1,291,625	-	1,291,625
Arbitrage Rebate Payable	-	-	-	3,332,909	-	3,332,909
Notes Payable, net of current portion	-	265,695	-	-	-	265,695
Mortgage Payable, net of current portion	-	-	-	-	5,585,590	5,585,590
Revenue Bonds Payable, less deferred refunding cost, net of current portion	-	-	98,429,808	206,840,150	50,403,843	355,673,801
Commitments and Contingencies						
Net Assets:						
Invested in capital assets, net of related debt	-	4,432,094	(22,355,912)	2,952	(1,060,466)	(18,981,332)
Restricted by legislation and contractual agreements	-	-	33,288,218	255,321,263	30,681,396	319,290,877
Unrestricted	116,917,780	98,750,741	(2,573,202)	(214,028,969)	13,391,358	12,457,708
Total net assets	116,917,780	103,182,835	8,359,104	41,295,246	43,012,288	312,767,253
Total liabilities and net assets	\$ 116,930,702	\$ 141,987,853	\$ 113,679,299	\$ 264,972,600	\$ 104,363,910	\$ 741,934,364

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Year Ended June 30, 2007

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues:						
Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease	\$ 1,025,769	\$ 847,254	\$ -	\$ 9,271,724	\$ 1,240,620	\$ 12,385,367
Net decrease in fair value of mortgage-backed securities	-	-	-	(34,406)	-	(34,406)
Conveyance tax	24,164,255	-	-	-	-	24,164,255
Sales of land	-	302,400	-	-	-	302,400
Sales of unit	-	4,467,000	-	-	-	4,467,000
Rental	-	736,443	13,726,149	-	403,888	14,866,480
Other	1,106	2,443,477	684,637	370	1,854,730	4,984,320
Total operating revenues	25,191,130	8,796,574	14,410,786	9,237,688	3,499,238	61,135,416
Operating Expenses:						
Cost of land and units sold	-	1,950,489	-	-	-	1,950,489
Project	-	1,072,218	6,974,549	-	-	8,046,767
Personal services	98,412	1,837,110	198,635	371,863	1,403,683	3,909,703
Depreciation	-	201,931	4,826,613	805	161,934	5,191,283
Housing assistance payments	-	-	-	-	1,463,093	1,463,093
Administration	25,034	874,967	63,044	209,041	294,397	1,466,483
Provision for losses	-	17,806	101,476	-	-	119,282
Loan servicing fees	-	-	-	31,614	-	31,614
Professional services	12,120	225,891	3,691	35,603	91,168	368,473
Insurance	-	2,676	-	11,273	-	13,949
Repairs and maintenance	429	194,300	710	5,939	39,033	240,411
Utilities	-	-	-	2,761	63,279	66,040
Capital expenditures	276	51,103	104,154	809	2,263	158,605
Interest expense	-	-	-	11,348,348	2,184,157	13,532,505
Other	-	-	80,412	3,127	94,337	177,876
Total operating expenses	136,271	6,428,491	12,353,284	12,021,183	5,797,344	36,736,573
Operating income (loss) carried forward	\$ 25,054,859	\$ 2,368,083	\$ 2,057,502	\$ (2,783,495)	\$ (2,298,106)	\$ 24,398,843

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

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

Year Ended June 30, 2007

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Operating income (loss) brought forward	\$ 25,054,859	\$ 2,368,083	\$ 2,057,502	\$ (2,783,495)	\$ (2,298,106)	\$ 24,398,843
Nonoperating Revenues (Expenses):						
Interest income - cash and investments	2,078,367	3,719,063	1,437,545	7,305,230	3,429,226	17,969,431
Net decrease in fair value of investments	-	-	-	-	192,513	192,513
Intergovernmental expenditure	(5,500,000)	-	-	-	-	(5,500,000)
Interest expense	-	(3,561)	(4,232,099)	-	(932,120)	(5,167,780)
Trustee fees	-	-	(7,138)	(54,336)	(7,214)	(68,688)
Amortization of deferred bond issuance costs	-	-	(124,873)	(137,649)	(18,105)	(280,627)
Insurance expense	-	-	(128,038)	-	-	(128,038)
Arbitrage rebate	-	-	-	(1,510,799)	-	(1,510,799)
Other (expenses) revenues	-	-	(31,906)	-	37,515	5,609
Net nonoperating (expenses) revenues	(3,421,633)	3,715,502	(3,086,509)	5,602,446	2,701,815	5,511,621
Income (loss) before transfers	21,633,226	6,083,585	(1,029,007)	2,818,951	403,709	29,910,464
Net Operating Transfers	-	(112,080)	-	-	(969)	(113,049)
Change in net assets	21,633,226	5,971,505	(1,029,007)	2,818,951	402,740	29,797,415
Fund Net Assets, July 1, 2006	95,284,554	97,211,330	9,388,111	38,476,295	42,609,548	282,969,838
Fund Net Assets, June 30, 2007	\$ 116,917,780	\$ 103,182,835	\$ 8,359,104	\$ 41,295,246	\$ 43,012,288	\$ 312,767,253

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds
Statement of Cash Flows
Year Ended June 30, 2007

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities:						
Cash received from renters	\$ -	\$ 731,104	\$ 13,525,238	\$ -	\$ 391,660	\$ 14,648,002
Cash received from borrowers:						
Principal repayments	627,005	25,591	-	1,794,564	489,691	2,936,851
Interest income	802,887	121,208	-	8,704,563	698,200	10,326,858
Cash received from net investment in financing lease	-	-	-	-	1,253,943	1,253,943
Cash received from sale of land	-	6,366,799	-	-	-	6,366,799
Cash received from conveyance taxes	24,164,255	-	-	-	-	24,164,255
Cash received for payments on mortgage-backed securities	-	-	-	22,731,698	-	22,731,698
Cash to borrower	-	-	-	-	(5,148,755)	(5,148,755)
Cash payments for acquisition of mortgage-backed securities	-	-	-	(13,963,558)	-	(13,963,558)
Cash payments for issuance of loans receivable	(2,431,662)	(1,936,214)	-	-	-	(4,367,876)
Cash payments for interest	-	-	-	(11,556,948)	(2,192,175)	(13,749,123)
Cash payments to employees	(72,061)	(1,837,110)	(198,635)	(371,863)	(1,368,659)	(3,848,328)
Cash payments to suppliers	(55,384)	(2,815,132)	(6,389,255)	(363,759)	(1,952,991)	(11,576,521)
Cash (payments to) receipts from other funds	(8,961)	(23,927)	92,201	128,240	526,482	714,035
Other cash receipts (payments)	1,106	2,895,065	451,677	(7,132)	1,885,544	5,226,260
Net cash provided by (used in) operating activities	<u>23,027,185</u>	<u>3,527,384</u>	<u>7,481,226</u>	<u>7,095,805</u>	<u>(5,417,060)</u>	<u>35,714,540</u>
Cash Flows from Noncapital Financing Activities:						
Principal paid on revenue bond maturities and redemptions	-	-	-	(21,240,000)	-	(21,240,000)
Arbitrage rebate paid	-	-	-	(1,191,207)	-	(1,191,207)
Interest paid to the Department of Budget and Finance	-	-	-	-	(250)	(250)
Cash received from borrower	-	-	-	-	2,151,825	2,151,825
Operating transfers out	-	-	-	-	(969)	(969)
Net cash (used in) provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,431,207)</u>	<u>2,150,606</u>	<u>(20,280,601)</u>
Cash Flows from Capital and Related Financing Activities:						
Principal paid on revenue bond maturities and redemptions	-	-	(2,245,000)	-	(824,715)	(3,069,715)
Principal paid on mortgage loans	-	-	-	-	(45,255)	(45,255)
Interest paid on revenue bonds	-	-	(4,249,137)	-	(935,776)	(5,184,913)
Principal payments on notes payable	-	(35,023)	-	-	-	(35,023)
Payments of interest	-	(3,561)	-	-	-	(3,561)
Payments for acquisition of property and equipment	-	-	(843,218)	-	-	(843,218)
Intergovernmental expenditure	(5,500,000)	-	-	-	-	(5,500,000)
Net cash (used in) provided by capital and related financing activities	<u>(5,500,000)</u>	<u>(38,584)</u>	<u>(7,337,355)</u>	<u>-</u>	<u>(1,805,746)</u>	<u>(14,681,685)</u>
Subtotal carried forward	<u>\$ 17,527,185</u>	<u>\$ 3,488,800</u>	<u>\$ 143,871</u>	<u>\$ (15,335,402)</u>	<u>\$ (5,072,200)</u>	<u>\$ 752,254</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

Statement of Cash Flows (continued)

Year Ended June 30, 2007

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Subtotal brought forward	\$ 17,527,185	\$ 3,488,800	\$ 143,871	\$ (15,335,402)	\$ (5,072,200)	\$ 752,254
Cash Flows from Investing Activities:						
Purchases of investments	-	-	-	(32,479,426)	(1,815,625)	(34,295,051)
Proceeds from maturities of investments	-	-	-	40,285,024	1,871,258	42,156,282
Receipts of interest	1,886,358	3,555,613	1,424,204	11,029,968	3,351,087	21,247,230
Net decrease in restricted deposits and funded reserves	-	-	-	-	49,050	49,050
Acquisition of property and equipment	-	(112,080)	-	-	-	(112,080)
Net cash provided by investing activities	1,886,358	3,443,533	1,424,204	18,835,566	3,455,770	29,045,431
Net increase (decrease) in cash and cash equivalents	19,413,543	6,932,333	1,568,075	3,500,164	(1,616,430)	29,797,685
Cash and Cash Equivalents, July 1, 2006	41,810,547	81,088,628	32,658,943	3,160,484	30,067,901	188,786,503
Cash and Cash Equivalents, June 30, 2007	\$ 61,224,090	\$ 88,020,961	\$ 34,227,018	\$ 6,660,648	\$ 28,451,471	\$ 218,584,188
Reconciliation of Cash to Cash and Cash Equivalents:						
Cash	\$ 61,224,090	\$ 88,020,961	\$ 1,816,378	\$ 3,342,305	\$ 28,451,471	\$ 182,855,205
Money market funds, reported under investments	-	-	32,410,640	3,318,343	-	35,728,983
Cash and Cash Equivalents, June 30, 2007	\$ 61,224,090	\$ 88,020,961	\$ 34,227,018	\$ 6,660,648	\$ 28,451,471	\$ 218,584,188

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Proprietary Funds

Statement of Cash Flows (continued)

Year Ended June 30, 2007

	Rental Housing Trust Fund	Dwelling Unit Revolving Fund	Hawaii Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities:						
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:						
Operating income (loss)	\$ 25,054,859	\$ 2,368,083	\$ 2,057,502	\$ (2,783,495)	\$ (2,298,106)	\$ 24,398,843
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Net decrease in fair value of mortgage-backed securities	-	-	-	34,406	-	34,406
Depreciation	-	201,931	4,826,613	805	161,934	5,191,283
Provision for losses	-	17,806	101,476	-	-	119,282
Changes in assets and liabilities:						
Mortgage loans receivable	(1,804,657)	(1,910,623)	-	1,794,564	186,956	(1,733,760)
Notes and loans receivable	-	-	-	-	(5,148,755)	(5,148,755)
Accrued interest receivable on mortgages, notes and loans	(222,882)	9,876	-	-	(72,150)	(285,156)
Tenant receivables	-	5,507	(188,521)	-	(12,228)	(195,242)
Other receivables	-	(1,748,412)	(152,548)	-	28,083	(1,872,877)
Due from other funds	-	23,889	-	(95,232)	(544,437)	(615,780)
Due from State of Hawaii	-	1,464,078	-	-	10,000	1,474,078
Inventories	-	1,562,226	-	-	-	1,562,226
Prepaid expenses and other assets	-	-	(36)	(1,403)	25,474	24,035
Net investment in lease financing	-	-	-	-	783,671	783,671
Investments in mortgage-backed securities	-	-	-	8,768,140	-	8,768,140
Accounts payable	-	105,582	774,999	(57,168)	23,784	847,197
Accrued interest payable	-	-	-	(485,535)	-	(485,535)
Other accrued expenses	8,826	24,724	(18,070)	(11,718)	70,652	74,414
Due to other funds	-	(47,816)	92,201	223,472	1,065,114	1,332,971
Security deposits	-	(4,204)	(2,295)	-	302,948	296,449
Deferred income	(8,961)	(6,642)	(10,095)	-	-	(25,698)
Deferred refunding costs	-	-	-	276,130	-	276,130
Deferred commitment fees	-	-	-	(567,161)	-	(567,161)
Deferred gain on sale of units and land	-	1,597,399	-	-	-	1,597,399
Estimated future costs of land sold	-	(136,020)	-	-	-	(136,020)
Net cash provided by (used in) operating activities	<u>\$ 23,027,185</u>	<u>\$ 3,527,384</u>	<u>\$ 7,481,226</u>	<u>\$ 7,095,805</u>	<u>\$ (5,417,060)</u>	<u>\$ 35,714,540</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Fiduciary Fund
Statement of Fiduciary Net Assets
June 30, 2007

	<u>Assets</u>	<u>Private Purpose Trust</u>
Cash		\$ 241,364
Total assets		<u>\$ 241,364</u>
 <u>Liabilities and Net Assets</u> 		
Liabilities		<u>\$ 185,608</u>
Total liabilities		185,608
Net Assets --		
Held in trust		<u>55,756</u>
Total liabilities and net assets		<u>\$ 241,364</u>

The accompanying notes are an integral part of this statement.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

1. Organization and Significant Accounting Policies

a. General

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

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

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

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

1. Organization and Significant Accounting Policies (continued)

a. General (continued)

State of Hawaii as of June 30, 2007, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Corporation's financial activities.

b. Government-Wide and Fund Financial Statements

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

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

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

1. Organization and Significant Accounting Policies (continued)

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

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

c. Measurement Focus and Basis of Accounting

i. Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Interest expense of approximately \$18,700,000 was included as direct function expenses during the year ended June 30, 2007.

ii. Governmental Fund Financial Statements

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

ii. Governmental Fund Financial Statements (continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation, which is recorded as an expenditure when utilized or paid. The amount of unmatured long-term indebtedness related to accumulated vacation at June 30, 2007 has been reported in the government-wide financial statements.

iii. Proprietary Funds and Fiduciary Fund

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

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

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

d. Fund Accounting

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

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

i. Governmental Funds

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

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

ii. Proprietary Funds

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

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

The other funds include the Fee Simple Residential Revolving Fund, Rental Assistance Revolving Fund, Housing Finance Revolving Fund, Kekuilani Gardens Project, Disbursing Fund, Grant-in-aid Fund, Hamakua and Waialua.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

ii. Proprietary Funds (continued)

The Corporation reports the following as major proprietary funds:

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

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

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

Single Family Mortgage Purchase Revenue Bond Fund accounts for the proceeds for 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.

iii. Fiduciary Fund

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

1. Organization and Significant Accounting Policies (continued)

e. Capital Assets

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

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

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

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

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

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

f. Deferred Revenues

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

1. Organization and Significant Accounting Policies (continued)

g. Cash and Cash Equivalents

Cash and cash equivalents for the purpose of the statement of cash flows – proprietary funds, include all cash and investments with original purchased maturities of three months or less.

h. Investments

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

i. Inventories

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

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

1. Organization and Significant Accounting Policies (continued)

j. Interfund Receivables and Payables

During the course of operations, transactions occur between funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as “due to and from other funds.” Interfund receivables and payables between funds (noncurrent portion) are reported as “advances from and to other funds.” Interfund receivables and payables between funds within business-type activities are eliminated in the accompanying statement of net assets. See Note 18 for details of interfund transactions, including receivables and payables at year end.

k. Amortization

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

l. Vacation

Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$120,000. The change in accumulated unpaid vacation during the year is approximately as follows:

<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2007</u>
\$ 431,898	\$ 226,483	\$ 155,405	\$ 502,976

m. Allocated Costs

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

1. Organization and Significant Accounting Policies (continued)

n. Reservations of Fund Balances

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

o. 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.

p. Use of Estimates

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

2. Budgeting and Budgetary Control

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

2. Budgeting and Budgetary Control (continued)

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

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

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

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

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with U.S. GAAP for the General Fund for the year ended June 30, 2007 is set forth in the Required Supplementary Information.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

3. Cash

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

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

At June 30, 2007, total cash reported in the Statement of Net Assets consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
State pool and petty cash	\$ 1,468,852	\$ 177,133,813	\$ 178,602,665
Cash in bank (book balance)	<u>-</u>	<u>1,488,788</u>	<u>1,488,788</u>
	1,468,852	178,622,601	180,091,453
Assets held by trustees	-	4,232,604	4,232,604
Deposits held in trust	<u>-</u>	<u>40,190</u>	<u>40,190</u>
Total Cash	<u>\$ 1,468,852</u>	<u>\$ 182,895,395</u>	<u>\$ 184,364,247</u>

The bank balance of cash in bank was approximately \$1,424,000, of which \$200,000 was covered by federal depository insurance or collateral held by the Corporation or Corporation's agent in the Corporation's name; approximately \$1,224,000 by collateral held by the pledging financial institution's trust department or agent in the Corporation's name, and \$0 was uninsured or uncollateralized.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

4. Investments

Investments at June 30, 2007 are summarized by maturity (in years) as follows:

	0-2	2 - 5	5 – 10	10-20	>20	Fair Value
Government sponsored Enterprises	\$ –	\$ –	\$ –	\$ 6,379,122	\$ –	\$ 6,379,122
Mortgage-backed Securities	5,720,865	14,077,470	52,244,658	68,608,931	29,126,599	169,778,523
Repurchase agreements	–	–	–	–	108,018,005	108,018,005
Private debt obligations	–	–	–	–	864,875	864,875
Guarantee investment Contracts	–	–	–	–	101,172	101,172
	<u>\$ 5,720,865</u>	<u>\$ 14,077,470</u>	<u>\$52,244,658</u>	<u>\$ 74,988,053</u>	<u>\$ 138,110,651</u>	285,141,697
Money market funds						<u>35,728,983</u>
Total investments						<u>\$ 320,870,680</u>

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

Assets held by trustees under revenue bond programs	\$ 314,482,244
Investments – non current	<u>6,388,436</u>
Total investments	<u>\$ 320,870,680</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, 2007, all investments except the private debt obligations are rated AA to AAA by Moody’s, Fitch and Standard & Poors. The private debt obligations are rated BAA to A.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

4. Investments (continued)

Concentration of Credit Risk – the Corporation places no limit on the amount the Corporation may invest in any one issuer. More than 5 percent of the Corporation’s investments are in the Federal National Mortgage Association, the Government National Mortgage Association, the Societe Generale, and the First American Government Obligation Fund. These investments are 46 percent, 9 percent, 24 percent, and 10 percent, respectively, of the Corporation’s total investments.

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

5. Mortgage Loans and Notes and Loans Receivable

Mortgage loans and other notes and loans receivable at June 30, 2007 are comprised of the following:

	Mortgage Loans	Notes and Loans
Mortgage loans bearing interest at 0.0% to 13.5%, maturing at various dates through 2046	\$73,249,329	\$ –
Promissory notes bearing interest at 5% to 6%, maturing in 2008	–	5,009,862
	73,249,329	5,009,862
Less current maturities	1,293,930	–
	<u>\$71,955,399</u>	<u>\$ 5,009,862</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.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

6. Net Investment in Financing Lease

On November 1, 1995, the Corporation entered into a lease and sublease agreement (Agreement) with the Board of Regents, University of Hawaii (University). Under the Agreement, the Corporation leases the land under the housing project from the University for an annual rent of \$1 and then subleases the leased land, buildings and improvements and equipment back to the University. The University will make certain lease rental payments to the Corporation, including amounts sufficient to pay the principal, premium, if any, and interest on the bonds as the same become due and payable. The Agreement expires on June 30, 2026. Upon expiration of the Agreement, the ownership of the buildings and improvements and equipment will revert to the University.

The following lists the components of the net investment in direct financing lease as of June 30, 2007:

Total minimum lease payments to be received	\$ 23,280,055
Less unearned interest income	<u>(7,700,648)</u>
Net investment in direct financing lease	15,579,407
Less current portion	<u>(546,703)</u>
	<u><u>\$ 15,032,704</u></u>

The future approximate minimum lease payments to be received through 2012 and in five-year increments thereafter are as follows:

Year ending June 30,	
2008	\$ 1,232,000
2009	1,232,000
2010	1,235,000
2011	1,232,000
2012	1,232,000
2013 – 2017	6,143,000
2018 – 2022	6,111,000
2023 – 2026	<u>4,863,055</u>
	<u><u>\$ 23,280,055</u></u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

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, 2007, the following debt service reserves and mortgage loan reserves required by the indentures were included in assets held by trustees under Revenue Bond Programs.

	Single Family Mortgage Purchase
Debt service reserve requirements	\$ 21,450,000
Mortgage loan reserve requirements	<u>1,545,000</u>
	<u>\$ 22,995,000</u>

At June 30, 2007, approximately \$33 million and \$5.9 million of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively.

Under the trust indenture agreement between the Corporation and the trustee for the Hawaii Rental Housing System revenue bond, 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, 2007, the Hawaii Rental Housing System Revenue Bond Fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 5.28 times the aggregate debt service on outstanding bonds during the year, respectively, and net revenues (as defined in the trust indenture agreement) of 1.13 times the aggregate debt service on outstanding bonds during the year, respectively.

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, 2007.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

8. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets being depreciated--				
Equipment	\$ -	\$ 175,834	\$ -	\$ 175,834
Total capital assets being depreciated	-	175,834	-	175,834
Less accumulated depreciation for--				
Equipment	-	15,223	-	15,223
Total accumulated depreciation	-	15,223	-	15,223
Governmental-type activities capital assets, net	<u>\$ -</u>	<u>\$ 160,611</u>	<u>\$ -</u>	<u>\$ 160,611</u>
Business-type activities				
Capital assets, not being depreciated:				
Land	\$ 21,034,983	\$ -	\$ (761,059)	\$ 20,273,924
Construction in progress	-	836,500	-	836,500
Total capital assets not being depreciated	<u>21,034,983</u>	<u>836,500</u>	<u>(761,059)</u>	<u>21,110,424</u>
Capital assets being depreciated:				
Building and improvements	143,434,200	-	(1,027,512)	142,406,688
Equipment	1,791,321	6,718	(5,427)	1,792,612
Total capital assets being depreciated	<u>145,225,521</u>	<u>6,718</u>	<u>(1,032,939)</u>	<u>144,199,300</u>
Less accumulated depreciation for:				
Building and improvements	71,556,994	5,169,125	(294,181)	76,431,938
Equipment	1,724,387	22,158	(5,427)	1,741,118
Total accumulated depreciation	<u>73,281,381</u>	<u>5,191,283</u>	<u>(299,608)</u>	<u>78,173,056</u>
Business-type activities capital assets, net	<u>\$ 92,979,123</u>	<u>\$ (4,348,065)</u>	<u>\$ (1,494,390)</u>	<u>\$ 87,136,668</u>

Current-period depreciation expense was charged to function as follows:

Governmental activities--	
Low income housing service and assistance	\$ 15,223
Total depreciation expense – governmental activities	<u>\$ 15,223</u>
Business-type activities:	
Housing development program	\$ 201,931
Single-family mortgage loan program	805
Rental housing programs	4,988,547
Total depreciation expense – business-type activities	<u>\$ 5,191,283</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

8. Capital Assets (continued)

At June 30, 2007, capital assets for the proprietary funds consisted of the following:

	Enterprise Funds			Total
	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	
Land	\$ 16,186,850	\$ 3,014,574	\$ 1,072,500	\$ 20,273,924
Construction in progress	836,500	-	-	836,500
Buildings and improvements	129,911,800	7,233,663	5,261,225	142,406,688
Equipment	1,508,809	203,400	80,403	1,792,612
	148,443,959	10,451,637	6,414,128	165,309,724
Less accumulated depreciation	70,837,619	5,714,437	1,621,000	78,173,056
Net capital assets	\$ 77,606,340	\$ 4,737,200	\$ 4,793,128	\$ 87,136,668

9. Mortgage and Notes Payable

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

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 \$261,000 of interest credit reducing the interest expense from approximately \$378,000 to \$117,000.

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

The Dwelling Unit Revolving Fund also has three mortgage notes payable to the USDA – RD. Two notes were originated in August 1976, and are payable in combined monthly installments of \$2,207, including interest at 1 percent, with the final combined payment due in August 2009. The third note was originated in October 1994, and is payable in monthly installments of \$1,315, including interest at 1 percent, due in October 2027. The notes are secured by property and rental receipts.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

9. Mortgage and Notes Payable (continued)

Notes payable activity during the year was as follows:

	Balance at July 1, 2006	Addition	Reductions	Balance at June 30, 2007	Less Current Portion	Long- Term Portion
Mortgage payable	\$ 5,666,016	\$ -	\$ 45,255	\$ 5,620,761	\$ 35,171	\$ 5,585,590
Notes payable	340,129	-	35,023	305,106	39,411	265,695
Total	<u>\$ 6,006,145</u>	<u>\$ -</u>	<u>\$ 80,278</u>	<u>\$ 5,925,867</u>	<u>\$ 74,582</u>	<u>\$ 5,851,285</u>

The approximate debt service requirement of notes payable through 2012 and in five-year increments thereafter to maturity are as follows:

Year ending June 30,	Principal	Interest	Total
2008	\$ 74,000	\$ 118,000	\$ 192,000
2009	50,000	116,000	166,000
2010	52,000	113,000	165,000
2011	54,000	111,000	165,000
2012	57,000	109,000	166,000
2013-2017	330,000	499,000	829,000
2018-2022	414,000	415,000	829,000
2023-2027	538,000	282,000	820,000
2028-2032	630,000	120,000	750,000
2033-2037	859,000	23,000	882,000
2038-2042	1,194,000	6,000	1,200,000
2043-2047	1,599,285	2,000	1,601,285
	<u>\$ 5,851,285</u>	<u>\$ 1,914,000</u>	<u>\$ 7,765,285</u>

10. Revenue Bonds Payable

Through June 30, 2007, approximately \$2,129,898,000 of revenue bonds have been issued. The revenue bonds are payable from and secured solely by the revenues and other monies and assets of the revenue bond funds and other assets of the Corporation pledged under the indentures.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

10. Revenue Bonds Payable (continued)

Revenue bonds payable at June 30, 2007 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds:

1997 Series A:	
Term bonds maturing annually through 2031 (5.00% to 5.75%)	<u>\$ 11,865,000</u>
1997 Series B:	
Serial bonds maturing annually through 2010 (4.80% to 5.00%)	7,550,000
Term bonds maturing in 2011 through 2018 (5.45%)	<u>29,405,000</u>
	<u>36,955,000</u>
1998 Series A:	
Serial bonds maturing annually through 2014 (4.80% to 5.25%)	9,160,000
Term bonds maturing annually through 2031 (4.85% to 5.40%)	<u>33,220,000</u>
	<u>42,380,000</u>
1998 Series B:	
Term bonds maturing in 2019 through 2029 (5.30%)	<u>11,085,000</u>
1998 Series C:	
Term bonds maturing in 2019 through 2021 (5.35%)	<u>4,060,000</u>
2000 Series A:	
Term bonds maturing in 2021 through 2028 (6.275%)	<u>25,000,000</u>
2002 Series A:	
Serial bonds maturing annually through 2014 (3.85% to 4.80%)	3,645,000
Term bonds maturing in 2010 through 2034 (4.40% to 5.38%)	18,835,000
Placed bonds maturing in 2023 through 2034 (5.38%)	<u>3,525,000</u>
	<u>26,005,000</u>
2002 Series B:	
Term bonds maturing in 2026 through 2028 (5.25%)	<u>1,810,000</u>
2005 Series A:	
Term bonds maturing in 2027 through 2037 (5.00%)	<u>7,270,000</u>
Single Family Mortgage Purchase revenue bonds subtotal carried forward	<u>\$ 166,430,000</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

10. Revenue Bonds Payable (continued)

Single Family Mortgage Purchase revenue bonds subtotal brought forward	<u>\$ 166,430,000</u>
2005 Series B:	
Serial bonds maturing annually through 2016 (3.00% to 3.90%)	12,590,000
Term bonds maturing in 2012 through 2027 (3.70% to 4.30%)	<u>35,480,000</u>
	<u>48,070,000</u>
Total Single Family Mortgage Purchase revenue bonds	<u><u>\$ 214,500,000</u></u>
Hawaii Rental Housing System revenue bonds:	
2004 Series A:	
Serial bonds maturing in 2008 through 2014 (2.35% to 3.70%)	\$ 12,430,000
Term bonds maturing in 2015 through 2034 (3.80% to 4.75%)	<u>67,455,000</u>
	79,885,000
2004 Series B-	
Term bonds maturing annually through 2034 (3.65%)	<u>21,975,000</u>
Total Hawaii Rental Housing System revenue bonds	<u><u>\$ 101,860,000</u></u>
Multifamily Housing revenue bonds:	
1999 Series (Manana Gardens Project) – term bond maturing annually through 2035 (6.30%)	<u>\$ 3,520,000</u>
2000 Series (Sunset Villas Project) – term bonds maturing annually through 2036 (5% to 5.75%)	<u>25,690,000</u>
2002 Series (Hale Hoaloha Project) – mortgage installment bonds maturing annually through 2028 (6.75% until 2012 and 7.75% thereafter)	<u>1,636,935</u>
2005 Series (Kauhale Olu Project):	
Mortgage Installment bonds maturing in 2008 (6.375%)	665,000
Mortgage Installment bonds maturing in 2036 (6.375%)	<u>5,500,000</u>
	<u>6,165,000</u>
Total Multifamily Housing revenue bonds	<u><u>\$ 37,011,935</u></u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

10. Revenue Bonds Payable (continued)

University of Hawaii Faculty Housing Program revenue bonds -- 1995 Series -- Term bonds maturing annually from 2008 through 2026 (5.65% and 5.70%)	<u>\$ 14,255,000</u>
Total Revenue Bonds:	
Revenue Bonds	367,626,935
Less deferred refunding costs (difference between reacquisition price and net carrying value of old debt)	<u>2,985,042</u>
Total revenue bonds	364,641,893
Less current portion	<u>8,968,092</u>
	<u>\$ 355,673,801</u>

Interest on the fixed-rate Single Family Mortgage Purchase, Hawaii Rental Housing System, Multifamily Housing, and University of Hawaii Faculty Housing Program revenue bonds is payable semi-annually. The Hawaii Rental Housing System 2004 Refunding Series B bonds are auction rate securities with interest rates reset weekly based on the results of a Dutch auction process. In the event the auction process fails due to insufficient demand for the securities, the interest rate on the bonds is reset to a multiple of an index defined in the Indenture, up to a maximum interest rate of 12 percent (see Note 19).

The Single Family Mortgage Purchase and Hawaii Rental Housing System revenue bonds with designated maturity dates, the Multifamily Housing revenue bonds and the University of Hawaii Faculty Housing Program revenue bonds may be redeemed at the option of the Corporation commencing in 2001 for the Single Family Mortgage Purchase 1991 Series, 2004 for the Single Family Mortgage Purchase 1994 Series, 2007 for the Single Family Mortgage Purchase 1997 Series, subject to a redemption premium which ranges from 2 percent to zero; 2008 for the Single Family Mortgage Purchase 1998 Series, subject to a redemption premium that ranges from 1.5 percent to zero; 2010 for the Single Family Mortgage Purchase 2000 Series, and 2014 for the Single Family Mortgage Purchase 2002 Series, 2005 for the Hawaii Rental Housing System 2004 Series, 2010 for the Multifamily Housing 1999 Series, 2011 for the 2000 Series, subject to a redemption premium which ranges from 2 percent to zero; and 2005 for the University of Hawaii Faculty Housing Program 1995 Series subject to redemption premiums that range from 1 percent to zero. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from undisbursed bond proceeds, principal payments and prepayments of mortgages, excess amounts in the debt service reserve account or excess revenues (as defined in the bond indentures).

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

10. Revenue Bonds Payable (continued)

During the year ended June 30, 2007, early redemptions totaled \$15,645,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2006	Additions	Reductions	Balance at June 30, 2007
Single Family				
Mortgage Purchase	\$ 235,740,000	\$ -	\$ 21,240,000	\$ 214,500,000
Hawaii Rental				
Housing System	104,105,000	-	2,245,000	101,860,000
Multifamily Housing	37,421,650	-	409,715	37,011,935
University of Hawaii Faculty				
Housing Program	14,670,000	-	415,000	14,255,000
	391,936,650	-	24,309,715	367,626,935
Less deferred				
refunding amount	3,334,767	-	349,725	2,985,042
Total	<u>\$ 388,601,883</u>	<u>\$ -</u>	<u>\$ 23,959,990</u>	<u>\$ 364,641,893</u>

The approximate annual debt service requirements through 2012 and in five-year increments thereafter to maturity for revenue bonds are as follows:

Year ending June 30:	Principal	Interest	Total
2008	\$ 9,691,000	\$ 18,046,000	\$ 27,737,000
2009	9,458,000	17,677,000	27,135,000
2010	11,475,000	17,285,000	28,760,000
2011	10,658,000	16,815,000	27,473,000
2012	11,430,000	16,329,000	27,759,000
2013 – 2017	65,415,000	72,695,000	138,110,000
2018 – 2022	69,842,000	56,072,000	125,914,000
2023 – 2027	88,483,000	36,067,000	124,550,000
2028 – 2032	57,710,000	14,826,000	72,536,000
2033 – 2037	33,464,935	2,551,300	36,016,235
	<u>\$ 367,626,935</u>	<u>\$ 268,363,300</u>	<u>\$ 635,990,235</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

10. Revenue Bonds Payable (continued)

In order to ensure the exclusion of interest on the Corporation's Hawaii Rental Housing System revenue bonds and Single Family Mortgage Purchase 1989 Series A, 1990 Series A, 1991 Series A and B and 1994 Series A and B revenue bonds from gross income for federal income tax purposes, the Corporation calculates rebates due to the U. S. Treasury annually. The rebates are calculated by bond series based on the amount by which the cumulative amount of investment income exceeds the amount that would have been earned had funds been invested at the bond yield. At June 30, 2007, the Corporation determined that \$3,332,909 of rebates was due to the U. S. Treasury.

11. Conduit Debt Obligations

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

As of June 30, 2007, there were four series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of \$37,011,935 reported as Multifamily Housing Revenue bonds.

12. Leases

a. Lease Commitments

The Corporation leases land, buildings and improvements under various noncancellable operating leases expiring at various dates through 2056. Included in these leases is a noncancellable land lease that expires in 2031, with rent renegotiations scheduled for July 1, 2006, 2016 and 2026. To date, the Corporation and the lessor have been unable to agree to the lease rent that would have become effective July 1, 2006, and have agreed that the Corporation will continue paying the previously effective lease rent until the parties are able to resolve the contingency. Currently, the lessor has obtained an appraisal estimating that the fair value of the property's annual lease rent should be approximately \$420,000, which is approximately \$360,000 higher than the related lease rent recorded for the year ended June 30, 2007. Also, the Corporation and the lessor are simultaneously negotiating alternative

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

12. Leases (continued)

a. Lease Commitments (continued)

resolutions that include the potential termination of the lease. Due to the range of alternative solutions, management is not currently able to reasonably estimate the ultimate effect of the resolution of this issue on the Corporation's financial position.

The minimum rental commitments under operating leases through 2012 and in five-year increments thereafter, with consideration of a minimum annual rent increase are as follows:

Year ending June 30,	
2008	\$ 467,000
2009	479,000
2010	492,000
2011	505,000
2012	518,000
2013 – 2017	2,805,000
2018 – 2022	3,195,000
2023 – 2027	3,393,000
2028 – 2032	3,879,000
2033 – 2037	3,712,000
2038 – 2042	4,367,000
2043 – 2047	4,454,000
2048 – 2052	5,240,000
2053 – 2056	4,189,696
	<hr/>
	\$ 37,695,696

Rent expense for the year ended June 30, 2007 totaled approximately \$472,000.

b. Lease Rentals

The Corporation leases land with a carrying value of approximately \$2,615,000 to various developers and home buyers. The leases are generally for 55 years with the last 25 years' lease rent negotiated based on the fair market value of the land. Rent income for the year ended June 30, 2007 was approximately \$375,000.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

12. Leases (continued)

b. Lease Rentals (continued)

The future minimum lease rent from these operating leases at June 30, 2007 is as follows:

Year ending June 30:	
2008	\$ 344,000
2009	306,000
2010	305,000
2011	304,000
2012	300,000
2013 – 2017	1,613,000
2018 – 2022	1,491,000
2023 – 2027	1,147,000
	<hr/>
	\$ 5,810,000
	<hr/> <hr/>

13. Commitments and Contingencies

a. Loan Guarantee

The Corporation has guaranteed up to \$40,000,000 of the mortgage loans sold by it to the Employees' Retirement System of the State of Hawaii (ERS). Upon the 120th day of any delinquency or default, the Corporation is obligated to cure the arrearage of principal and interest or buy back the delinquent loan. At June 30, 2007, the outstanding balance of mortgage loans that have been sold to the ERS which are covered by the loan guarantee was approximately \$72,000. At June 30, 2007, notes and loans receivables did not include any delinquent loans purchased back from the ERS.

b. Construction Contracts

At June 30, 2007, the Dwelling Unit Revolving Fund had outstanding commitments to expend approximately \$26,539,000 for the construction and renovation of housing projects.

The Fiduciary Fund had outstanding construction contract commitments of approximately \$203,000 at June 30, 2007.

c. Loan Commitments

At June 30, 2007, the Rental Housing Trust Fund had aggregate outstanding loan commitments in the amount of \$1,041,248.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

13. Commitments and Contingencies (continued)

d. Development Costs

The Kapolei development project primarily consists of eight residential villages and certain commercial parcels spread over approximately 888 acres of land. As of June 30, 2007, all but remnant residential parcels and 42 acres of business mixed-use land have been developed and sold. The estimated future cost of land sold is recorded as a liability on the accompanying statement of net assets and relates primarily to the completion of certain infrastructure improvements at this project. This liability represents amounts charged to the cost of land sold in excess of costs incurred. Management believes that the future revenues from this project will meet or exceed the net amount of this liability and the remaining costs to be incurred on the project.

Additionally, the Corporation has been in the process of developing two master planned communities on the neighbor islands – the Leiali`i project located in the West Maui area and the Lai`o`pua project located in North Kona. As large portions of these projects are located on public trust (“ceded”) land owned by the State of Hawaii, and subject to lawsuits seeking to prevent the Corporation’s sale or transfer of this land, these projects have been delayed indefinitely. As of June 30, 2007, the Corporation has remaining development rights related to the second phase of the Leiali`i project and 57 acres of the Lai`o`pua project. Development costs related to the Leiali`i project were approximately \$18.9 million at June 30, 2007. Management believes that the future revenues from these projects will meet or exceed the aggregate of the development costs at June 30, 2007 and the remaining costs to be incurred. Also, the Corporation has other development costs and dwelling units of approximately \$2.1 million at June 30, 2007.

e. Torts

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

f. Workers’ Compensation Policy

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

13. Commitments and Contingencies (continued)

g. Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave at June 30, 2007 amounted to approximately \$1,288,000.

h. Deferred Compensation Plan

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

i. Litigation

In November 1994, the Office of Hawaiian Affairs (OHA) filed a claim against the Corporation seeking declaratory and injunctive relief and for monetary damages pursuant to Sections 632-1 and 66-1 of the Hawaii Revised Statutes. The claim relates to certain ceded lands located in Lahaina, Maui. OHA seeks the following relief: (1) barring the Corporation from conveying and alienating the subject land from the public land trust and (2) finding any conveyance to a third party not an agency of the State or its political subdivision in violation of the Hawaii State Constitution.

In its claim, OHA also alleges that the Corporation is in violation of the Hawaii Revised Statutes Section 10-3.6 and Act 318, SLH 1992. In 1992, the Legislature enacted Act 318, which sets forth a plan to compensate OHA for land from the public land trust which was to be conveyed from the State Department of Land and Natural Resources (DLNR) to the Corporation for housing developments. Under Act 318, OHA is to be compensated 20 percent of the fair market value of ceded lands. OHA maintains that the fair market value of the Lahaina ceded lands was determined in May 1994. In November 1994, the ceded lands were conveyed from DLNR to the Corporation and a check for 20 percent of the fair market value of the property in the amount of \$5,573,604 was presented to OHA. OHA claims that a timely appraisal was not performed, 90 days before the date of conveyance, and that the conveyance of the Lahaina property was illegal. The payment was rejected by OHA and a liability remains outstanding as of June 30, 2007.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

13. Commitments and Contingencies (continued)

i. Litigation (continued)

In the event that OHA is not granted the injunctive and declaratory relief it seeks, OHA requests for a timely re-appraisal of the fair market value of the Lahaina ceded lands and payment in accordance with Act 318. The Corporation maintains that the fair market value was determined in August 1994 and therefore complies with the requirements of Act 318.

In November 1994, several individuals filed a claim similar to the OHA claim against DLNR and the Corporation seeking to enjoin the sale or transfer of certain ceded lands located in Lahaina, Maui, from the State to private individuals or entities. The claim alleges that the State does not have good marketable title of the ceded lands and any such sale or transfer would constitute an illegal conversion of lands. The plaintiffs seek an injunctive relief barring the Corporation from sale or transfer of the Lahaina ceded lands.

In response to the above claims, the State Department of Attorney General issued, in July 1995, its opinion as to whether the State has legal authority to sell or dispose of ceded lands. The Attorney General concluded that the State has been and remains empowered to sell trust lands subject to the terms of the trust. The above claims have resulted in delays in the Leiali'i and La'i'opua Master Planned Community projects. The Corporation is presently evaluating alternatives and remains optimistic and committed to these projects. The Corporation will continue to work with innovation and creativity to resolve these concerns fairly, while still delivering quality houses in quality communities.

In 1994, an action was filed by OHA against the State and various unnamed parties claiming the State's alleged failure to properly account for and pay to OHA monies due to OHA, under Article XII of the Hawaii State Constitution and Chapter 10 of the Hawaii Revised Statutes, for occupation by the State on certain ceded lands, as more fully described below.

In December, 2002, following a trial on the issues, the trial court confirmed the State's authority to sell ceded lands, denied the declaratory ruling that the sale of ceded lands did not directly or indirectly release or limit Hawaiian's claims to those lands which the plaintiffs requested, and ordered that judgment be entered in the State's and Corporation's favor as to Counts I, II, and III of the Amended Complaint. The plaintiffs moved for and were granted leave to file immediate appeals from the court's rulings to the Hawaii Supreme Court. Those appeals are now pending trial to determine the sufficiency of the proceeds paid to OHA by the Corporation and the State from the sale of ceded lands at issue has not been scheduled.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

13. Commitments and Contingencies (continued)

i. Litigation (continued)

The ultimate outcome of appeal cannot presently be determined. Accordingly, no provision for any liability nor its effect on the projects' net realizable value, if any, that may result upon adjudication, has been made in the accompanying statement of net assets.

It has been alleged but without certainty that payments received by the Corporation for all projects developed on ceded lands are subject to the above claim. However, the ultimate outcome of the litigation and its effect on the Corporation, if any, cannot presently be determined. Accordingly, no provision for any liability, if any, that may result from the resolution of this matter has been made in the statement of net assets.

OHA et al. v. State of Hawaii, Civil No. 94-0205-01 (First Circuit)

The lands transferred to the United States by the Republic of Hawaii at Hawaii's annexation to the United States in 1898 are commonly referred to as the ceded lands. Upon Hawaii's admission to the Union in 1959, title to ceded lands still held by the United States and to lands, which the United States acquired, by exchange for ceded lands after 1898 was conveyed by the United States to the State of Hawaii. Section 5 of the Admission Act expressly provided that those lands were to be held by the State as a public trust. Certain rental housing projects of the Corporation are situated on parcels of land, which are to be held by the State as a public trust under Section 5.

In 1979, the State legislature (the "Legislature") adopted HRS Chapter 10 ("Chapter 10,"), which, as amended in 1980, specified, among other things, that OHA expend 20 percent of all funds derived by the State from the Ceded Lands for the betterment of Native Hawaiians.

In 1987, in *Trustees of the Office of Hawaiian Affairs v. Yamasaki*, 69 Haw. 154 (1987) ("Yamasaki"), the Hawaii Supreme Court concluded that Chapter 10 was insufficiently clear regarding the amount of monies OHA was entitled to receive from the public trust lands.

In 1990, in response to Yamasaki, the Legislature adopted Act 304, Session Laws of Hawaii 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20 percent of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

13. Commitments and Contingencies (continued)

i. Litigation (continued)

Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies paid 20 percent of “revenues” to OHA on a quarterly basis.

On January 14, 1994, OHA filed suit against the State alleging that the State failed to properly account for and fully pay the pro rata share of proceeds and income derived from the lands of public trust established by the Admission Act and the 1978 amendments to the State Constitution. OHA seeks an accounting of all proceeds and income, funds and revenues derived from the lands since 1978, and restitution or damages amounting to 20 percent of the proceeds and income derived from (a) the lands since November 7, 1978, (b) the lands since June 16, 1980, and (c) the lands under Act 304, Session Laws of Hawaii 1990, as well as interest thereon. The State has denied all of OHA’s substantive allegations, and asserted its sovereign immunity from suit and other jurisdictional and claim-barring defenses.

In May 1996, OHA filed four motions for partial summary judgment as to the State’s liability to pay OHA 20 percent of monies from four specific sources, including rental housing projects of the Corporation situated on public trust lands. The State opposed those four motions. The State also filed a motion to dismiss on sovereign immunity grounds.

On October 24, 1996, the Circuit Court of the First Circuit of the State of Hawaii (First Circuit Court) denied the State’s motion to dismiss and granted OHA’s four motions for partial summary judgment. The State has filed an interlocutory appeal to the Hawaii Supreme Court from both orders. All other proceedings have been stayed pending the Hawaii Supreme Court’s disposition of the appeal.

OHA’s complaint and motions do not specify the State’s alleged failures, nor do they state the dollar amount of the claims. The First Circuit Court’s October 24, 1996 order granting OHA’s motions for partial summary judgment did not determine the amounts owing. The basis and methodology for calculating any such amount are being disputed. OHA has not provided complete information for its claims for the period from 1981 through 1991, and has provided no information as to its claims for the period from 1991 to the present. The expert witness retained by OHA in this case has estimated that the State’s potential liability for the four sources specified in OHA’s summary judgment motions for the years 1981 through 1991 (but not thereafter) to be not less than \$178,000,000, of which approximately \$9,200,000 is related to gross rental income derived by the Corporation.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

13. Commitments and Contingencies (continued)

i. Litigation (continued)

On June 30, 1997, the Governor approved Act 329, Session Laws of Hawaii, 1997. The purpose of this Act was to achieve a comprehensive, just and lasting resolution of all controversies relating to the proper management and disposition of the lands subject to public trust, and of the proceeds and income, which the lands generate. The Act also fixes the amount of proceeds and income OHA will receive during the two-year period at \$15.1 million per year, and requires the completion, continued maintenance, and use of a comprehensive inventory of the public trust lands.

On September 12, 2001 the Hawaii Supreme Court concluded by holding that Act 304 was effectively repealed by its own terms, and that there was no judicial management standard, by which to determine whether OHA was entitled to the revenues it sought because the repeal of Act 304 revived the law which the court in Yamasaki had previously concluded was insufficiently clear to establish how much OHA was entitled to receive. The Supreme Court dismissed this case for lack of justiciability. Immediately thereafter, agencies ceased paying OHA any receipts from the ceded lands.

The Legislature took no action during the 2002 and 2003 legislative sessions to establish a new mechanism for establishing how much OHA was to receive. On January 23, 2003, and pending legislative action to establish such a mechanism, the Governor issued Executive Order No. 03-03 directing state agencies to resume transferring receipts from the ceded lands to OHA. During the 2003 legislative session, the Legislature appropriated moneys from the various funds into which the ceded lands receipts had been deposited and directed the agencies to pay them to OHA. During the 2004 legislative session, the Legislature did not appropriate any moneys from the various funds. OHA continues to pursue its claims for a portion of the revenues from the ceded lands.

OHA et al. v. HHA et al., Civil No. 95-2682-07 (First Circuit)

On July 27, 1995, OHA filed suit against the Hawaii Housing Authority and the State Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands, which were transferred to the Authority for rental housing projects. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

13. Commitments and Contingencies (continued)

i. Litigation (continued)

The State's potential liability, if any, therefore, may be determined either (1) by the ruling by the Hawaii Supreme Court on the State's interlocutory appeal and, if such ruling is adverse to the State, the conclusion of any subsequent trial and related appeals, or (2) by legislation enacted as a result of the process set out in Act 329. Given all of the above, and the uncertain timing of any final disposition of the case, the State is not able to predict either the ultimate outcome of the case, or the magnitude of its potential liability, if any, with any reasonable certainty. A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the State's financial condition.

A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the Corporation's financial condition if an adverse resolution or decision against the State includes liability for gross rental income derived by the Corporation from rental housing projects situated on lands in the public trust and the liability is imposed upon the Corporation. However, the ultimate outcome of the litigation and its effect on the Corporation, if any, cannot be determined. Accordingly, no estimate of loss has been made in the accompanying statement of net assets of the Corporation.

14. Retirement Plan

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

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

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

14. Retirement Plan (continued)

excluding the vacation payment. All benefits vest after five and ten years of credited service for the contributory and noncontributory plans, respectively. All contributions, benefits and eligibility requirements are governed by Chapter 88.

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

The Corporation's contributions for the fiscal years 2007, 2006 and 2005 of approximately \$313,000, \$1,896,000 and \$1,198,000, respectively, were equal to the required contributions for each year.

15. Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all employees hired prior to July 1, 1996 who retire from State employment on or after attaining age 62 with at least ten years of service or age 55 with at least thirty years of service under the noncontributory plan and age 55 with at least five years of service under the contributory plan. Retirees credited with at least ten years of service excluding sick leave credit qualify for free medical insurance premiums; however, retirees with less than ten years must assume a portion of the monthly premiums. All service-connected disability retirees who retired after June 30, 1984, with less than ten years of service also qualify for free medical insurance premiums. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 is also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of a portion of the basic medical coverage premiums.

For employees hired after July 1, 1996 and retire with fewer than twenty-five years of service, the State shall pay to a fund a monthly contribution equal to one-half of the retired employee's monthly Medicare or non-Medicare premium for certain medical benefits for retired employees with ten or more years of service; and seventy-five percent of the retired employee's monthly Medicare or non-Medicare premium for retired employees with at least fifteen but fewer than twenty-five years of service.

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

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

Contributions are based upon negotiated collective bargaining agreements, and are funded by the Corporation as accrued.

The Corporation's general fund share of the post-retirement benefits expense for the year ended June 30, 2007 has not been separately computed and is not reflected in the Corporation's financial statements. The Corporation's enterprise funds' share of the post-retirement health care and life insurance benefits expense for the year ended June 30, 2007 approximated \$165,000 and is included in the financial statements.

16. Related Party Transactions

Amounts due from other State of Hawaii Departments include approximately \$505,000 of miscellaneous advances previously made to other departments and approximately \$21,852,000 of amounts due from the Department of Hawaiian Home Lands (DHHL) related to a previous agreement to transfer certain land and development rights to DHHL. Pursuant to this agreement, DHHL was required to commence 15 annual \$2.2 million payments to the Corporation in December 2004. Effective at that time, the Corporation recorded the sale of the land and development rights at the net present value of the estimated future cash flow from DHHL using an imputed interest rate of approximately 3.3 percent. As of June 30, 2007, amounts due from DHHL include approximately \$21,496,000 of principal, net of approximately \$4,904,000 of imputed interest, and approximately \$356,000 of accrued interest receivable. Interest income related to imputed interest on payments due from DHHL was approximately \$773,000 during the year ended June 30, 2007.

During the year ended June 30, 2007, the Corporation transferred to the State of Hawaii, Hawaii Public Housing Authority, \$5.5 million to establish a Trust Fund to finance the development of the Kahikolu `Ohana O Wai`anae Project. The transfer was completed in accordance with Act 178, SLH 2005, as amended by Act 160, SLH 2006.

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 \$948,000 during the year ended June 30, 2007. 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, 2007, the Hawaii Rental Housing System Revenue Bond Fund recorded rental income of approximately \$1,080,000, which was allocated as office rental expense to various

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

16. Related Party Transactions (continued)

funds of the Corporation. In addition, the State Department of Accounting and General Services (DAGS) incurred \$1,018,872 in rent to the Hawaii Rental Housing System Revenue Bond Fund for leased space in the Pohulani building. The term of the lease with DAGS is from September 1992 through August 2022. The minimum annual rental is determined by multiplying the previous year's minimum annual rent by one hundred three percent (103%).

17. Segment Information

In addition to the revenue bond funds reported as major proprietary funds, the Corporation has also issued revenue bonds to finance multifamily rental housing projects and provide interim and permanent financing for the construction or rehabilitation of affordable housing projects. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Condensed Statement of Net Assets (\$ in thousands)

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund
	<u> </u>	<u> </u>
Assets:		
Cash	\$ -	\$ 449
Investment in financing lease	-	15,579
Receivables	7,943	29
Assets held by trustees	30,105	-
Other assets	295	263
	<u> </u>	<u> </u>
Total assets	<u>\$ 38,343</u>	<u>\$ 16,320</u>
Liabilities:		
Bonds payable	\$ 37,012	\$ 14,255
Other liabilities	733	210
	<u> </u>	<u> </u>
Total liabilities	37,745	14,465
Net Assets -		
Unrestricted	<u>598</u>	<u>1,855</u>
	<u> </u>	<u> </u>
Total net assets	<u>598</u>	<u>1,855</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 38,343</u>	<u>\$ 16,320</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements
June 30, 2007

17. Segment Information (continued)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets (\$ in thousands)

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund
	<u> </u>	<u> </u>
Revenues:		
Interest	\$ 506	\$ 470
Other	77	-
	<u>583</u>	<u>470</u>
Total revenues		
Expenses:		
Interest	2,184	-
Other operating expenses	125	15
	<u>2,309</u>	<u>15</u>
Total expenses		
Operating (loss) income	(1,727)	455
Nonoperating Income (Expenses):		
Interest income	1,771	-
Net increase in fair value of investments	183	-
Interest expense	-	(814)
Other	(7)	19
	<u>(1,947)</u>	<u>(795)</u>
Total nonoperating (expenses)		
Change in net assets	220	(340)
Net Assets at July 1, 2006	<u>378</u>	<u>2,195</u>
Net Assets at June 30, 2007	<u>\$ 598</u>	<u>\$ 1,855</u>

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

17. Segment Information (continued)

Condensed Statement of Cash Flows (\$ in thousands)

	Multifamily Housing Revenue Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund
Net Cash (Used in) Provided by:		
Operating activities	\$ (1,717)	\$ 1,565
Non-capital and related financing activities	-	-
Capital and related financing activities	(409)	(1,518)
Investing activities	1,823	-
Net increase in cash and cash equivalents	(303)	47
Cash and Cash Equivalents at July 1, 2006	315	402
Cash and Cash Equivalents at June 30, 2007	\$ 12	\$ 449

18. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2007 is as follows:

Due from	Dwelling Unit Revolving Fund	Single Family	Nonmajor – Proprietary
Rental Housing Trust Fund	\$ 735	\$ -	\$ 655
Dwelling Unit Revolving Fund	-	-	36,844
Single Family	-	-	354,331
Hawaii Rental Housing System	-	-	193,866
Nonmajor – Proprietary	437,501	95,232	306,416
TOTAL	\$ 438,236	\$ 95,232	\$ 892,112

Hawaii Housing Finance and Development Corporation

Notes to Financial Statements

June 30, 2007

19. Subsequent Events

On July 1, 2007, the Corporation redeemed \$13,545,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund, including \$8,610,000 of early redemptions.

During February 2008, the auction process for the Hawaii Rental Housing System 2004 Refunding Series B bonds began to fail. Due to ongoing issues in the credit markets of the United States, particularly related to auction rate securities, management expects the auctions for these bonds to continue to fail. Accordingly, management has begun planning to refinance the bonds into fixed or variable rate securities and has targeted completion of the refinancing by July 2008. Management intends to cover the increased debt service costs through rent increases and existing reserves, if necessary, as provided for in the Indenture.

20. New Pronouncements for Financial Reporting

The Governmental Accounting Standards Board (GASB) has issued the following Statements applicable to the Corporation:

- Statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities/assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This Statement is effective for financial statement periods beginning after December 15, 2007. The Corporation has not yet analyzed the potential effect on the financial statements, if any, of adopting Statement No. 45.
- Statement No. 48 “Sales and Pledges of Receivables and Future Revenues of Intra-Entity Transfers of Assets and Future Revenues” establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables for specific future revenues. This Statement is effective for financial statement periods beginning after December 15, 2006 and is not expected to have a material effect on the Corporation’s financial statements.
- Statement No 50 “Pension Disclosures” more closely aligns current pension disclosure requirements for governments with those that governments are beginning to implement for retiree health insurance and other post-employment benefits. This Statement is effective for financial statement periods beginning after June 15, 2007. The Corporation has not yet analyzed the potential effect on the financial statements, if any, of adopting Statement No. 50.

Required Supplementary Information
Other Than Management's Discussion and Analysis

Hawaii Housing Finance and Development Corporation

Required Supplementary Information

Budgetary Comparison Schedule - Major Governmental Fund

Year Ended June 30, 2007

	General Fund		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues --			
State allotted appropriations	<u>\$ 2,323,300</u>	<u>\$ 2,323,300</u>	<u>\$ 2,323,300</u>
Expenditures:			
Habitat for Humanity	700,000	700,000	700,000
Lokahi Pacific	490,000	490,000	490,000
Hawaii ownership center	225,000	225,000	225,000
Kukui Gardens acquisition	200,000	200,000	200,000
Capital outlays	<u>708,300</u>	<u>708,300</u>	<u>708,300</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	-
Reconciliation to GAAP Fund Balance:			
Add: Reserve for encumbrances included in budgetary expenditures			1,468,852
Fund Balance, July 1, 2006			<u>-</u>
Fund Balance, June 30, 2007			<u>\$ 1,468,852</u>

See accompanying independent auditor's report.

Supplementary Information

Hawaii Housing Finance and Development Corporation

Combining Statement of Net Assets - Nonmajor Other Enterprise Funds
June 30, 2007

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Assets											
Current Assets:											
Cash	\$ -	\$ 448,727	\$ 15,020	\$ 24,396,879	\$ 2,681,776	\$ 32,079	\$ 693,053	\$ 136,087	\$ -	\$ 35,129	\$ 28,438,750
Receivables:											
Mortgage loans	38,092	-	-	-	25,908	-	-	-	1,581	2,121	67,702
Notes and loans	-	-	-	3,073,648	-	-	-	-	-	-	3,073,648
Accrued interest	126,461	4,082	198	790,401	34,152	-	-	-	1,851	1,314	958,459
Tenant receivables, less allowance for doubtful accounts	-	-	-	-	-	33,692	-	-	-	-	33,692
Other	14,428	25,130	2,733	-	24,676	1,575	-	-	-	-	68,542
	<u>178,981</u>	<u>29,212</u>	<u>2,931</u>	<u>3,864,049</u>	<u>84,736</u>	<u>35,267</u>	<u>-</u>	<u>-</u>	<u>3,432</u>	<u>3,435</u>	<u>4,202,043</u>
Due from other funds	294,755	-	50,000	5,943	1,927,177	-	49,668	-	-	-	2,327,543
Internal balances	-	-	-	-	52,813	-	18,543	-	-	-	71,356
Net investment in financing lease	-	546,705	-	-	-	-	-	-	-	-	546,705
Prepaid expenses and other assets	-	-	-	112,295	-	-	-	-	-	-	112,295
Deposits held in trust	-	-	6,898	-	-	33,292	-	-	-	-	40,190
Deferred bond issuance costs	-	18,002	-	-	-	-	-	-	-	-	18,002
Total current assets	<u>473,736</u>	<u>1,042,646</u>	<u>74,849</u>	<u>28,379,166</u>	<u>4,746,502</u>	<u>100,638</u>	<u>761,264</u>	<u>136,087</u>	<u>3,432</u>	<u>38,564</u>	<u>35,756,884</u>
Assets Held by Trustees Under Revenue Bond Programs:											
Cash and cash equivalent	12,721	-	-	-	-	-	-	-	-	-	12,721
Investments	30,092,646	-	-	-	-	-	-	-	-	-	30,092,646
Investments	-	-	-	6,379,122	9,314	-	-	-	-	-	6,388,436
Mortgage Loans, net of current portion	7,763,843	-	-	2,249,985	1,447,218	-	-	-	604	5,218	11,466,868
Restricted Deposits and Funded Reserves	-	-	-	-	-	576,029	-	-	-	-	576,029
Net Investment in Financing Lease, net of current portion	-	15,032,704	-	-	-	-	-	-	-	-	15,032,704
Deferred Bond Issuance Costs, net of current portion	-	244,494	-	-	-	-	-	-	-	-	244,494
Capital Assets, less accumulated depreciation	-	-	-	-	-	4,793,128	-	-	-	-	4,793,128
Total assets	<u>\$ 38,342,946</u>	<u>\$ 16,319,844</u>	<u>\$ 74,849</u>	<u>\$ 37,008,273</u>	<u>\$ 6,203,034</u>	<u>\$ 5,469,795</u>	<u>\$ 761,264</u>	<u>\$ 136,087</u>	<u>\$ 4,036</u>	<u>\$ 43,782</u>	<u>\$ 104,363,910</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Net Assets - Nonmajor Other Enterprise Funds (continued)
June 30, 2007

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Liabilities and Net Assets											
Current Liabilities:											
Accounts payable	\$ -	\$ -	\$ 5,052	\$ -	\$ 825	\$ 12,779	\$ 151,264	\$ -	\$ -	\$ -	\$ 169,920
Accrued expenses:											
Interest	732,323	203,707	-	-	-	-	-	-	-	-	936,030
Other	-	-	10,289	158,200	94,439	-	-	-	-	-	262,928
Due to other funds	988	6,702	712	-	1,616,959	-	600,000	-	18,996	30,223	2,274,580
Due to State of Hawaii	-	-	-	-	-	-	10,000	-	-	-	10,000
Security deposits	-	-	6,898	-	770,278	33,292	-	-	-	-	810,468
Mortgage note payable	-	-	-	-	-	35,171	-	-	-	-	35,171
Revenue bonds payable, less deferred refunding cost	428,092	435,000	-	-	-	-	-	-	-	-	863,092
Total current liabilities	1,161,403	645,409	22,951	158,200	2,482,501	81,242	761,264	-	18,996	30,223	5,362,189
Mortgage Payable, net of current portion	-	-	-	-	-	5,585,590	-	-	-	-	5,585,590
Revenue Bonds Payable, net of current portion	36,583,843	13,820,000	-	-	-	-	-	-	-	-	50,403,843
Commitments and Contingencies											
Net Assets -											
Invested in capital assets, net of related debt	-	-	-	-	-	(1,060,466)	-	-	-	-	(1,060,466)
Restricted by legislation and contractual agreements	30,105,367	-	-	-	-	576,029	-	-	-	-	30,681,396
Unrestricted	(29,507,667)	1,854,435	51,898	36,850,073	3,720,533	287,400	-	136,087	(14,960)	13,559	13,391,358
Total net assets	597,700	1,854,435	51,898	36,850,073	3,720,533	(197,037)	-	136,087	(14,960)	13,559	43,012,288
Total liabilities and net assets	\$ 38,342,946	\$ 16,319,844	\$ 74,849	\$ 37,008,273	\$ 6,203,034	\$ 5,469,795	\$ 761,264	\$ 136,087	\$ 4,036	\$ 43,782	\$ 104,363,910

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Revenues and Expenses - Nonmajor Other Enterprise Funds
Year Ended June 30, 2007

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Operating Revenues:											
Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease	\$ 505,564	\$ 470,272	\$ -	\$ 190,262	\$ 73,888	\$ -	\$ -	\$ -	\$ 81	\$ 553	\$ 1,240,620
Rental	-	-	-	-	-	403,888	-	-	-	-	403,888
Other	77,359	-	10,328	84,704	1,667,454	14,883	-	-	2	-	1,854,730
Total operating revenues	582,923	470,272	10,328	274,966	1,741,342	418,771	-	-	83	553	3,499,238
Operating Expenses:											
Personal services	40,304	5,641	2,320	81,877	1,140,558	132,983	-	-	-	-	1,403,683
Depreciation	-	-	-	-	-	161,934	-	-	-	-	161,934
Housing assistance payments	-	-	-	1,463,093	-	-	-	-	-	-	1,463,093
Administration	15,568	783	16,719	67,013	183,633	10,681	-	-	-	-	294,397
Professional services	10,689	7,845	7,164	8,854	28,599	23,520	-	-	2,267	2,230	91,168
Repairs and maintenance	709	390	426	710	2,022	34,776	-	-	-	-	39,033
Utilities	-	-	-	-	-	63,279	-	-	-	-	63,279
Capital expenditures	459	-	-	459	1,345	-	-	-	-	-	2,263
Interest expense	2,184,157	-	-	-	-	-	-	-	-	-	2,184,157
Other	57,672	218	-	-	3,423	33,024	-	-	-	-	94,337
Total operating expenses	2,309,558	14,877	26,629	1,622,006	1,359,580	460,197	-	-	2,267	2,230	5,797,344
Operating (loss) income	(1,726,635)	455,395	(16,301)	(1,347,040)	381,762	(41,426)	-	-	(2,184)	(1,677)	(2,298,106)
Nonoperating Revenues (Expenses):											
Interest income - cash and investments	1,771,223	-	405	1,537,623	95,713	23,450	-	812	-	-	3,429,226
Net increase in fair value of investments	182,730	-	-	9,783	-	-	-	-	-	-	192,513
Interest expense	-	(814,890)	-	-	(250)	(116,980)	-	-	-	-	(932,120)
Trustee fees	(7,214)	-	-	-	-	-	-	-	-	-	(7,214)
Amortization of deferred bond issuance costs	-	(18,105)	-	-	-	-	-	-	-	-	(18,105)
Other revenues	-	37,515	-	-	-	-	-	-	-	-	37,515
Total nonoperating revenues (expenses)	1,946,739	(795,480)	405	1,547,406	95,463	(93,530)	-	812	-	-	2,701,815
Income (loss) before operating transfers	220,104	(340,085)	(15,896)	200,366	477,225	(134,956)	-	812	(2,184)	(1,677)	403,709
Operating Transfers Out	-	-	-	-	-	-	-	-	(969)	-	(969)
Change in net assets	\$ 220,104	\$ (340,085)	\$ (15,896)	\$ 200,366	\$ 477,225	\$ (134,956)	\$ -	\$ 812	\$ (3,153)	\$ (1,677)	\$ 402,740

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Changes in Fund Net Assets - Nonmajor Other Enterprise Funds
 Year Ended June 30, 2007

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Net Assets, July 1, 2006	\$ 377,596	\$ 2,194,520	\$ 67,794	\$ 36,649,707	\$ 3,243,308	\$ (62,081)	\$ -	\$ 135,275	\$ (11,807)	\$ 15,236	\$ 42,609,548
Change in Net Assets	220,104	(340,085)	(15,896)	200,366	477,225	(134,956)	-	812	(3,153)	(1,677)	402,740
Net Assets, June 30, 2007	<u>\$ 597,700</u>	<u>\$ 1,854,435</u>	<u>\$ 51,898</u>	<u>\$ 36,850,073</u>	<u>\$ 3,720,533</u>	<u>\$ (197,037)</u>	<u>\$ -</u>	<u>\$ 136,087</u>	<u>\$ (14,960)</u>	<u>\$ 13,559</u>	<u>\$ 43,012,288</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Cash Flows - Nonmajor Other Enterprise Funds
Year Ended June 30, 2007

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Cash Flows from Operating Activities:											
Cash received from renters	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 391,660	\$ -	\$ -	\$ -	\$ -	\$ 391,660
Cash received from borrowers:											
Principal repayments	34,715	-	-	-	444,586	-	-	-	968	9,422	489,691
Interest income	505,564	-	-	105,741	86,259	-	-	-	83	553	698,200
Cash received from net investment in financing lease	-	1,253,943	-	-	-	-	-	-	-	-	1,253,943
Cash to borrower	-	-	-	(5,148,755)	-	-	-	-	-	-	(5,148,755)
Cash payments for interest	(2,192,175)	-	-	-	-	-	-	-	-	-	(2,192,175)
Cash payments to employees	(40,304)	-	(2,320)	(81,877)	(1,140,558)	(103,600)	-	-	-	-	(1,368,659)
Cash (payments to) receipts from suppliers	(90,906)	(14,877)	(41,308)	(1,380,910)	(250,089)	(205,281)	33,202	-	(2,267)	(555)	(1,952,991)
Cash (payments to) receipts from other funds	(11,036)	5,270	47,623	(6,262)	(171,149)	-	659,851	-	2,185	-	526,482
Other cash receipts	77,359	36,408	10,328	84,704	1,642,778	33,967	-	-	-	-	1,885,544
Net cash (used in) provided by operating activities	(1,716,783)	1,280,744	14,323	(6,427,359)	611,827	116,746	693,053	-	969	9,420	(5,417,060)
Cash Flows from Noncapital Financing Activities:											
Cash received from borrower	-	-	-	2,151,825	-	-	-	-	-	-	2,151,825
Interest paid to the Department of Budget and Finance	-	-	-	-	(250)	-	-	-	-	-	(250)
Operating transfers out	-	-	-	-	-	-	-	-	(969)	-	(969)
Net cash provided by (used in) noncapital financing activities	-	-	-	2,151,825	(250)	-	-	-	(969)	-	2,150,606
Cash Flows from Capital and Related Financing Activities:											
Principal paid on revenue bond maturities and redemptions	(409,715)	(415,000)	-	-	-	-	-	-	-	-	(824,715)
Principal paid on mortgage loans	-	-	-	-	-	(45,255)	-	-	-	-	(45,255)
Interest paid	-	(818,796)	-	-	-	(116,980)	-	-	-	-	(935,776)
Net cash used in capital and related financing activities	(409,715)	(1,233,796)	-	-	-	(162,235)	-	-	-	-	(1,805,746)
Cash Flows from Investing Activities:											
Purchases of investments	(1,815,625)	-	-	-	-	-	-	-	-	-	(1,815,625)
Proceeds from maturities of investments	1,869,284	-	-	-	1,974	-	-	-	-	-	1,871,258
Receipts of interest	1,769,768	-	439	1,460,905	95,713	23,450	-	812	-	-	3,351,087
Net decrease in restricted deposits and funded reserves	-	-	-	-	-	49,050	-	-	-	-	49,050
Net cash provided by investing activities	1,823,427	-	439	1,460,905	97,687	72,500	-	812	-	-	3,455,770
Net (decrease) increase in cash and cash equivalents	(303,071)	46,948	14,762	(2,814,629)	709,264	27,011	693,053	812	-	9,420	(1,616,430)
Cash and Cash Equivalents, July 1, 2006	315,792	401,779	258	27,211,508	1,972,512	5,068	-	135,275	-	25,709	30,067,901
Cash and Cash Equivalents, June 30, 2007	\$ 12,721	\$ 448,727	\$ 15,020	\$ 24,396,879	\$ 2,681,776	\$ 32,079	\$ 693,053	\$ 136,087	\$ -	\$ 35,129	\$ 28,451,471

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Combining Statement of Cash Flows - Nonmajor Other Enterprise Funds (continued)
Year Ended June 30, 2007

	Multifamily Housing Revenue Bond Fund	University of Hawaii Faculty Housing Program Revenue Bond Fund	Fee Simple Residential Revolving Fund	Rental Assistance Revolving Fund	Housing Finance Revolving Fund	Kekuilani Gardens Project	Disbursing Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Cash Flows from Operating Activities:											
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:											
Operating (loss) income	\$ (1,726,635)	\$ 455,395	\$ (16,301)	\$ (1,347,040)	\$ 381,762	\$ (41,426)	\$ -	\$ -	\$ (2,184)	\$ (1,677)	\$ (2,298,106)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:											
Depreciation	-	-	-	-	-	161,934	-	-	-	-	161,934
Changes in assets and liabilities:											
Mortgage loans receivables	34,715	-	-	-	141,851	-	-	-	968	9,422	186,956
Notes and loans receivables	-	-	-	(5,148,755)	-	-	-	-	-	-	(5,148,755)
Accrued interest receivable on mortgages, notes and loans	-	-	-	(84,521)	12,371	-	-	-	-	-	(72,150)
Tenant receivables	-	-	-	-	-	(12,228)	-	-	-	-	(12,228)
Other receivables	-	36,408	(2,733)	-	(24,676)	19,084	-	-	-	-	28,083
Due from other funds	(5,188)	5,270	51,712	(5,943)	(640,139)	-	49,851	-	-	-	(544,437)
Due from State of Hawaii	-	-	-	-	-	-	10,000	-	-	-	10,000
Prepaid expenses and other assets	-	-	-	25,474	-	-	-	-	-	-	25,474
Net investment in lease financing	-	783,671	-	-	-	-	-	-	-	-	783,671
Deposits held in trust	-	-	-	-	-	213	-	-	-	-	213
Accounts payable	-	-	1,200	-	-	(10,618)	33,202	-	-	-	23,784
Other accrued expenses	(13,827)	-	(18,199)	133,745	(31,067)	-	-	-	-	-	70,652
Due to other funds	(5,848)	-	(1,356)	(319)	468,990	(213)	600,000	-	2,185	1,675	1,065,114
Security deposits	-	-	-	-	302,735	-	-	-	-	-	302,735
Net cash (used in) provided by operating activities	<u>\$ (1,716,783)</u>	<u>\$ 1,280,744</u>	<u>\$ 14,323</u>	<u>\$ (6,427,359)</u>	<u>\$ 611,827</u>	<u>\$ 116,746</u>	<u>\$ 693,053</u>	<u>\$ -</u>	<u>\$ 969</u>	<u>\$ 9,420</u>	<u>\$ (5,417,060)</u>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Reconciliation of Cash and Short-Term Investments

June 30, 2007

The Corporation's cash and short-term investments consists of the following as of June 30, 2007:

Equity in State Treasury investment pool - Government Wide	\$ 178,602,665
Equity in State Treasury investment pool - Fiduciary Funds	203,484
Cash in banks	1,488,788
Cash held by trustees	4,232,604
Money market funds	35,730,472
Deposits held in trust	40,190
	<hr/>
	\$ 220,298,203
	<hr/> <hr/>

Total cash and short-term investments are in agreement with the State Comptroller's central accounting records as of June 30, 2007, as reconciled below:

	<u>Appropriation symbol</u>	<u>June 30, 2007</u>
Cash in State Treasury		
General Funds	G-07-323-B	\$ 700,000
	G-07-324-B	159,350
	G-07-328-B	507,809
	G-07-329-B	101,693
Special Funds	S-02-800-B	203,484
	S-07-314-B	7
	S-07-320-B	196,680
	S-07-321-B	561,307
	S-07-325-B	35,129
	S-07-329-B	2,048
	S-07-339-B	200,000
	S-07-374-B	12,066
	S-07-375-B	88,115,044
	S-07-376-B	1,926,979
	S-07-377-B	448,727
	S-07-378-B	24,396,879
Trust Funds	T-07-930-B	61,224,089
		<hr/>
Total cash held in State Treasury, as reported by State Comptroller's accounting records carried forward		\$ 178,791,291
		<hr/> <hr/>

See accompanying independent auditor's report.

Hawaii Housing Finance and Development Corporation

Reconciliation of Cash and Short-Term Investments

June 30, 2007

	<u>June 30, 2007</u>
Subtotal brought forward	<u>\$ 178,791,291</u>
Reconciling items:	
Journal vouchers not recorded by DAGS	(5,689)
Journal vouchers not recorded on books	26,882
Summary warrant vouchers not recorded on Books	(4,460)
Disbursing amount	3,735
Other	<u>(5,610)</u>
	<u>14,859</u>
Cash and short-term investments held outside State Treasury:	
Cash in bank	1,488,788
Cash held by trustees	4,232,604
Money market funds	35,730,472
Deposits held in trust	<u>40,190</u>
	<u>41,492,054</u>
Cash and short-term investments on statement of net assets	<u><u>\$ 220,298,203</u></u>

See accompanying independent auditor's report.