

Financial Statements and Independent Auditor's Report

Housing and Community Development Corporation of Hawaii

Year ended June 30, 2005

Housing and Community Development Corporation of Hawaii

TABLE OF CONTENTS

| | Page |
|---|------|
| Management's Discussion and Analysis | 1 |
| Financial Statements | |
| Independent Auditor's Report | 16 |
| Basic Financial Statements | |
| Government-Wide | |
| Statement of Net Assets – Governmental Activities and Business-Type Activities | 18 |
| Statement of Activities – Governmental Activities and Business-Type Activities | 20 |
| Governmental Funds | |
| General Fund | |
| Capital Projects Fund | |
| Housing Voucher Fund | |
| Section 8 Contract Administration Fund | |
| Other Governmental Funds | |
| Balance Sheets | 21 |
| Reconciliation of the Governmental Fund Balance to the Statement of Net Assets | 22 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance | 23 |
| Reconciliation of the Change in Fund Balances of Governmental Funds to the Statement of Activities | 24 |
| Proprietary Funds | |
| Federal Low Rent Program | |
| Dwelling Unit Revolving Fund | |
| Rental Housing System Revenue Bond Fund | |
| Hawaii Rental Housing System Revenue Bond Fund | |
| Single Family Mortgage Purchase Revenue Bond Fund | |
| Other Enterprise Funds | |
| Internal Service Funds | |
| Statement of Net Assets | 25 |
| Reconciliation of the Proprietary Funds Net Assets to the Statement of Net Assets | 27 |
| Statement of Revenues, Expenses, and Changes in Fund Net Assets | 28 |
| Reconciliation of the Change in Fund Balances of Proprietary Funds to the Statement of Activities | 30 |
| Statement of Cash Flows | 31 |
| Fiduciary Funds | |
| Private Purpose Trusts | |
| Statement of Fiduciary Net Assets | 34 |
| Statement of Changes in Fiduciary Net Assets | 35 |
| Notes to Financial Statements | 36 |

TABLE OF CONTENTS

| | Page |
|--|------|
| Required Supplementary Information Other Than Management’s Discussion and Analysis | |
| Budgetary Comparison Schedule – Major Governmental Funds | 85 |
| Budgetary Comparison Schedule – Budget-to-GAAP Reconciliation | 87 |
| Supplementary Information | |
| Combining Balance Sheet – Nonmajor Governmental Funds | 89 |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds | 90 |
| Combining Statement of Net Assets – Nonmajor Enterprise Funds | 91 |
| Combining Statement of Revenues and Expenses – Nonmajor Enterprise Funds | 93 |
| Combining Statement of Changes in Fund Net Assets – Nonmajor Enterprise Funds | 94 |
| Combining Statement of Cash Flows – Nonmajor Enterprise Funds | 95 |
| Combining Statement of Net Assets – Nonmajor Revenue Bond Funds | 98 |
| Combining Statement of Revenues and Expenses – Nonmajor Revenue Bond Funds | 99 |
| Combining Statement of Changes in Fund Net Assets – Nonmajor Revenue Bond Funds | 100 |
| Combining Statement of Cash Flows – Nonmajor Revenue Bond Funds | 101 |
| Combining Statement of Net Assets – Nonmajor Other Enterprise Funds | 103 |
| Combining Statement of Revenues and Expenses – Nonmajor Other Enterprise Funds | 105 |
| Combining Statement of Changes in Fund Net Assets – Nonmajor Other Enterprise Funds | 106 |
| Combining Statement of Cash Flows – Nonmajor Other Enterprise Funds | 107 |
| Combining Statement of Net Assets – Nonmajor Miscellaneous Enterprise Funds | 109 |
| Combining Statement of Revenues and Expenses – Nonmajor Miscellaneous Enterprise Funds | 111 |
| Combining Statement of Changes in Fund Net Assets – Nonmajor Miscellaneous Enterprise Funds | 112 |
| Combining Statement of Cash Flows – Nonmajor Miscellaneous Enterprise Funds | 113 |
| Combining Statement of Net Assets – Internal Service Funds | 115 |
| Combining Statement of Revenues and Expenses and Changes in Fund Net Assets – Internal Service Funds | 116 |
| Combining Statement of Cash Flows – Internal Service Funds | 117 |
| Reconciliation of Cash and Short-Term Investments | 118 |

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

The management of the Housing and Community Development Corporation of Hawaii 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, 2005. This document should be read in conjunction with the audited financial statements.

Introduction

The Housing and Community Development Corporation of Hawaii (Corporation) 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.

The Corporation administers the following major programs:

- Federal and State public housing programs
- Federal and State rent subsidy programs
- Homeless programs
- Development programs
- Financing programs to facilitate affordable housing development
- Financing programs to assist first-time homebuyers

The Corporation is responsible for the administration of over 5,300 federal public housing units in Hawaii, with funds received from the United States Department of Housing and Urban Development (HUD). The Corporation also administers the HUD Section 8 Housing Assistance Payments - Special Allocations Program, through a subcontract with the Bremerton (Washington) Housing Authority.

The Corporation has received authority from the State to assist in the delivery of affordable rental housing throughout the State on a cost-effective basis, through the financing and/or refinancing of rental housing projects developed or acquired by the Corporation.

In addition, the Corporation administers a rental assistance program that subsidizes rental payments to persons and families with incomes that do not exceed 80% of the area median income. 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.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

The Corporation is administratively attached to the State Department of Human Services. 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 one public member shall be a person who is assisted under the federal low-rent public housing or federal section 8 tenant-based housing assistance payments program. The Director of Business, Economic Development and Tourism; the Director of Human Services; and the Governor's Senior Policy Advisor are ex-officio voting members. All Corporation action is taken by the affirmative vote of at least five members.

Financial Highlights

- The Corporation's total assets decreased by \$79.8 million (or 6.5%) to \$1,146.2 million as compared to \$1,226.0 million in the previous year. The decrease resulted primarily from the use of assets held by trustee for the early bond redemptions of \$75.9 million in the Single Family Mortgage Purchase Revenue Bond program. Through the issuance of revenue bonds, the Corporation provides eligible borrowers with mortgage loans at below market interest rates. The revenue bonds may also be redeemed without premium prior to maturity, at the option of the Corporation, as funds become available from un-disbursed bond proceeds, principal payments and prepayments of mortgages, excess mounts in the debt service reserve account or excess revenues (as described in the bond indentures).
- Total government-wide revenues and expenses were \$183.4 million and \$173.7 million, respectively, resulting in an increase in net assets of \$9.7 million during the fiscal year. The net assets of the Business-type activities increased by \$11.8 million and the Governmental activities incurred a decrease in net assets of \$2.1 million.
- At the end of the fiscal year ending June 30, 2005, the Corporation's governmental funds reported a combined ending fund balance of \$6.3 million, a decrease of \$5.1 million from the prior year. The decrease is due primarily to capital outlays in the State Capital Projects fund.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

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 consists of four parts: (1) Management's Discussion and Analysis; (2) the basic financial statements; (3) related notes to the financial statements and (4) other required supplementary information. These components are described below:

Basic Financial Statements

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

- The first two statements are Corporation-wide financial statements that provide information about the Corporation's overall financial position and results of operations. These statements, 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 overall governmental funds, for which activities are funded primarily from appropriations from the State of Hawaii or by contributions from the U.S. Department of Housing and Urban Development (HUD), 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.

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

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

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

- The *statement of net assets* presents all of the Corporation's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in the Corporation's net assets may serve as a useful indicator of 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 of Hawaii appropriations or by the U.S. Department of Housing and Urban Development (HUD) contributions.
- Business-type activities – These functions normally are intended to recover all or a significant portion of their costs through user's fees and charges to external users.

Fund Financial Statements

The fund financial statements provide more detailed information about the Corporation's most significant funds and not the Corporation as a whole. The financial activities of the Corporation are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as a major fund or a non-major fund. 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.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

The Corporation has three types of funds:

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

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

- Fiduciary Funds:
 - Fiduciary Funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Corporation's own programs.
 - The decrease in net assets of \$7.1 million is primarily due to capital outlays for the Kapolei High School.

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.

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 purpose and the fund balance for the major governmental funds as presented in the governmental fund financial statements. This management's discussion and analysis is also required supplementary information that is required to be presented preceding the financial statements.

Other information

The combining statements, which include non-major funds, governmental, enterprise and internal service funds are presented as other information.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

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, 2005, the Corporation's total net asset balance was \$605.8 million, an increase of \$9.7 million (or 1.6%) from the previous year.

Condensed Statement of Net Assets
June 30, 2005 and June 30, 2004
(In thousand of dollars)

| | Governmental Activities | | Business Activities | | Total | | Total Percentage Change |
|---|----------------------------|------------------|------------------------|---------------------|---------------------|---------------------|-------------------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005-2004 |
| Current assets | \$ 11,800 | \$ 14,605 | \$ 219,227 | \$ 193,871 | \$ 231,027 | \$ 208,476 | 10.8% |
| Assets held by trustee | - | - | 413,792 | 512,285 | 413,792 | 512,285 | -19.2% |
| Capital assets | 41,195 | 38,211 | 358,591 | 356,880 | 399,786 | 395,091 | 1.2% |
| Other assets | - | - | 101,562 | 110,151 | 101,562 | 110,151 | -7.8% |
| Total assets | \$ 52,995 | \$ 52,816 | \$ 1,093,172 | \$ 1,173,187 | \$ 1,146,167 | \$ 1,226,003 | -6.5% |
| Current liabilities | \$ 5,860 | \$ 3,318 | \$ 106,882 | \$ 53,639 | \$ 112,742 | 56,957 | 97.9% |
| Long-term liabilities | - | 272 | 427,630 | 572,665 | 427,630 | 572,937 | -25.4% |
| Total liabilities | 5,860 | 3,590 | 534,512 | 626,304 | 540,372 | 629,894 | -14.2% |
| Net assets | | | | | | | |
| Invested in capital assets net of related debt | 41,195 | 38,211 | 247,728 | 220,329 | 288,923 | 258,540 | 11.8% |
| Restricted | - | - | 421,248 | 519,638 | 421,248 | 519,638 | -18.9% |
| Unrestricted | 5,940 | 11,015 | (110,316) | (193,084) | (104,376) | (182,069) | -42.7% |
| Total net assets | 47,135 | 49,226 | 558,660 | 546,883 | 605,795 | 596,109 | 1.6% |
| Total liabilities and net assets | \$ 52,995 | \$ 52,816 | \$ 1,093,172 | \$ 1,173,187 | \$ 1,146,167 | \$ 1,226,003 | -6.5% |

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

Restricted net assets represents resources that are subject to external restrictions on how they may be used. The majority of this balance is attributed to approximately \$352.3 million of assets held by trustees under the Single Family Revenue Bond Fund. The Revenue Bond Funds trust indentures require cash and investments be held by a trustee.

Investment in capital assets consists 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." At the end of the fiscal year ending June 30, 2005, unrestricted net assets reflected a deficit balance. This is primarily due to the Single Family Mortgage Revenue Bond Fund's revenue bonds payable balances of \$306.5 million. The assets that support these liabilities are the assets held by trustees, which are reflected as restricted net assets.

The decrease in long-term liabilities of \$145.3 million (or 25.4%) is primarily due to the redemptions of revenue bonds in fiscal year 2005. The long-term revenue bonds payable balance decreased by \$139.9 million (or 25.2%).

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

The statement of activities 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, 2005 and June 30, 2004 (In thousand of dollars) | | | | | | | |
|---|----------------------------|-----------|------------------------|------------|------------|------------|--|
| | Governmental Activities | | Business Activities | | Total | | Total Percentage Change 2005-2004 |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | |
| Revenues | | | | | | | |
| Program revenues: | | | | | | | |
| Charges for services | \$ - | \$ - | \$ 86,289 | \$ 69,759 | \$ 86,289 | \$ 69,759 | 23.7% |
| Operating grants and contributions | 37,717 | 38,880 | 29,290 | 9,169 | 67,007 | 48,049 | 39.5% |
| Capital grants and contributions | - | - | 22,355 | 14,573 | 22,355 | 14,573 | 53.4% |
| General revenues: | | | | | | | |
| State allotted appropriations, net of lapses | 7,726 | 6,869 | - | - | 7,726 | 6,869 | 12.5% |
| Total revenues | 45,443 | 45,749 | 137,934 | 93,501 | 183,377 | 139,250 | 31.7% |
| Expenses | | | | | | | |
| Governmental activities | | | | | | | |
| Homeless services and assistance program | 2,889 | 4,978 | - | - | 2,889 | 4,978 | -42.0% |
| Rental housing and assistance program | 43,458 | 42,923 | - | - | 43,458 | 42,923 | 1.2% |
| Business-type activities | | | | | | | |
| Rental assistance program | - | - | 43,061 | 41,517 | 43,061 | 41,517 | 3.7% |
| Housing development program | - | - | 31,987 | 46,664 | 31,987 | 46,664 | -31.5% |
| Multi-family mortgage loan programs | - | - | 2,996 | 3,049 | 2,996 | 3,049 | -1.7% |
| Single-family mortgage loan program | - | - | 21,213 | 28,744 | 21,213 | 28,744 | -26.2% |
| Rental housing program | - | - | 23,379 | 22,895 | 23,379 | 22,895 | 2.1% |
| Others | - | - | 4,699 | 5,420 | 4,699 | 5,420 | -13.3% |
| Total government-wide expenses | 46,347 | 47,901 | 127,335 | 148,289 | 173,682 | 196,190 | -11.5% |
| Excess of revenues over expenses | (904) | (2,152) | 10,599 | (54,788) | 9,695 | (56,940) | -117.0% |
| Transfers | (1,187) | (169) | 1,178 | (30,188) | (9) | (30,357) | -100.0% |
| CHANGE IN NET ASSETS | (2,091) | (2,321) | 11,777 | (84,976) | 9,686 | (87,297) | -111.1% |
| Total net assets, beginning of year | 49,226 | 51,547 | 546,883 | 631,859 | 596,109 | 683,406 | -12.8% |
| Total net assets, end of year | \$ 47,135 | \$ 49,226 | \$ 558,660 | \$ 546,883 | \$ 605,795 | \$ 596,109 | 1.6% |

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

Governmental Activities

Total net assets of the governmental activities were \$47.1 million at June 30, 2005, a decrease of \$2.1 million from the previous year. Key elements of this decrease are as follows:

- The Section 8 Contract Administration fund transferred approximately \$1.0 million to the Federal Low Rent fund which was primarily used for security costs.
- HUD contributions for the Section 8 Housing Choice Voucher program totaled \$16.7 million during the current year, compared to \$17.7 million in the previous year, resulting in a decrease of \$1.0 million.

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, 2005, business-type activities increased the Corporation's net assets by \$11.8 million. Key elements of this increase are as follows:

- Capital grants and contributions increased by \$8.5 million primarily due to an increase of \$7.8 million of HUD Capital grants received
- The Rental Housing Trust fund recognized an increase in net assets of \$7.2 million, primarily due to the influx of \$6.1 million of conveyance tax transfers.
- The State Housing and the State Elderly Revolving funds recognized a combined decrease in net assets of \$2.2 million.
- The Hawaii Rental Housing System incurred a loss before operating transfers of \$1.9 million.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

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, 2005, the Corporation's governmental funds reported a combined ending fund balance of \$6.3 million, a decrease of \$5.1 million in comparison to the combined fund balance of \$11.4 at June 30, 2004. The decrease was primarily due to the following:

- The *State Capital Improvement Projects Fund* recognized a decrease in fund balance of \$3.3 million. During the current year, the fund received \$1.2 million of State allotted appropriations for capital projects and expended \$4.5 million for capital outlays.
- The net change in fund balance of the *Section 8 Housing Choice Voucher and Contract Administration Programs* were \$(0.4) million and \$(1.2), respectively. As mentioned previously, approximately \$1.0 million was transferred the Contract Administration Program to the Federal Low Rent Fund for security expenses.

Proprietary Funds

The proprietary fund consists of five major and several non-major funds. The five major funds are: 1) Federal Low Rent Program, 2) Dwelling Unit Revolving Fund, 3) Rental Housing System Revenue Bond Fund, 4) Hawaii Rental Housing System Revenue Bond Fund and 5) Single Family Mortgage Purchase Revenue Bond Fund.

- Under the *Federal Low Rent Program*, the Corporation administers the operations of over 5,300 federal public housing units. The U.S. Department of Housing and Urban Development provides the Corporation with funds to operate, repair and maintain the public housing inventory. During fiscal year 2005, the Corporation received \$33.4 million of HUD operating subsidies and grants, an increase of \$8.5 million from the prior year. The increase was due primarily to additional revenues attributed to the federal capital grant program.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

- 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. Net assets increased by \$0.7 million during the current year.
- The *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 four multifamily rental housing projects located throughout the State of Hawaii. During the current year, the Corporation issued \$107.1 million of revenue bonds to refund the outstanding bonds of the Rental Housing System and State of Hawaii Affordable Rental Housing programs. The two programs were consolidated into the newly created *Hawaii Rental Housing Revenue Bond Fund*. The combined change in net assets resulted in a deficit of \$1.5 million.
- 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. Change in net assets was \$0.9 million in 2005 compared to \$(11.5) in the prior year. The increase in change in net assets was primarily due to the adjustment to the fair value of investments. There was a net *increase* in fair value of mortgage-backed securities of \$1.5 million in the current year compared to a net *decrease* in fair value of \$14.6 million in the prior year.

During the current year, the Single Family Mortgage Purchase Revenue Bond fund had early redemptions of \$75.9 million.

Budgetary Analysis

The differences between the original and final amended budgets were relatively minor. The actual expenditures for the general funded rental housing and homeless service programs were \$375,439 less than the budgeted expenditures. This was due primarily to program requirements.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2005, the Corporation had invested approximately \$399.8 million (net of accumulated depreciation of \$328.1 million) in a broad range of capital assets. This amount represents an increase of \$4.7 million (or 1.2%) over the prior year.

Corporation's Capital Assets
Years Ended June 30, 2005 and June 30, 2004
(In thousand of dollars)

| | Governmental | | Business | | Total | | Total |
|----------------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|------------|
| | Activities | | Activities | | | | Percentage |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | Change |
| Land | \$ 2,373 | \$ 2,373 | \$ 44,146 | \$ 44,173 | \$ 46,519 | \$ 46,546 | -0.1% |
| Buildings and improvements | 34,671 | 34,671 | 566,942 | 562,233 | 601,613 | 596,904 | 0.8% |
| Equipment | 1,097 | 1,097 | 12,021 | 11,033 | 13,118 | 12,130 | 8.1% |
| Construction in progress | 21,907 | 17,754 | 44,688 | 32,291 | 66,595 | 50,045 | 33.1% |
| Total | 60,048 | 55,895 | 667,797 | 649,730 | 727,845 | 705,625 | 3.1% |
| Accumulated depreciation | (18,853) | (17,684) | (309,205) | (292,850) | (328,058) | (310,534) | 5.6% |
| Total Capital Assets, net | <u>\$ 41,195</u> | <u>\$ 38,211</u> | <u>\$ 358,592</u> | <u>\$ 356,880</u> | <u>\$ 399,787</u> | <u>\$ 395,091</u> | 1.2% |

Debt Administration

Through June 30, 2005, approximately \$2.12 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 \$106.7 million to \$458.2 million at June 30, 2005 from \$564.9 million at June 30, 2004. During the year ended June 30, 2005, the Corporation issued approximately \$182.2 million of new bonds and had bond redemptions of approximately \$286.6 million. 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 \$75.9 million.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

During fiscal year 2005, Moody's Investors Service's rating of the Corporation was downgraded to A2 with a negative outlook from A1 with a negative outlook in the previous year. 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, 2005, the Corporation redeemed \$39.4 million of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund, including \$34.9 million of early redemptions.
- The U.S. Housing and Urban Development (HUD) utilizes a system called the Public Housing Assessment System (PHAS) to rate the corporation annually. PHAS is comprised of four subsystems that equal 100 points. The indicators are summarized below.

Physical Assessment Sub-System (PASS) 30 points
This indicator determines whether a Public Housing Authority (PHA) is providing housing that is decent, safe, sanitary and in good repair. The HUD's Real Estate Assessment Center (REAC) performs the physical inspection.

Financial Assessment Sub-System (FASS) 30 points
This indicator measures the financial condition of a PHA for the purpose of evaluating whether it has sufficient financial resources and is capable of managing those financial resources effectively. The preliminary score can be determined utilizing the un-audited data. However, REAC will use the audited data for final scoring.

Management Assessment Sub-System (MASS) 30 points
This indicator measures certain key management operations and responsibilities of a PHA. It is a self-assessment and self-certification.

Resident Assessment Sub-System (RASS) 10 points
This indicator measures the level of resident satisfaction with living conditions at the PHA. The score is based on resident survey results, survey implementation plan, and a survey follow-up plan.

Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2005

In November 2003, HUD conducted an on-site PHAS confirmatory review for fiscal year ending June 30, 2003. Phase II of the PHAS confirmatory review was an on-site physical inspection review conducted in March 2003. A report was issued by HUD on May 14, 2004 of their findings. Based on the findings, HUD reduced the Management Assessment Subsystem (MASS) score from 26 points to 16 points due to incorrect certifications. This 10 point reduction resulted in HCDCH being considered sub-standard under MASS.

Under the Financial Assessment Subsystem (FASS) audited financial data is required to be submitted to REAC within 9 months of the end of the fiscal year. Although the audited financial statements were submitted timely on March 11, 2004, the HCDCH was not able to resolve all discrepancies identified by REAC. The final submission was rejected on June 17, 2004, resulting in a Late Presumptive Failure score of 0 points.

With the adjustment in the MASS and FASS score, HCDCH had a PHAS score of 48 points out of 100 points. This designated HCDCH as an overall troubled agency for its fiscal year ending (FYE) June 30, 2003.

As a result of being designated an overall troubled agency HUD has drafted a Memorandum of Agreement (MOA) identifying performance targets and strategies for HCDCH to implement.

On November 22, 2005, the U.S. Department of Housing and Urban Development (HUD) removed the "troubled" agency status given to the Corporation last year, noting that the agency has made significant progress in achieving the targets and strategies under the Memorandum of Agreement (MOA), which was aimed at improving management and operations of federal housing projects.

The Corporation obtained a 74 percent passing score under the Public Housing Assessment System (PHAS) for fiscal year 2005. As a result of the progress made by the Corporation, HUD closed the MOA and deemed the agency a standard performer.

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 Management Officer, Housing and Community Development Corporation of Hawaii, 677 Queen Street, Suite 300, Honolulu, Hawaii 96813.

Independent Auditor's Report

Board of Directors
Housing and Community Development Corporation of Hawaii:

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 Housing and Community Development Corporation of Hawaii (Corporation) as of and for the year ended June 30, 2005. 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 A, 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, 2005, 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, 2005, 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.

Board of Directors
Housing and Community Development Corporation of Hawaii

Management's Discussion and Analysis on pages 1 to 15 and Budgetary Comparison Schedules on pages 85 to 87 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
November 1, 2005

Housing and Community Development Corporation of Hawaii

GOVERNMENT-WIDE
STATEMENT OF NET ASSETS

June 30, 2005

ASSETS

| | Governmental Activities | Business-type Activities | Total |
|--|----------------------------|-----------------------------|-------------------------|
| Current assets | | | |
| Cash (notes A7 and C) | \$ 6,972,193 | \$ 151,471,509 | \$ 158,443,702 |
| Investments (notes A8 and D) | - | 2,450,000 | 2,450,000 |
| Receivables | | | |
| Mortgage loans (note E) | - | 1,514,150 | 1,514,150 |
| Notes and loans (note E) | - | 3,250,002 | 3,250,002 |
| Accrued interest | - | 4,234,699 | 4,234,699 |
| Tenant receivables, less allowance for doubtful receivables of \$5,635,498 | - | 797,876 | 797,876 |
| Other | 103,124 | 1,638,537 | 1,741,661 |
| | <u>103,124</u> | <u>11,435,264</u> | <u>11,538,388</u> |
| Internal balances | | | |
| Due from other State of Hawaii Departments | 2,562,274 | (2,562,274) | - |
| Due from HUD | 909,994 | 25,240,436 | 25,240,436 |
| Inventories (note A9 and M) | - | 8,109,355 | 9,019,349 |
| Developments in progress and dwelling units | - | 20,961,102 | 20,961,102 |
| Materials and supplies | - | 871,325 | 871,325 |
| Net investment in direct financing lease (note F) | - | 477,655 | 477,655 |
| Prepaid expenses and other assets | 1,252,281 | 505,734 | 1,758,015 |
| Deposits held in trust | - | 106,901 | 106,901 |
| Deferred bond discount and issuance costs (note A12) | - | 160,002 | 160,002 |
| | <u>11,799,866</u> | <u>219,227,009</u> | <u>231,026,875</u> |
| Total current assets | | | |
| Assets held by trustees under revenue bond programs | | | |
| Cash | - | 4,487,371 | 4,487,371 |
| Investments (notes A8, D, G and K) | - | 409,304,249 | 409,304,249 |
| | <u>-</u> | <u>413,791,620</u> | <u>413,791,620</u> |
| Investments (notes A8 and D) | | | |
| Mortgage loans, net of current portion (note E) | - | 7,132,577 | 7,132,577 |
| Notes and loans, net of current portion (note E) | - | 67,158,350 | 67,158,350 |
| Other receivables | - | 426,100 | 426,100 |
| Restricted deposits and funded reserves | - | 479,363 | 479,363 |
| Net investment in financing lease, net of current portion (note F) | - | 7,456,436 | 7,456,436 |
| Deferred bond issuance costs (note A12) | - | 16,363,078 | 16,363,078 |
| | <u>41,195,098</u> | <u>2,545,713</u> | <u>2,545,713</u> |
| Capital assets, less accumulated depreciation (notes A5, H and L) | | | |
| | | 358,591,413 | 399,786,511 |
| | <u>\$ 52,994,964</u> | <u>\$ 1,093,171,659</u> | <u>\$ 1,146,166,623</u> |
| TOTAL ASSETS | | | |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

GOVERNMENT-WIDE
STATEMENT OF NET ASSETS (continued)

June 30, 2005

| LIABILITIES AND NET ASSETS | Governmental Activities | | | Business-type Activities | | | Total | | |
|--|-------------------------|---------------|--|--------------------------|--|--|------------------|--|--|
| | | \$ | | \$ | | | \$ | | |
| Current liabilities | | | | | | | | | |
| Accounts payable | | 1,995,306 | | 10,523,563 | | | 12,518,869 | | |
| Accrued expenses | | - | | 11,846,531 | | | 11,846,531 | | |
| Interest (notes I and J) | | 1,166,039 | | 4,485,726 | | | 5,651,765 | | |
| Other | | 1,497,703 | | (1,497,703) | | | - | | |
| Internal balances | | - | | 5,598,604 | | | 5,598,604 | | |
| Due to State of Hawaii, including Office of Hawaiian Affairs (note M) | | - | | 3,702 | | | 6,912 | | |
| Due to HUD | | 3,210 | | 2,391,876 | | | 2,391,876 | | |
| Security deposits | | - | | 38,632 | | | 38,632 | | |
| Note payable (note I) | | - | | 121,508 | | | 121,508 | | |
| Mortgage payable (note I) | | - | | 42,398,450 | | | 42,398,450 | | |
| Revenue bonds payable, less deferred refunding cost (notes J and K) | | - | | 105,096 | | | 1,302,617 | | |
| Deferred income | | 1,197,521 | | 614,734 | | | 614,734 | | |
| Deferred commitment fees | | - | | 223,676 | | | 223,676 | | |
| Deferred gain on sale of units and land | | - | | - | | | - | | |
| Deferred future costs of land sold (note M) | | - | | 30,027,431 | | | 30,027,431 | | |
| Total current liabilities | | 5,859,779 | | 106,881,826 | | | 112,741,605 | | |
| Deferred commitment fees, net of current portion | | - | | 2,332,848 | | | 2,332,848 | | |
| Arbitrage rebate payable (note J) | | - | | 2,914,328 | | | 2,914,328 | | |
| Note payable, net of current portion (note I) | | - | | 340,129 | | | 340,129 | | |
| Mortgage payable, net of current portion (note I) | | - | | 6,221,175 | | | 6,221,175 | | |
| Revenue bonds payable, less deferred refunding costs, net of current portion (notes J and K) | | - | | 415,821,154 | | | 415,821,154 | | |
| Commitments and contingencies (notes L, M, N, O and P) | | - | | - | | | - | | |
| Net assets | | | | | | | | | |
| Invested in capital assets, net of related debt | | 41,195,098 | | 247,728,129 | | | 288,923,227 | | |
| Restricted by legislation and contractual agreements | | - | | 421,248,056 | | | 421,248,056 | | |
| Unrestricted | | 5,940,087 | | (110,315,986) | | | (104,375,899) | | |
| Total net assets | | 47,135,185 | | 558,660,199 | | | 605,795,384 | | |
| TOTAL LIABILITIES AND NET ASSETS | | \$ 52,994,964 | | \$ 1,093,171,659 | | | \$ 1,146,166,623 | | |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

June 30, 2005

| Functions/Programs | Program Revenues | | | Net (expense) revenue and changes in net assets | | | |
|--|------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|----------------|
| | Expenses | Charges for services | Operating grants and contributions | Capital grants and contributions | Governmental activities | Business-type activities | Total |
| Governmental activities | | | | | | | |
| Homeless service and assistance program | \$ 2,888,424 | \$ - | \$ 816,118 | \$ - | \$ (2,072,306) | \$ - | \$ (2,072,306) |
| Rental housing and assistance program | 43,458,187 | - | 34,900,769 | - | (6,557,418) | - | (6,557,418) |
| Total governmental activities | 46,346,611 | - | 37,716,887 | - | (8,629,724) | - | (8,629,724) |
| Business-type activities | | | | | | | |
| Rental assistance program | 43,060,957 | 13,801,490 | 12,814,579 | 22,355,490 | - | 5,910,602 | 5,910,602 |
| Housing development program | 31,986,542 | 30,594,770 | 2,139,412 | - | - | 747,640 | 747,640 |
| Multi-family mortgage loan programs | 2,995,984 | 7,819,957 | 2,437,876 | - | - | 7,261,849 | 7,261,849 |
| Single-family mortgage loan program | 21,212,792 | 11,428,436 | 10,715,370 | - | - | 931,014 | 931,014 |
| Rental housing program | 23,379,478 | 18,171,955 | 1,081,431 | - | - | (4,126,092) | (4,126,092) |
| Others | 4,699,457 | 4,472,759 | 100,859 | - | - | (125,839) | (125,839) |
| Total business-type activities | 127,335,210 | 86,289,367 | 29,289,527 | 22,355,490 | - | 10,599,174 | 10,599,174 |
| Total government-wide | \$ 173,681,821 | \$ 86,289,367 | \$ 67,006,414 | \$ 22,355,490 | (8,629,724) | 10,599,174 | 1,969,450 |
| State allotted appropriations, net of lapses | | | | | 7,726,429 | - | 7,726,429 |
| Transfers | | | | | (1,187,229) | 1,177,742 | (9,487) |
| Total general revenues and transfers | | | | | 6,539,200 | 1,177,742 | 7,716,942 |
| Change in net assets | | | | | (2,090,524) | 11,776,916 | 9,686,392 |
| Net assets at July 1, 2004 | | | | | 49,225,709 | 546,883,283 | 596,108,992 |
| Net assets at June 30, 2005 | | | | | \$ 47,135,185 | \$ 558,660,199 | \$ 605,795,384 |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2005

| ASSETS | General | Capital Projects | Housing Voucher | Section 8 Contract Administration | Other Funds | Total Governmental Funds |
|--|---------------------|---------------------|---------------------|-----------------------------------|-------------------|--------------------------|
| Current assets | | | | | | |
| Cash (note C) | \$ 966,437 | \$ 2,230,284 | \$ 2,993,791 | \$ 709,649 | \$ 72,032 | \$ 6,972,193 |
| Other receivables | - | - | 670 | 102,454 | - | 103,124 |
| Due from other funds | - | - | 1,726,376 | 835,898 | - | 2,562,274 |
| Due from HUD | - | - | - | 351,027 | 558,967 | 909,994 |
| Prepaid expenses and other assets | 59,642 | - | 1,192,639 | - | - | 1,252,281 |
| TOTAL ASSETS | \$ 1,026,079 | \$ 2,230,284 | \$ 5,913,476 | \$ 1,999,028 | \$ 630,999 | \$ 11,799,866 |
| LIABILITIES AND FUND BALANCE | | | | | | |
| Current liabilities | | | | | | |
| Accounts payable | \$ 586,965 | \$ 851,789 | \$ - | \$ - | \$ 556,552 | \$ 1,995,306 |
| Accrued expenses | 8,033 | - | 298,731 | 482,690 | - | 789,454 |
| Due to other funds | 9,155 | - | 1,428,421 | 57,711 | 2,416 | 1,497,703 |
| Due to HUD | - | - | 979 | 1,903 | 328 | 3,210 |
| Deferred income | - | - | 1,197,521 | - | - | 1,197,521 |
| Total liabilities | 604,153 | 851,789 | 2,925,652 | 542,304 | 559,296 | 5,483,194 |
| Fund balances - unrestricted | | | | | | |
| Reserved | 421,926 | 1,378,495 | - | - | - | 1,800,421 |
| Unreserved | - | - | 2,987,824 | 1,456,724 | 71,703 | 4,516,251 |
| Total fund balances | 421,926 | 1,378,495 | 2,987,824 | 1,456,724 | 71,703 | 6,316,672 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,026,079 | \$ 2,230,284 | \$ 5,913,476 | \$ 1,999,028 | \$ 630,999 | \$ 11,799,866 |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE TO THE
STATEMENT OF NET ASSETS

June 30, 2005

| | | | |
|--|----|------------------|-------------------|
| Total fund balance - governmental funds | | \$ | 6,316,672 |
| 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. | \$ | 41,195,098 | |
| Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds | | <u>(376,585)</u> | <u>40,818,513</u> |
| Net assets of governmental activities | | \$ | <u>47,135,185</u> |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year ended June 30, 2005

| | General | Capital Projects | Housing Voucher | Section 8 Contract Administration | Other Funds | Total Governmental Funds |
|---|------------|---------------------|--------------------|---|----------------|--------------------------------|
| Revenues | | | | | | |
| Intergovernmental – HUD annual contributions and others | \$ - | \$ - | \$ 16,749,305 | \$ 19,150,948 | \$ 1,808,516 | \$ 37,708,769 |
| State allotted appropriations, net of lapsed funds | 6,431,390 | 1,195,039 | - | - | 100,000 | 7,726,429 |
| Interest | - | - | 5,113 | 3,005 | - | 8,118 |
| Total revenues | 6,431,390 | 1,195,039 | 16,754,418 | 19,153,953 | 1,908,516 | 45,443,316 |
| Expenditures | | | | | | |
| Current | | | | | | |
| Housing assistance payments | 699,805 | - | 14,825,170 | 17,944,947 | - | 33,469,922 |
| Homeless services | 4,667,598 | - | - | - | - | 4,667,598 |
| Personal services | 457,450 | - | 1,751,227 | 324,762 | 28,297 | 2,561,736 |
| Administration | 83,745 | - | 514,044 | 997,043 | 1,808,169 | 3,403,001 |
| Professional services | 48,611 | - | 80,819 | 72,608 | 347 | 202,385 |
| Security | 137,207 | - | - | 347 | - | 137,554 |
| Repairs and maintenance | 178,925 | - | 1,738 | 1,087 | - | 181,750 |
| Utilities | 1,292 | - | - | - | - | 1,292 |
| Insurance | 982 | - | 6,754 | 10,472 | - | 18,208 |
| Other | 18 | - | 2,758 | 221 | - | 2,997 |
| Capital outlays | 197,144 | 4,485,183 | - | 3,660 | - | 4,685,987 |
| Total expenditures | 6,472,777 | 4,485,183 | 17,182,510 | 19,355,147 | 1,836,813 | 49,332,430 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (41,387) | (3,290,144) | (428,092) | (201,194) | 71,703 | (3,889,114) |
| Other financing uses | | | | | | |
| Transfers out | 177,869 | - | - | 1,009,360 | - | 1,187,229 |
| Total other financing uses | 177,869 | - | - | 1,009,360 | - | 1,187,229 |
| NET CHANGE IN FUND BALANCE | (219,256) | (3,290,144) | (428,092) | (1,210,554) | 71,703 | (5,076,343) |
| Fund balance at July 1, 2004 | 641,182 | 4,668,639 | 3,415,916 | 2,667,278 | - | 11,393,015 |
| Fund balance at June 30, 2005 | \$ 421,926 | \$ 1,378,495 | \$ 2,987,824 | \$ 1,456,724 | \$ 71,703 | \$ 6,316,672 |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE CHANGE IN FUND
BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2005

| | | |
|---|--------------|-----------------------|
| Net change in fund balances - total governmental funds | | \$ (5,076,343) |
| 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 outlays exceeded depreciation during the year. | \$ 2,984,541 | |
| Long-term compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds | <u>1,278</u> | <u>2,985,819</u> |
| Change in net assets of governmental activities | | <u>\$ (2,090,524)</u> |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

June 30, 2005

| ASSETS | Federal Low Rent Program | Dwelling Unit Revolving Fund | Rental Housing System Revenue Bond Fund | Hawaii Rental Housing System Revenue Bond Fund | Single Family Mortgage Purchase Revenue Bond Fund | Other Enterprise Funds | Total Enterprise Funds | Internal Service Funds |
|--|--------------------------|------------------------------|---|--|---|------------------------|------------------------|------------------------|
| Current assets | | | | | | | | |
| Cash (notes A7 and C) | \$ 13,579,332 | \$ 76,269,614 | \$ - | \$ 1,750,785 | \$ - | \$ 58,638,332 | \$ 150,238,063 | \$ 1,233,446 |
| Investments (notes A8 and D) | 2,450,000 | - | - | - | - | - | 2,450,000 | - |
| Receivables | | | | | | | | |
| Mortgage loans (note E) | - | 166,480 | - | - | 875,691 | 471,979 | 1,514,150 | - |
| Notes and loans (note E) | - | - | - | - | - | 3,250,002 | 3,250,002 | - |
| Accrued interest | 2,774 | 775,240 | - | 58,538 | 1,057,564 | 2,334,427 | 4,228,543 | 6,156 |
| Tenant receivables, less allowance for doubtful accounts of \$5,635,498 | 566,151 | 11,825 | - | 46,127 | - | 173,773 | 797,876 | - |
| Other | 192,750 | 689,002 | - | 647,832 | - | 108,953 | 1,638,537 | - |
| | 761,675 | 1,642,547 | - | 752,497 | 1,933,255 | 6,339,134 | 11,429,108 | 6,156 |
| Due from other funds | 3,646,052 | 454,477 | - | - | - | 8,254,370 | 12,354,899 | - |
| Due from other State of Hawaii Departments | - | 25,238,179 | - | - | - | 2,257 | 25,240,436 | - |
| Due from HUD | 8,105,870 | - | - | - | - | 3,485 | 8,109,355 | - |
| Inventories (notes A9 and M) | - | 20,961,102 | - | - | - | - | 20,961,102 | - |
| Developments in progress and dwelling units | 700,947 | - | - | - | - | 170,378 | 871,325 | - |
| Materials and supplies | - | - | - | - | - | 477,655 | 477,655 | - |
| Net investment in financing lease (note F) | - | - | - | 375 | 10,129 | 465,278 | 505,734 | - |
| Prepaid expenses and other assets | - | 29,952 | - | - | - | 106,901 | 106,901 | - |
| Deposits held in trust | - | - | - | - | - | 18,517 | 160,002 | - |
| Deferred bond discount and issuance costs | - | - | - | 52,612 | 88,873 | - | - | - |
| Total current assets | 29,243,876 | 124,595,871 | - | 2,556,269 | 2,032,257 | 74,476,307 | 232,904,580 | 1,239,602 |
| Assets held by trustees under Revenue Bond Programs | | | | | | | | |
| Cash | - | - | - | 19,634 | 4,459,822 | 7,915 | 4,487,371 | - |
| Investments (notes A8, D, G and K) | - | - | - | 29,116,724 | 347,809,452 | 32,378,073 | 409,304,249 | - |
| | - | - | - | 29,136,358 | 352,269,274 | 32,385,988 | 413,791,620 | - |
| Investments (notes A8 and D) | - | - | - | - | - | 7,132,577 | 7,132,577 | - |
| Mortgage loans, net of current portion (note E) | - | 621,070 | - | - | 11,340,808 | 55,196,472 | 67,158,350 | - |
| Notes and loans, net of current portion (note E) | - | - | - | - | - | 426,100 | 426,100 | - |
| Other receivables | - | - | - | - | - | 479,363 | 479,363 | - |
| Advances to other funds | - | - | - | - | - | 325,000 | 325,000 | - |
| Restricted deposits and funded reserves | - | - | - | - | - | 7,456,436 | 7,456,436 | - |
| Net investment in financing lease, net of current portion (note F) | - | - | - | - | - | 16,363,078 | 16,363,078 | - |
| Deferred bond discount and issuance costs, net of current portion (note A12) | - | - | - | 831,566 | 1,433,546 | 280,601 | 2,545,713 | - |
| Capital assets, less accumulated depreciation (notes A5, H and L) | 193,954,311 | 6,029,616 | - | 85,593,160 | 4,562 | 72,942,955 | 358,524,604 | 66,809 |
| TOTAL ASSETS | \$ 223,198,187 | \$ 131,246,557 | \$ - | \$ 118,117,353 | \$ 367,080,447 | \$ 267,464,877 | \$ 1,107,107,421 | \$ 1,306,411 |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (continued)

June 30, 2005

LIABILITIES AND NET ASSETS

| | Federal Low Rent Program | Dwelling Unit Revolving Fund | Rental Housing System Revenue Bond Fund | Rental Housing System Revenue Bond Fund | Hawaii Rental Housing System Revenue Bond Fund | Single Family Mortgage Purchase Revenue Bond Fund | Other Enterprise Funds | Total Enterprise Funds | Internal Service Funds |
|---|--------------------------|------------------------------|---|---|--|---|------------------------|-------------------------|------------------------|
| Current liabilities | | | | | | | | | |
| Accounts payable | \$ 8,727,885 | \$ 607,002 | \$ - | \$ - | \$ 739,898 | \$ 60,150 | \$ 388,628 | \$ 10,523,563 | \$ - |
| Accrued expenses | - | - | - | - | - | - | - | - | - |
| Interest (notes I and J) | - | - | - | - | 1,992,218 | 8,935,869 | 918,444 | 11,846,531 | - |
| Other | 3,017,707 | 408,453 | - | - | 34,110 | 122,158 | 903,298 | 4,485,726 | - |
| Due to other funds | 2,330,441 | 25,645 | - | - | 133,630 | 127,697 | 111,125,796 | 13,743,209 | 1,261 |
| Due to State of Hawaii, including Office of Hawaiian Affairs (note M) | - | 5,573,604 | - | - | - | - | 25,000 | 5,598,604 | - |
| Due to HUD | - | - | - | - | - | - | 3,702 | 3,702 | - |
| Security deposits | 660,769 | 54,390 | - | - | 835,784 | - | 840,933 | 2,391,876 | - |
| Note payable (note I) | - | 38,632 | - | - | - | - | - | 38,632 | - |
| Mortgage payable (note I) | - | - | - | - | - | - | - | 121,508 | - |
| Revenue bonds payable, less deferred refunding cost (notes J and K) | - | - | - | - | 2,190,000 | 39,430,000 | 778,450 | 42,398,450 | - |
| Deferred income | - | 21,612 | - | - | 80,851 | - | 2,633 | 105,096 | - |
| Deferred commitment fees | - | - | - | - | - | 614,734 | - | 614,734 | - |
| Deferred gain on sale of units and land | - | 223,676 | - | - | - | - | - | 223,676 | - |
| Estimated future costs of land sold | - | 30,027,431 | - | - | - | - | - | 30,027,431 | - |
| Total current liabilities | 14,736,802 | 36,980,445 | - | - | 6,006,491 | 49,290,608 | 15,108,392 | 122,122,738 | 1,261 |
| Deferred commitment fees, net of current portion | - | - | - | - | - | 2,332,848 | - | 2,332,848 | - |
| Arbitrage rebate payable (note J) | - | - | - | - | 1,694 | 2,912,634 | - | 2,914,328 | - |
| Note payable, net of current portion (note I) | - | - | - | - | - | - | - | 340,129 | - |
| Mortgage payable, net of current portion (note I) | - | 340,129 | - | - | - | - | - | 6,221,175 | - |
| Revenue bonds payable, less deferred refunding cost, net of current portion (notes J and K) | - | - | - | - | 102,836,018 | 267,057,378 | 45,927,758 | 415,821,154 | - |
| Commitments and contingencies (notes L, M, N, O and P) | - | - | - | - | - | - | - | - | - |
| Net assets | | | | | | | | | |
| Invested in capital assets, net of related debt | 193,954,311 | 5,650,855 | - | - | (18,548,680) | 4,562 | 66,600,272 | 247,661,320 | 66,809 |
| Restricted by legislation and contractual agreements | - | - | - | - | 29,136,358 | 352,269,274 | 39,842,424 | 421,248,056 | - |
| Unrestricted | 14,507,074 | 88,275,128 | - | - | (1,314,528) | (306,786,857) | 93,764,856 | (111,554,327) | 1,238,341 |
| Total net assets | 208,461,385 | 93,925,983 | - | - | 9,273,150 | 45,486,979 | 200,207,552 | 557,355,049 | 1,305,150 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 223,198,187 | \$ 131,246,557 | \$ - | \$ - | \$ 118,117,353 | \$ 367,080,447 | \$ 267,464,877 | \$ 1,107,107,471 | \$ 1,306,411 |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE PROPRIETARY FUNDS NET ASSETS
TO THE STATEMENT OF NET ASSETS

Year ended June 30, 2005

| | |
|---|-----------------------|
| Total net assets of proprietary funds | \$ 557,355,049 |
| Amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities | <u>1,305,150</u> |
| Net assets of business-type activities | <u>\$ 558,660,199</u> |

The accompanying notes are an integral part of this statements.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year ended June 30, 2005

| | Federal Low Rent Program | Dwelling Unit Revolving Fund | Rental Housing System Revenue Bond Fund | Hawaii Rental Housing System Revenue Bond Fund | Single Family Mortgage Purchase Revenue Bond Fund | Other Enterprise Funds | Total Enterprise Funds | Internal Service Funds |
|---|--------------------------|------------------------------|---|--|---|------------------------|------------------------|------------------------|
| Operating revenues | | | | | | | | |
| Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease (note J) | \$ - | \$ 475,738 | \$ - | \$ - | \$ 11,418,719 | \$ 1,930,176 | \$ 13,824,633 | \$ - |
| Net increase in fair value of mortgage-backed securities (note A8) | - | - | - | - | 1,533,942 | - | 1,533,942 | - |
| Sales of land | - | 27,335,048 | - | - | - | - | 27,335,048 | - |
| Rental | 13,127,474 | 976,105 | 3,182,775 | 8,699,789 | - | 5,328,269 | 31,314,412 | 23,490 |
| Conveyance tax | - | - | - | - | - | 6,079,510 | 6,079,510 | - |
| Other | 456,922 | 1,807,879 | 135,799 | 474,921 | 52 | 4,705,519 | 7,581,092 | - |
| Total operating revenues | 13,584,396 | 30,594,770 | 3,318,574 | 9,174,710 | 12,952,713 | 18,043,474 | 87,668,637 | 23,490 |
| Operating expenses | | | | | | | | |
| Cost of land and units sold (note M) | - | 28,089,506 | - | - | - | - | 28,089,506 | - |
| Project | 7,688,007 | 867,410 | 999,933 | 4,193,282 | - | 1,937,013 | 15,685,645 | - |
| Personal services | 11,230,180 | 1,709,516 | 68,342 | 110,379 | 280,032 | 3,563,904 | 16,962,353 | - |
| Depreciation | 9,194,339 | 245,298 | 1,098,926 | 3,210,393 | 806 | 2,912,518 | 16,662,280 | 21,829 |
| Housing assistance payments | 14,202 | - | - | - | - | 1,854,214 | 1,868,416 | - |
| Administration | 1,854,775 | 452,053 | 28,183 | 61,810 | 56,833 | 880,706 | 3,334,360 | - |
| Provision for losses | - | 18,118 | - | 63,029 | - | 429,704 | 510,851 | - |
| Loan servicing fees | - | - | - | - | 53,859 | - | 53,859 | - |
| Professional services | 197,153 | 261,846 | 10,419 | 2,441 | 22,208 | 297,206 | 791,273 | 9,450 |
| Mortgage insurance | - | - | - | - | 16,491 | - | 16,491 | - |
| Security | 2,114,860 | 669 | - | 64 | 95 | 63,417 | 2,179,105 | - |
| Insurance | 333,930 | 9,614 | - | - | 6,472 | 103,202 | 453,218 | - |
| Repairs and maintenance | 1,150,309 | 280,586 | 272 | 672 | 3,189 | 949,022 | 2,384,050 | - |
| Utilities | 6,232,801 | - | - | - | 1,799 | 1,211,768 | 7,446,368 | - |
| Payments in lieu of taxes | 730,443 | - | - | - | - | - | 730,443 | - |
| Capital expenditures | 321,029 | 2,693 | 19,393 | 90,491 | - | 38,994 | 472,600 | 38,743 |
| Interest expense | - | - | - | - | 19,673,409 | 1,831,885 | 21,505,294 | - |
| Other | - | 154 | 5,695 | 344,028 | 2,478 | 765,997 | 1,118,352 | - |
| Total operating expenses | 41,062,028 | 31,937,463 | 2,231,163 | 8,076,589 | 20,117,671 | 16,839,550 | 120,264,464 | 70,022 |
| Operating income (loss) carried forward | \$ (27,477,632) | \$ (1,342,693) | \$ 1,087,411 | \$ 1,098,121 | \$ (7,164,958) | \$ 1,203,924 | \$ (32,595,827) | \$ (46,532) |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS (continued)

Year ended June 30, 2005

| | Federal Low Rent Program | Dwelling Unit Revolving Fund | Rental Housing System Bond Fund | Rental Housing System Bond Fund | Hawaii Rental Housing System Bond Fund | Single Family Mortgage Purchase Revenue Bond Fund | Other Enterprise Funds | Total Enterprise Funds | Internal Service Funds |
|--|-----------------------------|------------------------------------|---------------------------------------|---------------------------------------|---|---|------------------------------|------------------------------|------------------------------|
| Operating income (loss) brought forward | \$ (27,477,632) | \$ (1,342,693) | \$ 1,087,411 | \$ 1,098,121 | \$ (7,164,958) | \$ 1,203,924 | \$ (32,595,827) | \$ (46,532) | |
| Nonoperating revenues (expenses) | 205,386 | 2,119,412 | 78,561 | 537,721 | 9,181,428 | 4,127,199 | 16,269,707 | 35,553 | |
| Interest income - cash and investments | - | - | - | - | - | 472,989 | 472,989 | - | |
| Net increase in fair value of investments | - | - | - | - | - | - | - | - | |
| HUD operating subsidy and others | 33,399,757 | - | - | - | - | - | 33,399,757 | - | |
| Interest expense | (219) | (49,079) | (742,916) | (3,333,232) | - | (1,302,762) | (5,428,208) | - | |
| Letter of credit fees | - | - | (129,316) | (19,410) | - | (63,272) | (211,998) | - | |
| Trustee fees | - | - | (56,671) | (2,828) | - | (26,692) | (171,813) | - | |
| Amortization of deferred bond issuance costs | - | - | (18,581) | (91,011) | (85,622) | (27,940) | (801,976) | - | |
| Arbitrage rebate | - | - | - | (25,913) | (664,444) | - | (359,329) | - | |
| Other revenues (expenses) | - | - | 18,679 | (27,400) | (333,416) | - | 36,851 | - | |
| Net nonoperating revenues (expenses) | 33,604,924 | 2,090,333 | (850,244) | (2,962,073) | 8,097,946 | 3,225,094 | 43,205,980 | 35,553 | |
| Income (loss) before transfers | 6,127,292 | 747,640 | 237,167 | (1,863,952) | 932,988 | 4,429,018 | 10,610,153 | (10,979) | |
| Net operating transfers | 1,009,360 | - | 7,281,104 | 11,137,102 | - | (18,249,824) | 1,177,242 | - | |
| CHANGE IN NET ASSETS | 7,136,652 | 747,640 | 7,518,271 | 9,273,150 | 932,988 | (13,820,806) | 11,787,895 | (10,979) | |
| Fund net assets at July 1, 2004 | 201,324,733 | 93,178,343 | (7,518,271) | - | 44,553,991 | 214,028,358 | 545,567,154 | 1,316,129 | |
| Fund net assets at June 30, 2005 | \$ 208,461,385 | \$ 93,925,983 | \$ - | \$ 9,273,150 | \$ 45,486,979 | \$ 200,207,552 | \$ 557,355,049 | \$ 1,305,150 | |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF THE CHANGE IN FUND
BALANCES OF PROPRIETARY FUNDS
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2005

| | |
|---|----------------------|
| Net change in fund balances - total proprietary funds | \$ 11,787,895 |
| Net change in fund balances - internal service funds | <u>(10,979)</u> |
| CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES | <u>\$ 11,776,916</u> |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

Year ended June 30, 2005

| | Federal Low Rent Program | Dwelling Unit Revolving Fund | Rental Housing System Revenue Bond Fund | Hawaii Rental Housing System Revenue Bond Fund | Single Family Mortgage Purchase Revenue Bond Fund | Other Enterprise Funds | Total Enterprise Funds | Internal Service Funds |
|--|--------------------------|------------------------------|---|--|---|------------------------|------------------------|------------------------|
| Cash flows from operating activities: | | | | | | | | |
| Cash received from renters | \$ 13,286,018 | \$ 999,707 | \$ 3,048,846 | \$ 8,880,735 | \$ - | \$ 6,166,278 | \$ 32,381,584 | \$ 23,490 |
| Cash received from borrowers | - | 48,146 | - | - | 3,908,751 | 9,771,552 | 13,728,449 | - |
| Principal repayments | - | 485,614 | - | - | 11,224,594 | 699,056 | 12,409,264 | - |
| Interest income | - | - | - | - | - | 1,249,196 | 1,249,196 | - |
| Cash received from net investment in financing lease | - | - | - | - | - | - | 2,583,483 | - |
| Cash received from sale of land | - | 2,583,483 | - | - | - | 6,079,510 | 6,079,510 | - |
| Cash received for conveyance taxes | - | - | - | - | 66,345,944 | - | 66,345,944 | - |
| Cash received for payments on mortgage-backed securities | - | - | - | - | (6,329,002) | - | (6,329,002) | - |
| Cash payments for loan originations | - | - | - | - | (21,460,434) | (1,839,019) | (23,299,453) | - |
| Cash payments for interest | (18,918,187) | (1,709,516) | (68,342) | (110,379) | (280,032) | (3,538,700) | (24,625,156) | - |
| Cash payments to employees | (7,283,014) | (963,122) | (1,489,962) | (4,016,175) | (199,790) | (8,034,241) | (21,986,304) | (46,932) |
| Cash payments to suppliers | 599,435 | 4,664 | 30,986 | (55,700) | 53,644 | (547,390) | 85,640 | - |
| Cash receipts from (payments to) other funds | (730,443) | - | - | - | (11,598) | - | (730,443) | - |
| Payment in lieu of taxes | 456,486 | 2,280,970 | 230,632 | 104,682 | - | 3,914,972 | 6,976,144 | - |
| Other cash receipts (payments) | (12,589,705) | 3,729,946 | 1,752,160 | 4,803,163 | 59,581,079 | 7,592,212 | 64,868,855 | (23,442) |
| Net cash provided by (used in) operating activities | - | - | - | - | - | - | - | - |
| Cash flows from noncapital financing activities: | | | | | | | | |
| Principal paid on revenue bond maturities and redemptions | - | - | - | - | (82,360,000) | - | (82,360,000) | - |
| Other financing source - refunding bond proceeds | - | - | - | - | 74,626,349 | - | 74,626,349 | - |
| Other financing source - refunded bond retirement | - | - | - | - | (75,630,000) | - | (75,630,000) | - |
| Bond issuance costs paid | (219) | - | - | - | (209,371) | - | (209,371) | - |
| Interest paid to the Department of Budget and Finance | 28,724,754 | - | - | - | - | (24,713) | 28,724,754 | - |
| HUD operating subsidy and others received | - | - | - | - | - | (3,250,002) | (3,250,002) | - |
| Disbursement of loan | 1,009,360 | - | - | 27,330,612 | - | 177,869 | 28,517,841 | - |
| Operating transfers in | - | - | (17,721,012) | - | - | (9,619,088) | (27,340,100) | - |
| Operating transfers out | - | - | - | - | - | - | - | - |
| Net cash provided by (used in) noncapital financing activities | 29,733,895 | - | (17,721,012) | 27,330,612 | (83,573,022) | (12,715,934) | (66,945,461) | - |
| Cash flows from capital and related financing activities: | | | | | | | | |
| Operating transfers to refund debt | - | - | - | (105,881,247) | - | - | (105,881,247) | - |
| Arbitrage rebate liability paid | - | - | (15,374) | (33,995) | - | - | (49,369) | - |
| Principal paid on revenue bond maturities and redemptions | - | - | (1,435,000) | (700,000) | - | (1,100,641) | (3,295,641) | - |
| Other financing source - refunding bond proceeds | - | - | 77,318,778 | 113,942,640 | - | 28,562,469 | 219,823,887 | - |
| Other financing source - refunded bond retirement | - | - | (88,850,000) | (6,685,000) | - | (29,800,000) | (125,335,000) | - |
| Interest paid on revenue bonds | - | - | (1,187,465) | (1,273,466) | - | (1,432,154) | (3,893,085) | - |
| Cost of issuance paid | - | - | - | (924,183) | - | - | (924,183) | - |
| Principal payments on notes payable | - | (38,247) | - | - | - | (3,500,000) | (3,538,247) | - |
| Principal payments on mortgage loans | - | - | - | - | - | (281,298) | (281,298) | - |
| Payments of interest | - | (49,079) | - | - | - | (225,049) | (274,128) | - |
| Payments for acquisition of property and equipment | (18,533,042) | - | - | (17,402) | - | (113,579) | (18,664,023) | (24,212) |
| Proceeds on sale of property and equipment | 7,250 | - | - | - | - | - | 7,250 | - |
| Net cash used in capital and related financing activities | (18,525,792) | (87,326) | (14,169,061) | (1,632,653) | - | (7,890,252) | (42,305,084) | (24,212) |
| Subtotal carried forward | \$ (1,381,602) | \$ 3,642,620 | \$ (30,137,913) | \$ 30,501,122 | \$ (23,991,943) | \$ (13,013,974) | \$ (54,381,690) | \$ (47,654) |

Net cash provided by (used in) noncapital financing activities

Cash flows from capital and related financing activities:

Operating transfers to refund debt
Arbitrage rebate liability paid
Principal paid on revenue bond maturities and redemptions
Other financing source - refunding bond proceeds
Other financing source - refunded bond retirement
Interest paid on revenue bonds
Cost of issuance paid
Principal payments on notes payable
Principal payments on mortgage loans
Payments of interest
Payments for acquisition of property and equipment
Proceeds on sale of property and equipment

Net cash used in capital and related financing activities

Subtotal carried forward

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year ended June 30, 2005

| | Federal Low Rent Program | Dwelling Unit Revolving Fund | Rental Housing System Revenue Bond Fund | Hawaii Rental Housing System Revenue Bond Fund | Single Family Mortgage Purchase Revenue Bond Fund | Other Enterprise Funds | Total Enterprise Funds | Internal Service Funds |
|---|-----------------------------|------------------------------------|---|---|---|------------------------------|------------------------------|------------------------------|
| Subtotal brought forward | \$ (1,381,602) | \$ 3,642,620 | \$ (30,137,913) | \$ 30,501,122 | \$ (23,991,943) | \$ (13,013,974) | \$ (34,381,690) | \$ (47,654) |
| Cash flows from investing activities: | | | | | | | | |
| Purchases of investments | (4,450,000) | - | (5,700,688) | - | (174,442,635) | (9,133,132) | (193,726,455) | - |
| Proceeds from maturities of investments | 6,450,000 | - | 14,477,509 | - | 169,949,147 | 5,766,321 | 196,642,977 | - |
| Receipts of interest | 205,304 | 1,975,611 | 87,256 | 386,021 | 10,997,024 | 3,901,458 | 17,552,674 | 33,882 |
| Acquisition of property and equipment | - | - | - | - | - | (10,525) | (10,525) | - |
| Net increase in restricted deposits and funded reserves | - | - | - | - | - | (103,988) | (103,988) | - |
| Net cash provided by investing activities | 2,205,304 | 1,975,611 | 8,864,077 | 386,021 | 6,503,536 | 420,134 | 20,354,683 | 33,882 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 823,702 | 5,618,231 | (21,273,836) | 30,887,143 | (17,488,407) | (12,593,840) | (14,027,007) | (13,772) |
| Cash and cash equivalents at July 1, 2004 | 12,755,630 | 70,651,383 | 21,273,836 | - | 51,422,034 | 71,240,087 | 227,342,970 | 1,247,218 |
| Cash and cash equivalents at June 30, 2005 | \$ 13,579,332 | \$ 76,269,614 | \$ - | \$ 30,887,143 | \$ 33,933,627 | \$ 58,646,247 | \$ 213,315,963 | \$ 1,233,446 |
| Reconciliation of cash to cash and cash equivalents: | | | | | | | | |
| Cash | \$ 13,579,332 | \$ 76,269,614 | \$ - | \$ 1,770,419 | \$ 4,459,822 | \$ 58,638,332 | \$ 154,717,519 | \$ 1,233,446 |
| Money market funds | - | - | - | 29,116,724 | 29,060,040 | 7,915 | 58,184,679 | - |
| U.S. Government securities | - | - | - | - | 413,765 | - | 413,765 | - |
| Cash and cash equivalents at June 30, 2005 | \$ 13,579,332 | \$ 76,269,614 | \$ - | \$ 30,887,143 | \$ 33,933,627 | \$ 58,646,247 | \$ 213,315,963 | \$ 1,233,446 |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year ended June 30, 2005

| | Federal Low Rent Program | Dwelling Unit Revolving Fund | Rental Housing System Revenue Bond Fund | Hawaii Rental Housing System Revenue Bond Fund | Single Family Mortgage Purchase Revenue Bond Fund | Other Enterprise Funds | Total Enterprise Funds | Internal Service Funds |
|--|-----------------------------|------------------------------------|---|---|---|------------------------------|------------------------------|------------------------------|
| Cash flows from operating activities: | | | | | | | | |
| Reconciliation of operating (loss) income to net cash provided by (used in) operating activities: | | | | | | | | |
| Operating (loss) income | \$ (27,477,632) | \$ (1,342,693) | \$ 1,087,411 | \$ 1,098,121 | \$ (7,164,958) | \$ 1,203,924 | \$ (32,595,827) | \$ (46,532) |
| Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities: | | | | | | | | |
| Net decrease in fair value of mortgage-backed securities | | | | | (1,533,942) | | (1,533,942) | |
| Depreciation | 9,194,339 | 245,298 | 1,098,926 | 3,210,393 | 806 | 2,912,518 | 16,662,280 | 21,829 |
| Loss on disposal | | | | | | 268,314 | 268,314 | |
| Provision for (recovery of) losses | | | | 63,029 | | 447,571 | 528,718 | |
| Changes in assets and liabilities: | | | | | | | | |
| Mortgage loans receivable | | 48,146 | | | 3,908,751 | 3,245,969 | 7,202,866 | |
| Notes and loans receivable | | | | | | | | |
| Accrued interest receivable on mortgages, notes and loans | | 9,876 | | | | (439,664) | (429,788) | |
| Tenant receivables | 148,371 | 4,465 | (109,156) | 98,633 | | (58,164) | 84,149 | |
| Other receivables | (436) | (176,708) | 94,833 | (26,211) | | 43,501 | (65,021) | |
| Due from other funds | (155,567) | (20,981) | | | | (2,607,600) | (2,784,148) | |
| Due from State of Hawaii | | (24,083,179) | | | | (1,411) | (24,084,590) | |
| Due from HUD | | | | | | 16,825 | 16,825 | |
| Inventories | (169,417) | 15,276,883 | | | | (17,786) | 15,089,680 | |
| Prepaid expenses and other assets | | | 25,950 | 18,485 | 5,430 | (306,204) | (256,339) | |
| Net investment in lease financing | | | | | | 460,543 | 460,543 | |
| Deposits held in trust | | | | | | (2,235) | (2,235) | |
| Investments in mortgage-backed securities | | | | | 66,345,944 | | 66,345,944 | |
| Accounts payable | 5,140,749 | 78,012 | (449,242) | 313,331 | (69,874) | 97,135 | 5,110,111 | 1,261 |
| Accrued interest payable | | | | | (2,020,800) | (7,134) | (2,027,934) | |
| Other accrued expenses | (35,287) | 50,196 | (2,776) | 769 | 17,233 | 65,356 | 95,491 | |
| Due to other funds | 755,002 | 25,645 | 30,986 | (55,700) | 53,644 | 2,067,118 | 2,876,695 | |
| Due to HUD | | | | | | (19,642) | (19,642) | |
| Security deposits | 10,173 | 1,932 | (24,772) | 1,462 | | 225,484 | 214,279 | |
| Deferred income | | 17,205 | | 80,851 | | (2,205) | 95,851 | |
| Deferred refunding costs | | | | | 232,970 | | 232,970 | |
| Deferred commitment fees | | | | | (194,125) | | (194,125) | |
| Deferred gain on sale of units and land | | (18,587) | | | | | (18,587) | |
| Estimated future costs of land sold | | 13,596,318 | | | | | 13,596,318 | |
| Net cash provided by (used in) operating activities | \$ (12,589,705) | \$ 3,279,946 | \$ 1,752,160 | \$ 4,803,163 | \$ 59,581,079 | \$ 7,592,212 | \$ 64,868,855 | \$ (23,442) |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2005

| | <u>Private Purpose Trusts</u> |
|----------------------------------|-----------------------------------|
| ASSETS | |
| Cash | <u>\$ 658,931</u> |
| TOTAL ASSETS | <u><u>\$ 658,931</u></u> |
| LIABILITIES AND NET ASSETS | |
| Liabilities | |
| Accounts payable | <u>\$ 336,149</u> |
| Total liabilities | 336,149 |
| Net assets | |
| Held in trust | <u>322,782</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u><u>\$ 658,931</u></u> |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2005

| | <u>Private Purpose Trusts</u> |
|-----------------------------|-----------------------------------|
| Additions | |
| Interest | <u>\$ 5,801</u> |
| Total additions | 5,801 |
| Deductions | |
| Capital outlays | <u>7,125,847</u> |
| Total deductions | <u>7,125,847</u> |
| CHANGE IN NET ASSETS | (7,120,046) |
| Net assets at July 1, 2004 | <u>7,442,828</u> |
| Net assets at June 30, 2005 | <u><u>\$ 322,782</u></u> |

The accompanying notes are an integral part of this statement.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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 were transferred to the newly created Housing and Community Development Corporation of Hawaii (Corporation). 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. The Corporation is a public body and a body corporate and politic and is, for administrative purposes only, considered to be a part of the State Department of Business, Economic Development and Tourism. In accordance with Act 92, Session Laws of Hawaii, 2003, effective July 1, 2003, administratively, the functions and employees of the Corporation were transferred to the State Department of Human Services.

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.

HUD Subsidized Programs

The Federal Low-Rent Program and the various Section 8 funds are referred to collectively as the HUD Subsidized Programs and represent the contracts that the Corporation has entered into with the U.S. Department of Housing and Urban Development (HUD). The Federal Low-Rent Program is used to account for Corporation-owned housing projects, which are rented to low-income families.

HUD Subsidized Programs include subsidized housing assistance payments. Under these programs, low-income tenants lease housing units directly from private landlords rather than from the Corporation. Rental payment subsidies are paid directly to the private landlords by the Corporation using operating subsidies obtained from HUD.

The Federal Low-Rent Program includes all property and equipment, principally structures and improvements, acquired with contributions from HUD.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Significant Accounting Policies

1. Basic Financial Statements

The accompanying financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments. This Statement established new financial reporting requirements for state and local governments in the United States of America. They required new information and restructured much of the information that governments have presented in the past. Comparability with reports issued in prior years was affected. The Corporation was required to implement these standards for the fiscal year ended June 30, 2002.

Other GASB Statements were required to be implemented in conjunction with Statement 34. Therefore, the Corporation implemented the following GASB Statements as of July 1, 2001: Statement 36, Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments: Omnibus and Statement 38, Certain Financial Statement Note Disclosures.

The Corporation is part of the executive branch of the State. 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 State of Hawaii as of June 30, 2005, 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.

2. 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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation

a. 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 \$26,934,000 was included as direct function expenses during the year ended June 30, 2005.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

b. Governmental Fund Financial Statements

The 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 pursuant to GASB Statement 33, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when applicable requirements, including time 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 sixty days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Corporation.

Expenditures generally are recorded when a liability is incurred, 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, 2005 has been reported in the government-wide financial statements.

c. Proprietary Funds and Fiduciary Funds

The financial statements of proprietary funds and fiduciary funds 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 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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

c. Proprietary Funds and Fiduciary Funds (continued)

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. Federal grants and interest income from investments are reported as nonoperating income.

4. Fund Accounting

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

GASB Statement 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.

a. 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. This fund includes the Rent Supplement, Security/Beautification and the Homeless Program. 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.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. These funds include Section 8 Housing Choice Voucher Program, Contract Administration, Drug Elimination Programs, Shelter Plus Care, Housing

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued)

a. Governmental Funds (continued)

Opportunities for Persons with AIDS (HOPWA) Program, Emergency Shelter Grant Program, Residential Opportunities Self-Sufficient Programs (ROSS), Supportive Housing Program, Office of Juvenile Justice and Delinquency Program, Economic Development Initiative Special Project Grant Boys and Girls Club of Hawaii, and Self-Help Program.

Capital Projects Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund type). These funds include the Capital Projects Fund, EDI Special Project Grant and Department of Labor Employment and Training Grant.

The Corporation reports the following major governmental funds:

- General Fund
- Capital Projects Fund
- Housing Voucher Program – accounts for federal contributions for housing assistance payments under the Housing Choice Voucher Program.
- Section 8 Contract Administration – accounts for federal contributions primarily for housing payments under the Project-Based Section 8 program.

b. 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. The enterprise funds include the Revenue Bond Funds, Dwelling Unit Revolving Fund, and other funds.

Under the Revenue Bond Funds, proceeds from the 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

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued)

b. Proprietary Funds (continued)

finance multifamily housing projects. These funds include the Single Family Mortgage Purchase Revenue Bond Fund, the Multifamily Revenue Bond Fund, the Hawaii Rental Housing System Revenue Bond Fund, the Rental Housing System Revenue Bond Fund, the State of Hawaii Affordable Rental Program (SHARP) and the University of Hawaii Faculty Housing Program Revenue Bond Fund.

The other funds include the Federal Low-Rent Program, Housing Revolving Fund, Housing for Elders Revolving Fund, Teacher Housing Revolving, Banyan Street Manor Project, Wilikina Apartments Project, Kekuilani Gardens Project, Kekumu at Waikoloa Project, Fee Simple Residential Revolving Fund, Rental Assistance Fund, Housing Finance Revolving Fund, Disbursing Fund, Rental Housing Trust Fund, Kuhio Park Terrace Resource Center, Federal Grant Program Fund, Grant-in-aid Fund, Hamakua and Waialua.

Internal Service Funds – These funds account for those activities, which provide goods or services primarily to the Corporation, rather than to external parties. In the government-wide statements, internal service funds are included with business-type activities. These funds include the Equipment Rental Fund and Vehicle Rental Fund.

The Corporation reports the following as major proprietary funds:

Federal Low-Rent Program – accounts for the proceeds from federal contributions for the development of rental property and rental income and federal operating subsidies from such properties.

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.

Rental Housing System Revenue Bond Fund and 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 four multifamily rental housing projects located throughout the State of Hawaii.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued)

b. Proprietary Funds (continued)

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.

Resolution No. 092 was adopted by the Corporation’s Board of Directors on September 16, 2004, and authorized the consolidation of multi-family rental housing programs, Rental Housing System Revenue Bond Fund (RHS) and State of Hawaii Affordable Rental Program (SHARP), and the creation, issuance, sale and delivery of an issue of Hawaii Rental Housing System Revenue Bonds of the Corporation. The consolidation of RHS and SHARP was completed through net operating transfers in and out of RHS and SHARP in the net amounts \$7,281,104 and (\$18,418,206), respectively, out and to Hawaii Rental Housing System Revenue Bond Fund for a net amount of \$11,137,102. Refunding the RHS and SHARP bonds allowed the Corporation to consolidate its debt for six RHS and SHARP projects, take advantage of the current low interest rates, and significantly reduce the Corporation’s interest rate risk.

c. Fiduciary Funds

The private-purpose trust funds account for net assets held in a trustee capacity for others.

5. 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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Capital Assets (continued)

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

| | Governmental Activities | Proprietary Fund and business-type activities |
|------------------------------------|----------------------------|--|
| | <hr/> | <hr/> |
| Building and building improvements | 25 years | 10 - 40 years |
| Equipment | 7 years | 1 - 10 years |

6. 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. Deferred revenues at June 30, 2005 consist primarily of Federal grant funds and deferred rental income.

7. 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.

8. 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 value.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Inventories

Development in Progress and Dwelling Units

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'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. Valuation allowances for estimated losses on units available for sale are provided when the total estimated carrying costs exceeds the estimated net realizable value.

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.

Material and Supplies

In the governmental funds, the cost of inventories is recorded as an expenditure when consumed.

10. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual 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 governmental activities are eliminated in the Statement of Net Assets. See note R for details of interfund transactions, including receivables and payables at year end.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

11. HUD Annual Contributions

The Corporation receives annual contributions and subsidies from HUD for operating the Corporation's housing assistance payment programs and the development and operation of low-income housing projects. The Corporation also receives annual subsidies from HUD for housing assistance payments and operating deficits incurred in the operation of the programs. Annual subsidies recorded in the proprietary fund types are recognized as nonoperating revenue when realized and earned and are accounted for in the statement of revenues, expenses and changes in fund net assets – proprietary funds as HUD operating subsidy.

12. Amortization

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

13. Vacation

Employees hired prior to July 2, 2001 are credited with vacation at a rate of 168 hours per calendar year. Employees hired on or subsequent to July 2, 2001 are credited with vacation which ranges from 96 hours to 192 hours per calendar year depending on years of service. 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 \$669,000. The change in accumulated unpaid vacation during the year is approximately as follows:

| <u>Balance at July 1, 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at June 30, 2005</u> |
|------------------------------------|------------------|-------------------|-------------------------------------|
| \$2,440,430 | \$1,625,029 | \$1,567,508 | \$2,497,951 |

14. 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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

15. Reservations of Fund Balances

The general and capital projects fund balances are reserved for continuing appropriations, which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments, which generally are liquidated in the subsequent fiscal year.

Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

16. 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.

17. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

NOTE B – 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 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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE B – 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 and certain special revenue funds have legally appropriated annual budgets. The final legally adopted budget in the accompanying Required Supplementary Information – Budgetary Comparison Schedule represent the original appropriations, transfers and other legally authorized legislative and executive changes.

To the extent not expended or encumbered, general fund and special revenue funds 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 generally accepted accounting principles (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 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 GAAP for the general and certain special revenue funds for the year ended June 30, 2005 is set forth in the Required Supplementary Information.

NOTE C – 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

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE C – CASH (continued)

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, 2005, total cash reported in the Statement of Net Assets is \$163,037,974, which consisted of the following:

| | <u>Governmental</u> | <u>Business-Type</u> | <u>Total</u> |
|-----------------------------|---------------------|----------------------|----------------------|
| State pool and petty cash | \$3,268,424 | \$133,654,603 | \$136,923,027 |
| Cash in bank (book balance) | 3,703,769 | 17,816,906 | 21,520,675 |
| | <u>6,972,193</u> | <u>151,471,509</u> | <u>158,443,702</u> |
| Assets held by trustees | - | 4,487,371 | 4,487,371 |
| Deposits held in trust | - | 106,901 | 106,901 |
| | <u>-</u> | <u>106,901</u> | <u>106,901</u> |
| Total Cash | <u>\$6,972,193</u> | <u>\$156,065,781</u> | <u>\$163,037,974</u> |

Bank balance of cash in bank was approximately \$22,102,734, of which \$344,922 was covered by federal depository insurance or collateral held by the Corporation or Corporation's agent in the Corporation's name; \$21,757,812 by collateral held by the pledging financial institution's trust department or agent in the Corporation's name, and \$0 was uninsured or uncollateralized.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE D – INVESTMENTS

Investments at June 30, 2005 are summarized as follows:

| | Maturity (in years) | | | | FMV |
|---------------------------------|---------------------|-------------------|--|-----------------------|----------------------|
| | <1 | 1 - 5 | 6 - 10 | >10 | |
| Certificates of deposit | \$ 1,500,000 | \$ - | \$ - | \$ - | \$ 1,500,000 |
| U. S. government securities | 8,281,898 | - | - | - | 8,281,898 |
| Mortgage-backed securities | - | 101,722 | 71,306 | 212,341,795 | 212,514,823 |
| Repurchase agreements | - | - | - | 144,382,841 | 144,382,841 |
| Private debt obligations | - | - | - | 848,365 | 848,365 |
| | <u>\$ 9,781,898</u> | <u>\$ 101,722</u> | <u>\$ 71,306</u> | <u>\$ 357,573,001</u> | 367,527,927 |
| Money market funds | | | | | 51,258,630 |
| Guaranteed investment contracts | | | | | 100,269 |
| Total investments | | | | | <u>\$418,886,826</u> |
| | | | Assets held by Trustee under Revenue Bonds | | 409,304,249 |
| | | | Investments – current | | 2,450,000 |
| | | | Investments – noncurrent | | 7,132,577 |
| | | | Total Investments | | <u>\$418,886,826</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 choices. As of June 30, 2005, all investments under the Corporation were not rated.

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 in the possession of an outside party. The Corporation's investments are uninsured and unregistered for which the securities 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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE D – 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, Government National Mortgage Association and Societe Generale New York. These investments are 49 percent, 9 percent and 33 percent, respectively, of the Corporations total investments.

NOTE E – MORTGAGE LOANS AND NOTES AND LOANS RECEIVABLE

Mortgage loans and other notes and loans receivable at June 30, 2005 are comprised of the following:

| | Mortgage Loans | Notes and Loans |
|---|-------------------|--------------------|
| | <hr/> | <hr/> |
| Mortgage loans bearing interest at 0.0% to 13.5%, maturing at various dates through 2046 | \$ 68,672,500 | \$ - |
| Promissory notes bearing interest at 5% and 9%, due 2006 and 2010 | - | 3,676,102 |
| | <hr/> | <hr/> |
| | 68,672,500 | 3,676,102 |
| Less current maturities | (1,514,150) | (3,250,002) |
| | <hr/> | <hr/> |
| | \$ 67,158,350 | \$ 426,100 |
| | <hr/> | <hr/> |

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

The two promissory notes receivable from developers totaling approximately \$3,676,000 are uncollateralized. The first promissory note totaling approximately \$426,000, provides the Corporation with the option to acquire certain improvements constructed by the developer on January 1, 2010. If the Corporation does not exercise the option, the entire principal balance and accrued interest shall be paid over a period of 15 years in monthly installments necessary to fully amortize the outstanding amount of this note. The second promissory note totaling approximately \$3,250,000, is payable in full on January 28, 2006.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE F - NET INVESTMENT IN FINANCING LEASE

University of Hawaii Faculty Housing Program Revenue Bond Fund

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, 2005:

| | |
|---|-----------------------------|
| Total minimum lease payments to be received | \$ 28,823,952 |
| Less unearned interest income | <u>(11,983,219)</u> |
| Net investment in direct financing lease | 16,840,733 |
| Less current portion | <u>(477,655)</u> |
| | <u><u>\$ 16,363,078</u></u> |

The future approximate minimum lease payments to be received through 2010 and in five-year increments thereafter are as follows:

| | |
|----------------------|----------------------------|
| Year ending June 30, | |
| 2006 | \$ 1,235,000 |
| 2007 | 1,235,000 |
| 2008 | 810,000 |
| 2009 | 810,000 |
| 2010 | 810,000 |
| 2011 - 2015 | 4,049,000 |
| 2016 - 2020 | 8,593,000 |
| 2021 - 2025 | 2,448,000 |
| 2026 | <u>8,833,592</u> |
| | <u><u>\$28,823,592</u></u> |

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE G - 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, 2005, 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 | \$30,907,000 |
| Mortgage loan reserve requirements | <u>1,824,000</u> |
| | <u>\$32,731,000</u> |

At June 30, 2005, approximately \$72 million and \$7.9 million of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively.

Under the trust indenture agreement between the Corporation and the trustee for the Hawaii Rental Housing System revenue bond, 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, 2005, the Hawaii Rental Housing System and revenue bond fund provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 13.66 times the aggregate debt service on outstanding bonds during the year, respectively, and net revenues (as defined in the trust indenture agreement) of 2.39 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, 2005.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|---------------------|-----------------------|----------------------|
| Governmental activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,373,410 | \$ - | \$ - | \$ 2,373,410 |
| Construction in progress | 17,753,910 | 5,236,607 | (1,083,683) | 21,906,834 |
| Total capital assets not being depreciated | <u>20,127,320</u> | <u>5,236,607</u> | <u>(1,083,683)</u> | <u>24,280,244</u> |
| Capital assets, being depreciated: | | | | |
| Building and improvements | 34,670,806 | - | - | 34,670,806 |
| Equipment | 1,096,574 | - | - | 1,096,574 |
| Total capital assets being depreciated | <u>35,767,380</u> | <u>-</u> | <u>-</u> | <u>35,767,380</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | 16,621,935 | 1,157,614 | - | 17,779,549 |
| Equipment | 1,062,208 | 10,769 | - | 1,072,977 |
| Total accumulated depreciation | <u>17,684,143</u> | <u>1,168,383</u> | <u>-</u> | <u>18,852,526</u> |
| Governmental activities, net | <u>\$ 38,210,557</u> | <u>\$ 4,068,224</u> | <u>\$ (1,083,683)</u> | <u>\$ 41,195,098</u> |
| Business-type activities | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 44,173,187 | \$ - | \$ (27,626) | \$ 44,145,561 |
| Construction in progress | 32,291,410 | 18,533,042 | (6,136,400) | 44,688,052 |
| Total capital assets not being depreciated | <u>76,464,597</u> | <u>18,533,042</u> | <u>(6,164,026)</u> | <u>88,833,613</u> |
| Capital assets being depreciated: | | | | |
| Building and improvements | 562,232,501 | 4,987,460 | (277,873) | 566,942,088 |
| Equipment | 11,032,899 | 1,314,660 | (326,541) | 12,021,018 |
| Total capital assets being depreciated | <u>573,265,400</u> | <u>6,302,120</u> | <u>(604,414)</u> | <u>578,963,106</u> |
| Less accumulated depreciation for: | | | | |
| Building and improvements | 273,617,234 | 16,145,172 | (9,559) | 289,752,847 |
| Equipment | 19,232,812 | 538,937 | (319,290) | 19,452,459 |
| Total accumulated depreciation | <u>292,850,046</u> | <u>16,684,109</u> | <u>(328,849)</u> | <u>309,205,306</u> |
| Business-type activities capital assets, net | <u>\$356,879,951</u> | <u>8,151,053</u> | <u>\$ (6,439,591)</u> | <u>\$358,591,413</u> |

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE H - CAPITAL ASSETS (continued)

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

| | |
|---|----------------------------|
| Governmental activities | |
| Homeless Service and Assistance Program | \$ 1,062,580 |
| Rental Housing and Assistance Program | <u>105,803</u> |
| Total depreciation expense - governmental activities | <u>\$ 1,168,383</u> |
| Business-type activities | |
| Rental Assistance Program | \$ 9,194,339 |
| Housing Development Program | 245,298 |
| Multi-family Mortgage Programs | - |
| Single-family Mortgage Loan Program | 806 |
| Rental Housing Program | 7,221,837 |
| Others | <u>21,829</u> |
| Total depreciation expense - business-type activities | <u>\$16,684,109</u> |
| Total depreciation expense | <u><u>\$17,852,492</u></u> |

At June 30, 2005, capital assets for the proprietary funds consisted of the following:

| | Proprietary Fund Type | | | | | | Total |
|--------------------------------------|-----------------------------|------------------------------|---------------------------------------|-----------------------------|-------------------------|-------------------------|------------------------------|
| | Enterprise Funds | | | Internal Service | | | |
| | Revenue Bond Funds | Federal Low-Rent Fund | Dwelling Unit Revolving Fund | Other Funds | Equipment Rental | Vehicle Rental | |
| Land | \$ 16,186,850 | \$ 13,089,005 | \$ 3,918,035 | \$ 10,951,671 | \$ - | \$ - | \$ 44,145,561 |
| Buildings and Improvements | 129,119,274 | 335,804,702 | 9,146,380 | 92,871,732 | - | - | 566,942,088 |
| Equipment, furniture and fixtures | 1,507,427 | 6,796,993 | 259,234 | 1,514,952 | 1,537,016 | 405,396 | 12,021,018 |
| Construction in Progress | - | 44,688,052 | - | - | - | - | 44,688,052 |
| | <u>146,813,551</u> | <u>400,378,752</u> | <u>13,323,649</u> | <u>105,338,355</u> | <u>1,537,016</u> | <u>405,396</u> | <u>667,796,719</u> |
| Less accumulated Depreciation | <u>61,215,829</u> | <u>206,424,441</u> | <u>7,294,033</u> | <u>32,395,400</u> | <u>1,517,730</u> | <u>357,873</u> | <u>309,205,306</u> |
| Net property and Equipment | <u><u>\$ 85,597,722</u></u> | <u><u>\$ 193,954,311</u></u> | <u><u>\$ 6,029,616</u></u> | <u><u>\$ 72,942,955</u></u> | <u><u>\$ 19,286</u></u> | <u><u>\$ 47,523</u></u> | <u><u>\$ 358,591,413</u></u> |

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE I - MORTGAGE AND NOTES PAYABLE

Mortgage Payable

The Banyan Street Manor Project entered into a mortgage note agreement in October 1976 in the amount of \$1,727,800 with USGI, Inc. (insured by HUD). On September 1, 1996, Greystone Servicing Corporation, Inc. (GSCI) became the new servicing agent and mortgagee. The mortgage loan bears interest at 7.5 percent and is collateralized by the rental property. Principal and interest are payable in monthly installments of \$11,370, maturing January 1, 2018. At June 30, 2005, the mortgage payable balance was \$644,964. The balance is expected that remaining balance will be paid off by June 30, 2011.

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 and Rural Development. 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 \$11,509 and matures on December 1, 2046. At June 30, 2005, the mortgage payable balance was \$5,103,677.

Kekuilani also entered into an interest credit and rental assistance agreement in December 1996 with the U.S. Department of Agriculture and Rural Development, which reduces Kekuilani's principal and interest payments. During the period, Kekuilani realized approximately \$255,800 of interest credit reducing the interest expense from approximately \$375,910 to \$120,110.

In addition, Kekuilani entered into a mortgage agreement in December 1996 in the amount of \$696,267 with the Rental Housing Trust Fund. The mortgage loan bears interest at 1 percent and is collateralized by the Kekuilani Gardens Project. Principal and interest are payable in monthly installments of \$1,475 and matures on January 1, 2047. At June 30, 2005, the mortgage payable balance was \$594,042.

Notes Payable

The Corporation has three mortgage notes payable to the U.S. Department of Agriculture, Farmers Home Administration (FmHA). 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. Notes payable to the U.S. Department of Agriculture FmHA as of June 30, 2005 totaled \$378,761.

During 1996, the SHARP borrowed \$3.5 million from the Rental Housing Trust Fund and issued approximately \$7 million of revenue bonds to purchase the Kekuilani Courts Rental Housing project from an outside party. The full amount of the non-interest bearing note shall become due and payable

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE I - MORTGAGE AND NOTES PAYABLE (continued)

Notes Payable (continued)

upon the earlier of June 30, 2027, or the redemption of all SHARP revenue bonds associated with the Kekuilani Courts Rental Housing project. In October 2004, the SHARP 1995 A Series bonds associated with the Kekuilani Courts Rental Housing project was advance refunded and the \$3.5 million borrowed was paid back to the Rental Housing Trust Fund.

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

| | <u>Balance at July 1, 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance at June 30, 2005</u> | <u>Less Current Portion</u> | <u>Long Term Portion</u> |
|------------------|------------------------------------|------------------|---------------------|-------------------------------------|---------------------------------|------------------------------|
| Mortgage payable | \$ 6,452,654 | \$ - | \$ 109,730 | \$ 6,342,924 | \$ - | \$ 6,342,924 |
| Notes payable | 4,088,335 | - | 3,709,574 | 378,761 | (38,632) | 340,129 |
| Total | <u>\$10,540,989</u> | <u>\$ -</u> | <u>\$ 3,819,304</u> | <u>\$ 6,721,685</u> | <u>(\$ 38,632)</u> | <u>\$ 6,683,053</u> |

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE I - MORTGAGE AND NOTES PAYABLE (continued)

The approximate debt service requirements of mortgage and notes payable through 2010 and in five-year increments thereafter to maturity are as follows:

| Year ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|--------------------|--------------------|--------------------|
| 2006 | \$ 153,000 | \$ 176,000 | \$ 329,000 |
| 2007 | 162,000 | 167,000 | 329,000 |
| 2008 | 171,000 | 158,000 | 329,000 |
| 2009 | 154,000 | 149,000 | 303,000 |
| 2010 | 163,000 | 135,000 | 298,000 |
| 2011-2015 | 440,000 | 562,000 | 1,002,000 |
| 2016-2020 | 360,000 | 467,000 | 827,000 |
| 2021-2025 | 464,000 | 362,000 | 826,000 |
| 2026-2030 | 552,000 | 215,000 | 767,000 |
| 2031-2035 | 735,000 | 53,000 | 788,000 |
| 2036-2040 | 1,026,000 | 8,000 | 1,034,000 |
| 2041-2045 | 1,441,000 | 4,000 | 1,445,000 |
| 2046-2047 | 901,000 | 1,000 | 902,000 |
| | <u>\$6,722,000</u> | <u>\$2,457,000</u> | <u>\$9,179,000</u> |

NOTE J - REVENUE BONDS PAYABLE

Through June 30, 2005, approximately \$2,123,733,000 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.

On October 5, 2004, the Corporation issued \$107,055,000 in revenue bonds with an average interest rate of 3.3 percent to current refund \$88,850,000 and \$29,800,000 of outstanding bonds under the Rental Housing System Revenue Bond Fund (RHS) and State of Hawaii Affordable Rental Program Revenue Bond Fund (SHARP), respectively, for an aggregate of \$118,650,000 (\$14,000,000-RHS 1989A, \$31,400,000-RHS 1990A, \$33,400,000-RHS 1990B, \$10,050,000-RHS 1993A, and \$29,800,000-SHARP 1993A) with average variable interest rate of 2.74 percent and to advance refund \$6,685,000 of outstanding bonds under SHARP (1995A) with average variable interest rate of 6 percent as of June 30, 2005. The net proceeds of \$105,881,248 (after payment of \$1,173,752 in underwriting fees, insurance and other issuance costs) plus an additional \$21,407,203 of RHS 1989, 1990, and 1993, and SHARP 1993 and 1995 Series monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE J – REVENUE BONDS PAYABLE (continued)

on all bond series. The current refund was completed in October 2004 and the two programs were consolidated into the Hawaii Rental Housing System Revenue Bond Fund. The advance refund of the 1995 Series was completed subsequent to year end. As a result, the 1995 Series bonds are considered to be defeased in substance and the liability for those bonds has been removed from the statement of net assets.

On June 2, 2005, the Single Family Revenue Bond Fund issued \$75,155,000 in Mortgage Purchase Revenue Bonds with an average interest rate of 3.5 percent to current refund \$1,915,000, \$14,955,000, \$1,505,000, \$51,360,000 of outstanding bonds for the 1991A, 1991B, 1994A, 1994B, respectively, for an aggregate amount of \$69,735,000 with average interest rates of 6.3 percent. In addition, as part of current refund \$4,285,000 and \$1,610,000 of outstanding 1997A and 1998A Series bonds, respectively, for an aggregate of \$5,895,000 were refunded as a replacement refund with average interest rates of 5 percent. The net proceeds of \$74,945,629 for both the current and replacement refunds (after payment of \$209,372 in underwriting fees, insurance, and other issuance costs) plus an additional \$416,500 in commitment fees monies were used to purchase U.S. government securities. Those securities were deposited into the respective debt service funds with the trustee to provide for all future debt service payments for the 1991A, 1991B, 1994A, 1994B, 1997A and 1998A Series bonds. As a result, the 1991A, 1991B, 1994A, 1994B, and portions of the 1997A and 1998A Series bonds are considered to be defeased and the liability for those bonds has been removed from the revenue bond debt account group.

The Single Family Revenue Bond Fund current refunded the 1991A, 1991B, 1994A, 1994B, and portions of the 1997A and 1998A Series outstanding bonds to reduce its total debt service payments over the next 30 years by approximately \$31.7 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$12.9 million.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE J - REVENUE BONDS PAYABLE (continued)

Revenue bonds payable at June 30, 2005 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds:

| | |
|---|-------------------|
| 1991 Series A: | |
| Term bonds maturing annually from 2006 through 2012, and 2018 through 2025 (6.75% to 7.10%) | \$ 5,415,000 |
| 1991 Series B: | |
| Term bonds maturing annually from 2013 through 2017 and 2026 through 2032 (6.90% and 7.00%) | 4,680,000 |
| 1994 Series A: | |
| Term bonds maturing annually from 2017 through 2027 (5.05% to 6.00%) | 65,000 |
| 1994 Series B: | |
| Term bonds maturing annually from 2011 through 2018 and 2027 through 2028 (5.75% to 5.90%) | 24,725,000 |
| 1997 Series A: | |
| Term bonds maturing annually through 2031 (4.90% to 5.75%) | 23,070,000 |
| 1997 Series B: | |
| Serial bonds maturing annually from 2006 to 2010 (4.45% to 5.00%) | 11,980,000 |
| Term bonds maturing annually from 2011 through 2018 (5.45%) | 29,405,000 |
| | <u>41,385,000</u> |
| 1998 Series A: | |
| Serial bonds maturing annually through 2014 (4.65% to 5.25%) | 14,570,500 |
| Term bonds maturing annually from 2008 through 2031 (4.85% to 5.40%) | 49,224,500 |
| | <u>63,795,000</u> |
| 1998 Series B: | |
| Term bonds maturing annually from 2020 through 2029 (5.30%) | 11,085,000 |
| 1998 Series C: | |
| Term bonds maturing annually from 2020 through 2021 (5.35%) | 4,060,000 |
| 2000 Series A: | |
| Term bonds maturing annually from 2021 through 2027 (6.275%) | <u>25,000,000</u> |
| Single Family Mortgage Purchase revenue bonds subtotal carried forward | \$203,280,000 |

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE J - REVENUE BONDS PAYABLE (continued)

| | |
|---|--------------------------|
| Single Family Mortgage Purchase revenue bonds subtotal brought forward | <u>\$203,280,000</u> |
| 2002 Series A: | |
| Serial bonds maturing from 2006 through 2013 (2.05% to 4.80%) | 4,835,000 |
| Term bonds maturing in 2015 through 2034 (4.40% to 5.38%) | 20,020,000 |
| Placed bonds maturing in 2024 through 2034 (5.38%) | 3,965,000 |
| | <u>28,820,000</u> |
| 2002 Series B: | |
| Term bonds maturing in 2027 through 2029 (5.25%) | 1,810,000 |
| 2005 Series A: | |
| Term bonds maturing in 2027 through 2037 (5.00%) | 8,840,000 |
| 2005 Series B: | |
| Serial bonds maturing from 2006 through 2016 (2.80% to 3.90%) | 19,960,000 |
| Term bonds maturing in 2012 through 2027 (3.70% to 4.30%) | 46,355,000 |
| | <u>66,315,000</u> |
| Total Single Family Mortgage Purchase revenue bonds | <u>\$309,065,000</u> |
| Hawaii Rental Housing System revenue bonds: | |
| 2004 Series A: | |
| Serial bonds maturing annually through 2014 (1.70% to 3.70%) | \$ 15,840,000 |
| Term bonds maturing annually from 2015 through 2034 (3.80% to 4.75%) | 67,455,000 |
| | <u>83,295,000</u> |
| 2004 Series B: | |
| Term bonds maturing annually through 2034 (3.16%) | <u>23,000,000</u> |
| Total Hawaii Rental Housing System revenue bonds | <u>\$106,295,000</u> |

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE J - REVENUE BONDS PAYABLE (continued)

Multifamily Housing revenue bonds:

| | |
|--|------------------|
| 1999 Series (Manana Gardens Apartment project) – serial Bonds maturing in 2035 (6.30%) | \$ 3,600,000 |
| 2000 Series (Sunset Villas project) – serial bonds maturing in 2012, 2022, 2032 and 2036 (5% to 5.75%) | 26,335,000 |
| 2002 Series (Hale Hoaloha Apartments Project) – mortgage installment bonds maturing annually through 2018 (6.75%) | <u>1,706,208</u> |

| | |
|---|----------------------|
| Total Multifamily Housing revenue bonds | <u>\$ 31,641,208</u> |
|---|----------------------|

University of Hawaii Faculty Housing Program revenue bonds:

| | |
|---|-------------------|
| 1995 Series: | |
| Serial bonds maturing annually through 2007 (4.65% to 5.00%) | \$ 810,000 |
| Term bonds maturing annually from 2008 through 2026 (5.65% and 5.71%) | <u>14,255,000</u> |

| | |
|---|----------------------|
| Total University of Hawaii Faculty Housing Program revenue bonds | <u>15,065,000</u> |
| | <u>\$462,066,208</u> |

| | |
|---|------------------|
| Less deferred refunding amount (difference between reacquisition price and net carrying value of old debt) | <u>3,846,604</u> |
|---|------------------|

| | |
|---------------------|-------------|
| Total Revenue Bonds | 458,219,604 |
|---------------------|-------------|

| | |
|----------------------|-------------------|
| Less current portion | <u>42,398,450</u> |
|----------------------|-------------------|

| | |
|--|-----------------------|
| | <u>\$ 415,821,154</u> |
|--|-----------------------|

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE J - REVENUE BONDS PAYABLE (continued)

Interest on the Single Family Mortgage Purchase, Multifamily Housing, University of Hawaii Faculty Housing Program, and Hawaii Rental Housing System revenue bonds is payable semi-annually.

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).

During the year ended June 30, 2005, early redemptions totaled \$75,915,000.

Revenue bonds activity during the year was as follows:

| | Balance at July 1, 2004 | Additions | Reductions | Balance at June 30, 2005 |
|--|----------------------------|----------------------|----------------------|-----------------------------|
| Single Family Mortgage Purchase | \$391,900,000 | \$ 75,155,000 | \$157,990,000 | \$309,065,000 |
| Multifamily Housing | 32,006,849 | - | 365,641 | 31,641,208 |
| Rental Housing System | 90,285,000 | - | 90,285,000 | - |
| Hawaii Rental Housing System | - | 107,055,000 | 760,000 | 106,295,000 |
| State of Hawaii Affordable Rental Housing Program | 36,840,000 | - | 36,840,000 | - |
| University of Hawaii Faculty Housing Program | 15,445,000 | - | 380,000 | 15,065,000 |
| | <u>566,476,849</u> | <u>182,210,000</u> | <u>286,620,641</u> | <u>462,066,208</u> |
| Less deferred refunding amount | 1,525,627 | 2,320,977 | - | 3,846,604 |
| Total | <u>\$564,951,222</u> | <u>\$179,889,023</u> | <u>\$286,620,641</u> | <u>\$458,219,604</u> |

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE J - REVENUE BONDS PAYABLE (continued)

The approximate annual debt service requirements through 2010 and in five-year increments thereafter to maturity for revenue bonds are as follows:

| Year ending June 30: | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|-----------------------|-----------------------|-----------------------|
| 2006 | \$ 42,398,000 | \$ 36,266,000 | \$ 78,664,000 |
| 2007 | 10,290,000 | 22,570,000 | 32,860,000 |
| 2008 | 10,060,000 | 22,108,000 | 32,168,000 |
| 2009 | 10,589,000 | 21,627,000 | 32,216,000 |
| 2010 | 12,687,000 | 21,099,000 | 33,786,000 |
| 2011 - 2015 | 68,505,000 | 95,091,000 | 163,596,000 |
| 2016 - 2020 | 65,167,000 | 74,199,000 | 139,366,000 |
| 2021 - 2025 | 89,823,000 | 51,230,000 | 141,053,000 |
| 2026 - 2030 | 106,186,000 | 23,472,000 | 129,658,000 |
| 2031 - 2035 | 43,214,000 | 5,305,000 | 48,519,000 |
| 2036 - 2039 | 3,213,000 | 94,000 | 3,307,000 |
| | <u>\$ 462,132,000</u> | <u>\$ 373,061,000</u> | <u>\$ 835,193,000</u> |

Arbitrage Rebate

In order to ensure the exclusion of interest on the Corporation's Hawaii Rental Housing System revenue bonds, Rental Housing System revenue bonds, SHARP 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, 2005, the Corporation determined that \$2,914,328 of rebates was due to the U. S. Treasury.

NOTE K - 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 are reported as liabilities in the accompanying financial statements along with the related assets.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE K - CONDUIT DEBT OBLIGATIONS (continued)

As of June 30, 2005, there were three series of Conduit Revenue Bonds outstanding, with an aggregate principal amount payable of \$31,641,208 reported as Multifamily Housing Revenue bonds.

NOTE L - LEASES

Lease Commitments

The Corporation leases land, buildings, and improvements under various noncancellable operating leases expiring at various dates through 2056. The land lease for the Banyan Street Manor Project contains the option to purchase the fee-simple interest in the land at any time for a specified percentage of fair market value at the time of purchase.

The minimum rental commitments under operating leases through 2010 and in five-year increments thereafter are as follows:

| Year ending June 30, | |
|----------------------|---------------------|
| 2006 | \$ 629,000 |
| 2007 | 640,000 |
| 2008 | 652,000 |
| 2009 | 664,000 |
| 2010 | 569,000 |
| 2011 - 2015 | 2,661,000 |
| 2016 - 2020 | 3,037,000 |
| 2021 - 2025 | 3,324,000 |
| 2026 - 2030 | 3,757,000 |
| 2031 - 2035 | 3,699,000 |
| 2036 - 2040 | 4,148,000 |
| 2041 - 2045 | 4,367,000 |
| 2046 - 2050 | 4,978,000 |
| 2051 - 2055 | 5,240,000 |
| 2056 | 1,048,000 |
| | <u>\$39,413,000</u> |

Rent expense for the year ended June 30, 2005 totaled approximately \$592,000.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE L – LEASES (continued)

Lease Rentals

The Corporation leases land with a carrying value of approximately \$2,686,000 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, 2005 was approximately \$328,000.

The future minimum lease rent from these operating leases at June 30, 2005 is as follows:

| | |
|----------------------|--------------------|
| Year ending June 30: | |
| 2006 | \$301,000 |
| 2007 | 290,000 |
| 2008 | 292,000 |
| 2009 | 290,000 |
| 2010 | 288,000 |
| 2011 – 2015 | 1,444,000 |
| 2016 – 2020 | 1,479,000 |
| 2021 – 2025 | 1,268,000 |
| 2026 – 2030 | <u>1,006,000</u> |
| | <u>\$6,658,000</u> |

NOTE M – COMMITMENTS AND CONTINGENCIES

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, 2005, the outstanding balance of mortgage loans that have been sold to the ERS which are covered by the loan guarantee was approximately \$274,000. At June 30, 2005, notes and loans receivables did not include any delinquent loans purchased back from the ERS.

Construction Contracts

At June 30, 2005, the Dwelling Unit Revolving Fund had outstanding commitments to expend approximately \$17,685,000 for the construction and renovation of housing projects and there were no outstanding commitments to fund interim loans for various projects.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

The Capital Projects Fund and the Fiduciary Funds had outstanding construction contract commitments of approximately \$1,937,000 at June 30, 2005.

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, 2005, all but 18 acres of residential and 43 acres of commercial land has been substantially developed and sold. The estimated future cost of land sold relates primarily to the completion of certain off-site improvements at this project. This liability reflects 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 La'i'opua 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, 2005, the Corporation has remaining development rights related to the second phase of the Leiali'i project and 57 acres of the La'i'opua project. Development costs related to the Leiali'i project were approximately \$18.9 million at June 30, 2005. Management believes that the future revenues from this project will meet or exceed the aggregate of the development costs at June 30, 2005 and the remaining costs to be incurred.

Effective December 2004, management agreed to transfer village eight of Kapolei, and the development rights for phase one of Leiali'i and eight of the ten villages of La'i'opua, to DHHL for \$33 million to be paid in 15 annual payments of \$2.2 million, with no provision for interest. The Corporation received the first payment upon execution of the agreement and recorded the sale and related cost at the net present value of the annual payments of \$26,530,000. The sale was allocated between the Kapolei and Leiali'i projects as \$12,749,000 and \$13,781,000, respectively. No portion of the transfer price was allocated to the La'i'opua project, as all related development costs were written off in the prior year.

Additionally, the Corporation has other developments costs and dwelling units of approximately \$2.1 million at June 30, 2005. During the year ended June 30, 2005 management wrote off approximately \$1.6 million of these development costs, as the Corporation lost the related development rights.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

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.

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.

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, 2005 amounted to approximately \$6,274,000.

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.

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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

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, 2005. 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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

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.

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.

In May 2004, public housing tenants filed a claim against the Corporation seeking declaratory and injunctive relief pursuant to U.S.C. §2201-02 & Rule 65 of the Federal Rules of Civil Procedure to adjust the Corporation's utility allowances to reflect changes in utility costs. The claim relates to the requirement per United States Housing Act, 42 U.S.C. §1437(a)(1), which requires that shelter costs for tenants residing in federally subsidized public housing projects do not exceed 30% of tenant income.

The plaintiffs allege the Corporation has failed to review or update the utility allowances for all projects since 1997. In establishing the utility allowances, the Corporation must annually review the utility allowances and make adjustments to reflect changes in the basis upon which the allowances are based. Additionally, where there is a change in the rates upon which the allowance is based of greater than 10%, the Corporation must make interim adjustments to its allowances. Also, the plaintiffs allege that since its last updated utility allowance, utility rates have increased substantially resulting in inadequate utility allowances and rent charges in excess of 30 percent of tenant income.

In August 2004, public housing disabled tenants filed a similar claim alleging the Corporation's failure to provide appropriate utility allowance as required by federal law and HUD regulations.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)

The ultimate outcome of the litigation and its effect on the Corporation, if any, cannot be presently 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.

Ceded Lands

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. 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

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

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

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.

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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE M - COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

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

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.

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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

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

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.

HUD Examination

In September 2002, HUD conducted a limited review of the Corporation's policies and procedures over procurement and contracting and the obligation and expenditure of Comprehensive Grant and Capital Fund Program funds. Based on the results of this limited review, HUD found several findings in these areas. The findings include the improper procurement of a construction contract totaling approximately \$771,000 to a construction company for repairs and maintenance of a housing project operated by the Corporation. During the fiscal year 2004, the Corporation made a payment to HUD of \$771,000 for the amounts paid under the construction contract.

As a result of the review, in September 2002, HUD issued a Corrective Action Order (CAO) for the Corporation. The CAO required that the Corporation, to perform certain corrective actions, including, but not limited to performing an assessment to identify improvements in its operations.

During 2005, as a result of the corrective action taken by the Corporation, HUD closed all findings identified in the CAO. Subsequently, allowing the Corporation to take the maximum points allowed under the Public Housing Assessment System (PHAS).

PHAS scores the Corporation on its Capital Fund Program by reviewing the unexpended funds, timeliness of fund obligation, contract administration, quality of physical work and budget controls. An on-site confirmatory review completed in December 2005 by the HUD Honolulu Office confirmed that the Corporation has met the highest level of performance under the Capital Fund Programs as required under PHAS.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Memorandum of Agreement with HUD

In accordance with the provisions of its Low Rent Public Housing Annual Contribution Contract with HUD, if the Corporation's performance evaluation results in a designation as a "troubled" public housing agency, as defined by the provisions of Public Housing Assessment System (PHAS) as codified at 24 CFR Part 902, the Corporation must enter into a binding contractual agreement designated as a Memorandum of Agreement (MOA) with HUD for the purpose of improving its performance.

On September 30, 2004, the Corporation and HUD entered into an MOA, thereby requiring the Corporation to comply with certain terms and conditions, including but not limited to meeting certain performance targets, implementing prescribed strategies, and meeting certain timelines for improvement, including written progress reports.

On November 22, 2005, HUD removed the "troubled" agency status noting that the Corporation made significant progress in achieving the targets and strategies under the MOA. The Corporation received a PHAS score of 74 points out of 100 points.

NOTE N – RETIREMENT PLAN

Employees' Retirement System

Plan Description

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.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE N – RETIREMENT PLAN (continued)

Employees' Retirement System (continued)

Plan Description (continued)

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

Funding Policy

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.

There was approximately \$1,198,000 of employer contributions (contributory and non-contributory) for the year ended June 30, 2005.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE O - 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.

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, 2005 has not been separately computed and is not reflected in the Corporation's financial statements. The Corporation's enterprise funds' and special revenue funds' share of the post-retirement health care and life insurance benefits expense for the year ended June 30, 2005 approximated \$917,000 and is included in the financial statements.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE P – RELATED PARTY TRANSACTIONS

As discussed in Note M, management executed an agreement during December 2004 to transfer certain land and development rights to DHHL for \$33 million to be paid in 15 annual payments of \$2.2 million, with no provision for interest.

The Rental Assistance Fund and Section 8 Existing and Housing Voucher Programs provide rent subsidies to certain lessees of the Corporation's various projects. Total rent subsidies provided to lessees of the Corporation's various projects approximated \$1,194,000 and \$516,000 during the year ended June 30, 2005. These amounts have been recorded by the Corporation as rental income in the Hawaii Rental Housing System Revenue Bond Fund (HI RHS), Rental Housing System Revenue Bond Fund (RHS), SHARP, Banyan Street Manor Project, Wilikina Apartments Project, and Kekumu at Waikoloa Project. In addition, the Corporation relocated its offices to the Pohulani building in September 1992, which was transferred from RHS to HI RHS in October 2004. During the year ended June 30, 2005, the RHS and HI RHS recorded rental income of approximately \$288,000 and \$599,000, respectively, which was allocated as office rental expense to various funds of the Corporation. In addition, the State Department of Accounting and General Services (DAGS) incurred \$287,000 and \$548,000 in rent to the RHS and HI RHS, respectively, 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%). During 2005, the minimum annual rent to DAGS reflected \$620,000.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE Q – 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/or permanent financing for the construction or rehabilitation of affordable rental 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 | State of Hawaii Affordable Rental Program | University of Hawaii Faculty Housing Program Revenue Bond Fund |
|---|--|---|---|
| Assets: | | | |
| Cash | \$ - | \$ - | \$ 373 |
| Investment in financing lease | - | - | 16,841 |
| Receivables | 2,025 | - | 23 |
| Assets held by trustees | 32,386 | - | - |
| Capital assets, net | - | - | - |
| Other assets | - | - | 299 |
| Total assets | \$ 34,411 | \$ - | \$ 17,536 |
| Liabilities: | | | |
| Bonds payable | \$ 31,641 | \$ - | \$ 15,065 |
| Note payable | - | - | - |
| Other liabilities | 717 | - | 212 |
| Total liabilities | 32,358 | - | 15,277 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | - | - | - |
| Restricted | 32,386 | - | - |
| Unrestricted | (30,333) | - | 2,259 |
| Total net assets | 2,053 | - | 2,259 |
| Total liabilities and net assets | \$ 34,411 | \$ - | \$ 17,536 |

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE Q - SEGMENT INFORMATION (continued)

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

| | Multifamily Housing Revenue Bond Fund | State of Hawaii Affordable Rental Program | University of Hawaii Faculty Housing Program Revenue Bond Fund |
|--|--|---|---|
| Revenues | | | |
| Interest | \$ 117 | \$ - | \$ 789 |
| Rental | - | 1,186 | - |
| Other | 63 | 31 | - |
| Total revenues | 180 | 1,217 | 789 |
| Expenses | | | |
| Project | - | 255 | - |
| Depreciation | - | 505 | - |
| Interest | 1,832 | - | - |
| Other operating expenses | 108 | 77 | 16 |
| Total expenses | 1,940 | 837 | 16 |
| Operating (loss) income | (1,760) | 380 | 773 |
| Nonoperating income (expenses) | | | |
| Interest income | 1,810 | 86 | - |
| Net increase in fair Value of investments | 95 | - | - |
| Interest expense | - | (270) | (853) |
| Other | (7) | (82) | 18 |
| Total nonoperating income (expenses) | 1,898 | (266) | (835) |
| Operating transfer out | - | (18,418) | - |
| Change in net assets | 138 | (18,304) | (62) |
| Net assets at July 1, 2004 | 1,915 | 18,304 | 2,321 |
| Net assets at June 30, 2005 | \$ 2,053 | \$ - | \$ 2,259 |

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE Q - SEGMENT INFORMATION (continued)

Condensed Statement of Cash Flows
(\$ in thousands)

| | Multifamily Housing Revenue Bond Fund | State of Hawaii Affordable Rental Program | University of Hawaii Faculty Housing Program Revenue Bond Fund |
|---|--|---|--|
| Net cash (used in) provided by: | | | |
| Operating activities | \$ (1,758) | \$ 978 | \$ 1,271 |
| Non-capital and related financing activities | - | (9,610) | - |
| Capital and related financing activities | (366) | (5,663) | (1,241) |
| Investing activities | 2,126 | (3,752) | - |
| Net (decrease) increase in cash and cash equivalents | 2 | (18,047) | 30 |
| Cash and cash equivalents at July 1, 2004 | 6 | 18,047 | 343 |
| Cash and cash equivalents at June 30, 2005 | \$ 8 | \$ - | \$ 373 |

NOTE R - INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2005 is as follows:

| Due from | Housing Voucher Program | Section 8 | Dwelling Unit Revolving Fund | Federal Low Rent Program | Nonmajor - Proprietary |
|------------------------------|-------------------------------|-----------|---------------------------------------|--------------------------------|---------------------------|
| General Fund | \$ - | \$ - | \$ - | \$ - | \$ 9,155 |
| Housing Voucher Program | - | - | 4,689 | 443 | 1,423,289 |
| Section 8 | 2,277 | - | 394 | 82 | 54,958 |
| Dwelling Unit Revolving Fund | - | - | - | - | 25,645 |
| Single Family | - | - | - | - | 127,697 |
| Federal Low-Rent Program | 19,099 | 3,227 | 34,394 | 271,651 | 2,002,070 |
| Hawaii Rental Housing System | - | - | - | - | 133,630 |
| Internal Services | - | - | - | - | 1,261 |
| Nonmajor - Proprietary | 1,705,000 | 832,671 | 415,000 | 3,373,876 | 4,799,249 |
| Nonmajor - Government | - | - | - | - | 2,416 |
| TOTAL | \$1,726,376 | \$835,898 | \$ 454,477 | \$3,646,052 | \$8,579,370 |

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE R – INTERFUND RECEIVABLES AND PAYABLES (continued)

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

NOTE S – SUBSEQUENT EVENTS

On July 1, 2005, the Corporation redeemed \$39,440,000 of outstanding revenue bonds from the Single Family Mortgage Purchase Revenue Bond Fund, including \$34,934,200 of early redemptions.

In accordance with Act 196, SLH 2005, the Corporation will be split into two organizations to more effectively concentrate on the development of affordable housing. The legislature found that the State's role in maintaining affordable housing in Hawaii has evolved into two parts: (1) Administering the State's public housing programs; and (2) Financing and developing affordable housing. Effective July 1, 2006 the Corporation will be bifurcated into (1) the Hawaii public housing administration and (2) the Hawaii housing finance and development administration.

NOTE T – 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 statements period 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. 46 “Net Assets Restricted by Enabling Legislation – An Amendment of GASB Statement No. 34” clarifies the definition of the legally enforceability of an enabling legislation restriction, specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated, and requires governments to disclose the portion of total net assets that is restricted by enabling legislation. This Statement is effective for financial statements for periods beginning after June 15, 2005 and is not expected to have a material effect on the Corporation's financial statements.

Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2005

NOTE T - NEW PRONOUNCEMENTS FOR FINANCIAL REPORTING (continued)

- Statement No. 47 "Accounting for Termination Benefits" establishes standards for the measurement, recognition, and display of termination 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 statements periods beginning after June 15, 2005 and is not expected to have a material effect on the Corporation's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN
MANGEMENT'S DISCUSSION AND ANALYSIS

Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2005

| | General Fund | | |
|---|-------------------------|---------------|------------------|
| | Original budget | Final budget | Budgetary Actual |
| Revenues | | | |
| State allotted appropriations | \$ 7,494,669 | \$ 6,719,983 | \$ 6,344,544 |
| Expenditures | | | |
| Homeless service and assistance program | 4,893,291 | 4,905,722 | 4,822,533 |
| Rental housing and assistance program | 2,601,378 | 1,814,261 | 1,522,011 |
| REVENUES EQUALS EXPENDITURES | \$ - | \$ - | \$ - |
| | | | |
| | Housing Voucher Program | | |
| | Original budget | Final budget | Budgetary Actual |
| Revenues | | | |
| HUD contributions | \$ 17,975,189 | \$ 17,946,826 | \$ 16,775,626 |
| Expenditures | | | |
| Rental housing and assistance program | 17,975,189 | 17,946,826 | 17,176,216 |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | \$ - | \$ - | \$ (400,590) |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS (continued)

Year ended June 30, 2005

| | <u>Section 8 Contract Administration</u> | | |
|--|--|----------------------|-------------------------|
| | <u>Original budget</u> | <u>Final budget</u> | <u>Budgetary Actual</u> |
| Revenues | | | |
| HUD contributions | <u>\$ 41,290,605</u> | <u>\$ 35,950,963</u> | <u>\$ 19,150,948</u> |
| Expenditures | | | |
| Rental housing and assistance program | <u>41,290,605</u> | <u>35,950,963</u> | <u>19,355,147</u> |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (204,199)</u> |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
BUDGET-TO-GAAP RECONCILIATION

Year ended June 30, 2005

| | <u>General Fund</u> | <u>Housing Voucher Program</u> | <u>Section 8 Contract Administration</u> |
|---|---------------------|--|--|
| Excess of revenues over expenditures and other sources and uses - actual on budgetary basis | \$ - | \$ (400,590) | \$ (204,199) |
| Reserve for encumbrance at year end* | 599,566 | - | - |
| Expenditures for liquidation of prior year's encumbrances | (558,940) | - | - |
| Reversion of prior year's allotments | (296) | - | - |
| Accrual adjustments and other | <u>(259,586)</u> | <u>(27,502)</u> | <u>(1,006,355)</u> |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES AND OTHER USES - US GAAP BASIS | <u>\$ (219,256)</u> | <u>\$ (428,092)</u> | <u>\$ (1,210,554)</u> |

* Amount reflects the encumbrance balance included in continuing appropriation.

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

Housing and Community Development Corporation of Hawaii

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

| ASSETS | Drug Elimination Program | Shelter Plus Care | HOPWA Program | Other | Total |
|--|--------------------------|-------------------|------------------|-------------------|-------------------|
| Current Assets | | | | | |
| Cash | \$ 243 | \$ 20 | \$ 14 | \$ 71,755 | \$ 72,032 |
| Due from HUD | - | 9,455 | 29,765 | 519,747 | 558,967 |
| TOTAL ASSETS | \$ 243 | \$ 9,475 | \$ 29,779 | \$ 591,502 | \$ 630,999 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Current Liabilities | | | | | |
| Accounts payable | \$ - | \$ 9,455 | \$ 27,696 | \$ 519,401 | \$ 556,552 |
| Due to other funds | - | - | 2,069 | 347 | 2,416 |
| Due to HUD | 243 | 20 | 14 | 51 | 328 |
| Total current liabilities | 243 | 9,475 | 29,779 | 519,799 | 559,296 |
| Fund balances | | | | | |
| Unreserved | - | - | - | 71,703 | 71,703 |
| Total fund balances | - | - | - | 71,703 | 71,703 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 243 | \$ 9,475 | \$ 29,779 | \$ 591,502 | \$ 630,999 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2005

| | Drug Elimination Program | Shelter Plus Care | HOPWA Program | Other | Total |
|---|--------------------------------|----------------------|------------------|--------------|--------------|
| Revenue | | | | | |
| Intergovernmental - HUD annual contributions and others | \$ - | \$ 315,252 | \$ 216,014 | \$ 1,277,250 | \$ 1,808,516 |
| State allotted appropriations, net of lapsed funds | - | - | - | 100,000 | 100,000 |
| Total revenues | - | 315,252 | 216,014 | 1,377,250 | 1,908,516 |
| Expenditures | | | | | |
| Current | | | | | |
| Housing assistance payments | - | - | - | - | - |
| Personal services | - | - | - | 28,297 | 28,297 |
| Administration | - | 315,252 | 216,014 | 1,276,903 | 1,808,169 |
| Professional services | - | - | - | 347 | 347 |
| Total expenditures | - | 315,252 | 216,014 | 1,305,547 | 1,836,813 |
| NET CHANGE IN FUND BALANCES | - | - | - | 71,703 | 71,703 |
| Fund balance at July 1, 2004 | - | - | - | - | - |
| Fund balance at June 30, 2005 | \$ - | \$ - | \$ - | \$ 71,703 | \$ 71,703 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR ENTERPRISE FUNDS

June 30, 2005

| ASSETS | Revenue Bond Funds | Other Funds | Miscellaneous Funds | Total |
|---|-----------------------|-------------------|------------------------|-------------------|
| Current assets | | | | |
| Cash | \$ 373,510 | \$ 5,147,606 | \$ 53,117,216 | \$ 58,638,332 |
| Receivables | | | | |
| Mortgage loans | 33,450 | - | 438,529 | 471,979 |
| Notes and loans | - | - | 3,250,002 | 3,250,002 |
| Accrued interest | 96,070 | 25,727 | 2,212,630 | 2,334,427 |
| Tenant receivables, less allowance for doubtful accounts | - | 173,773 | - | 173,773 |
| Other | 25,051 | 29,734 | 54,168 | 108,953 |
| | <u>154,571</u> | <u>229,234</u> | <u>5,955,329</u> | <u>6,339,134</u> |
| Due from other funds | 220,527 | 790,407 | 7,243,436 | 8,254,370 |
| Due from State of Hawaii | - | - | 2,257 | 2,257 |
| Due from HUD | - | 3,485 | - | 3,485 |
| Inventories | - | - | - | - |
| Materials and supplies | - | 76,113 | 94,265 | 170,378 |
| Net investment in financing lease | 477,655 | - | - | 477,655 |
| Prepaid expenses and other assets | - | 64,792 | 400,486 | 465,278 |
| Deposits held in trust | - | 100,003 | 6,898 | 106,901 |
| Deferred bond discount and issuance costs | 18,517 | - | - | 18,517 |
| Total current assets | <u>1,244,780</u> | <u>6,411,640</u> | <u>66,819,887</u> | <u>74,476,307</u> |
| Assets held by trustees under Revenue Bond Programs | | | | |
| Cash | 7,915 | - | - | 7,915 |
| Investments | 32,378,073 | - | - | 32,378,073 |
| | <u>32,385,988</u> | <u>-</u> | <u>-</u> | <u>32,385,988</u> |
| Investments | | | | |
| Mortgage loans, net of current portion | - | - | 7,132,577 | 7,132,577 |
| Notes and loans, net of current portion | 1,672,758 | - | 53,523,714 | 55,196,472 |
| Other receivables | - | 426,100 | - | 426,100 |
| Advances to other funds | - | 479,363 | - | 479,363 |
| Restricted deposits and funded reserves | - | 325,000 | - | 325,000 |
| Net investment in financing lease, net of current portion | - | 7,456,436 | - | 7,456,436 |
| Deferred bond discount and issuance costs, net of current portion | 16,363,078 | - | - | 16,363,078 |
| Capital assets, less accumulated depreciation | 280,601 | - | - | 280,601 |
| | <u>-</u> | <u>72,942,955</u> | <u>-</u> | <u>72,942,955</u> |
| TOTAL ASSETS | \$ 51,947,205 | \$ 88,041,494 | \$ 127,476,178 | \$ 267,464,877 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS (continued)

June 30, 2005

LIABILITIES AND FUND NET ASSETS

| | Revenue Bond Funds | Other Funds | Miscellaneous Funds | Total |
|---|-----------------------|----------------------|------------------------|-----------------------|
| Current liabilities | | | | |
| Accounts payable | \$ - | \$ 96,933 | \$ 291,695 | \$ 388,628 |
| Accrued expenses | | | | |
| Interest | 918,444 | - | - | 918,444 |
| Other | 8,120 | 630,905 | 264,273 | 903,298 |
| Due to other funds | 2,423 | 3,253,822 | 7,869,551 | 11,125,796 |
| Due to State of Hawaii | - | - | 25,000 | 25,000 |
| Due to HUD | - | 3,702 | - | 3,702 |
| Security deposits | - | 288,677 | 552,256 | 840,933 |
| Mortgage payable | - | 121,508 | - | 121,508 |
| Revenue bonds payable, less deferred refunding cost | 778,450 | - | - | 778,450 |
| Deferred income | - | 2,633 | - | 2,633 |
| Total current liabilities | <u>1,707,437</u> | <u>4,398,180</u> | <u>9,002,775</u> | <u>15,108,392</u> |
| Arbitrage rebate payable | - | - | - | - |
| Note payable, net of current portion | - | - | - | - |
| Mortgage payable, net of current portion | - | 6,221,175 | - | 6,221,175 |
| Revenue bonds payable, less deferred refunding cost, net of current portion | 45,927,758 | - | - | 45,927,758 |
| Net assets | | | | |
| Invested in capital assets, net of related debt | - | 66,600,272 | - | 66,600,272 |
| Restricted by legislation and contractual agreements | 32,385,988 | 7,456,436 | - | 39,842,424 |
| Unrestricted | (28,073,978) | 3,365,431 | 118,473,403 | 93,764,856 |
| Total net assets | <u>4,312,010</u> | <u>77,422,139</u> | <u>118,473,403</u> | <u>200,207,552</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 51,947,205</u> | <u>\$ 88,041,494</u> | <u>\$ 127,476,178</u> | <u>\$ 267,464,877</u> |

See accompanying independent auditor's report.

COMBINING STATEMENT OF REVENUES AND EXPENSES - NONMAJOR ENTERPRISE FUNDS

June 30, 2005

| | Revenue Bond Funds | Other Funds | Miscellaneous Funds | Total |
|--|-----------------------|----------------|------------------------|-----------------|
| Operating revenues | | | | |
| Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease (note J) | \$ 905,324 | - | \$ 1,024,852 | \$ 1,930,176 |
| Rental | 1,186,243 | 4,142,026 | - | 5,328,269 |
| Conveyance tax | - | - | 6,079,510 | 6,079,510 |
| Other | 94,216 | 224,675 | 4,386,628 | 4,705,519 |
| Total operating revenues | 2,185,783 | 4,366,701 | 11,490,990 | 18,043,474 |
| Operating expenses | | | | |
| Project | 255,289 | - | 1,681,724 | 1,937,013 |
| Personal services | 48,255 | 1,580,077 | 1,935,572 | 3,563,904 |
| Depreciation | 505,086 | 2,407,432 | - | 2,912,518 |
| Housing assistance payments | - | - | 1,854,214 | 1,854,214 |
| Administration | 19,786 | 513,186 | 347,734 | 880,706 |
| Provision for losses | - | 171,954 | 257,750 | 429,704 |
| Professional services | 39,805 | 151,445 | 105,956 | 297,206 |
| Security | 10 | 63,251 | 156 | 63,417 |
| Insurance | 164 | 93,836 | 9,202 | 103,202 |
| Repairs and maintenance | 681 | 880,102 | 68,239 | 949,022 |
| Utilities | - | 1,211,768 | - | 1,211,768 |
| Capital expenditures | 2,977 | 31,349 | 4,668 | 38,994 |
| Interest expense | 1,831,885 | - | - | 1,831,885 |
| Other | 88,701 | 165,306 | 511,990 | 765,997 |
| Total operating expenses | 2,792,639 | 7,269,706 | 6,777,205 | 16,839,550 |
| Operating income (loss) | (606,856) | (2,903,005) | 4,713,785 | 1,203,924 |
| Nonoperating revenues (expenses) | | | | |
| Interest income - cash and investments | 1,895,268 | 446,470 | 1,785,461 | 4,127,199 |
| Net decrease in fair value of investments | 95,430 | - | 377,559 | 472,989 |
| Interest expense | (1,124,073) | (155,788) | (22,901) | (1,302,762) |
| Letter of credit fees | (63,272) | - | - | (63,272) |
| Trustee fees | (26,692) | - | - | (26,692) |
| Amortization of deferred bond issuance costs | (27,940) | - | - | (27,940) |
| Other revenues | 45,572 | - | - | 45,572 |
| Total nonoperating revenues | 794,293 | 290,682 | 2,140,119 | 3,225,094 |
| Net operating transfers | (18,418,206) | 177,869 | (9,487) | (18,249,824) |
| CHANGE IN NET ASSETS | \$ (18,230,769) | \$ (2,434,454) | \$ 6,844,417 | \$ (13,820,806) |

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS

June 30, 2005

| | Revenue Bond Funds | Other Funds | Miscellaneous Funds | Total |
|-----------------------------|-----------------------|----------------------|------------------------|-----------------------|
| Net assets at July 1, 2004 | \$ 22,542,779 | \$ 79,856,593 | \$ 111,628,986 | \$ 214,028,358 |
| Change in net assets | <u>(18,230,769)</u> | <u>(2,434,454)</u> | <u>6,844,417</u> | <u>(13,820,806)</u> |
| Net assets at June 30, 2005 | <u>\$ 4,312,010</u> | <u>\$ 77,422,139</u> | <u>\$ 118,473,403</u> | <u>\$ 200,207,552</u> |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS

June 30, 2005

| | Revenue Bond Funds | Other Funds | Miscellaneous Funds | Total |
|--|-----------------------|--------------|------------------------|----------------|
| Cash flows from operating activities: | | | | |
| Cash received from renters | \$ 1,162,433 | \$ 4,154,823 | \$ 849,022 | \$ 6,166,278 |
| Cash received from borrowers | | | | |
| Principal repayments | 30,641 | - | 9,740,911 | 9,771,552 |
| Interest income | 116,671 | - | 582,385 | 699,056 |
| Cash received from net investment in financing lease | | | | |
| Cash received for conveyance taxes | 1,249,196 | - | - | 1,249,196 |
| Cash payments for loan originations | - | - | 6,079,510 | 6,079,510 |
| Cash payments for interest | (1,839,019) | - | (6,329,002) | (6,329,002) |
| Cash payments to employees | (48,255) | (1,580,077) | (1,910,368) | (3,538,700) |
| Cash payments to suppliers | (370,468) | (3,053,867) | (4,609,906) | (8,034,241) |
| Cash received (payments to) from other funds | (79) | 842,108 | (1,389,419) | (547,390) |
| Other cash receipts | 190,246 | 476,372 | 3,248,354 | 3,914,972 |
| Net cash provided by operating activities | 491,366 | 839,359 | 6,261,487 | 7,592,212 |
| Cash flows from noncapital financing activities: | | | | |
| Disbursement of loan | - | - | (3,250,002) | (3,250,002) |
| Interest paid to the Department of Budget and Finance | - | (1,812) | (22,901) | (24,713) |
| Operating transfers in | - | 177,869 | - | 177,869 |
| Operating transfers out | (9,609,601) | - | (9,487) | (9,619,088) |
| Net cash provided by (used in) noncapital financing activities | (9,609,601) | 176,057 | (3,282,390) | (12,715,934) |
| Subtotal carried forward | \$ (9,118,235) | \$ 1,015,416 | \$ 2,979,097 | \$ (5,123,722) |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (continued)

June 30, 2005

| | Revenue Bond Funds | Other Funds | Miscellaneous Funds | Total |
|---|-----------------------|--------------|------------------------|----------------|
| Subtotal brought forward | \$ (9,118,235) | \$ 1,015,416 | \$ 2,979,097 | \$ (5,123,722) |
| Cash flows from capital and related financing activities: | | | | |
| Payments for acquisition of property and equipment | - | (113,579) | - | (113,579) |
| Principal paid on revenue bond maturities and redemptions | (1,100,641) | - | - | (1,100,641) |
| Other financing source - refunding bond proceeds | 28,562,469 | - | - | 28,562,469 |
| Other financing source - refunding bond retirement | (29,800,000) | - | - | (29,800,000) |
| Interest paid on revenue bonds | (1,432,154) | - | - | (1,432,154) |
| Note payable payment | (3,500,000) | - | - | (3,500,000) |
| Principal payments on mortgage loans | - | (281,298) | - | (281,298) |
| Payments of interest | - | (225,049) | - | (225,049) |
| Net cash used in capital and related financing activities | (7,270,326) | (619,926) | - | (7,890,252) |
| Cash flows from investing activities: | | | | |
| Purchases of investments | (9,133,132) | - | - | (9,133,132) |
| Proceeds from maturities of investments | 5,764,810 | - | 1,511 | 5,766,321 |
| Receipts of interest | 1,752,795 | 401,843 | 1,746,820 | 3,901,458 |
| Acquisition of property and equipment | (10,525) | - | - | (10,525) |
| Net increase in restricted deposits and funded reserves | - | (103,988) | - | (103,988) |
| Net cash provided by (used in) investing activities | (1,626,052) | 297,855 | 1,748,331 | 420,134 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (18,014,613) | 693,345 | 4,727,428 | (12,593,840) |
| Cash and cash equivalents at July 1, 2004 | 18,396,038 | 4,454,261 | 48,389,788 | 71,240,087 |
| Cash and cash equivalents at June 30, 2005 | \$ 381,425 | \$ 5,147,606 | \$ 53,117,216 | \$ 58,646,247 |
| Reconciliation of cash to cash and cash equivalents: | | | | |
| Cash | \$ 373,510 | \$ 5,147,606 | \$ 53,117,216 | \$ 58,638,332 |
| Money market funds | 7,915 | - | - | 7,915 |
| Cash and cash equivalents at June 30, 2005 | \$ 381,425 | \$ 5,147,606 | \$ 53,117,216 | \$ 58,646,247 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS (continued)

June 30, 2005

| | Revenue Bond Funds | Other Funds | Miscellaneous Funds | Total |
|--|-----------------------|----------------|------------------------|--------------|
| Cash flows from operating activities: | | | | |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | | | |
| Operating income (loss) | \$ (606,856) | \$ (2,903,005) | \$ 4,713,785 | \$ 1,203,924 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | 505,086 | 2,407,432 | - | 2,912,518 |
| Provision for losses | - | 171,954 | 275,617 | 447,571 |
| Loss on disposal | - | 268,314 | - | 268,314 |
| Changes in assets and liabilities: | | | | |
| Mortgage loan receivables | 30,641 | - | 3,215,328 | 3,245,969 |
| Notes and loans receivables | - | - | - | - |
| Accrued interest receivable on mortgages, notes and loans | - | - | (439,664) | (439,664) |
| Tenant receivables | (25,213) | (32,951) | - | (58,164) |
| Other receivables | 96,029 | (9,586) | (42,942) | 43,501 |
| Due from other funds | (220,527) | (24,924) | (2,362,149) | (2,607,600) |
| Due from State of Hawaii | - | - | (1,411) | (1,411) |
| Due from HUD | - | 16,825 | - | 16,825 |
| Inventories | - | (24,986) | 7,200 | (17,786) |
| Prepaid expenses and other assets | 28,434 | 12,111 | (346,749) | (306,204) |
| Net investment in lease financing | 460,543 | - | - | 460,543 |
| Deposits held in trust | - | (2,235) | - | (2,235) |
| Accounts payable | 15,333 | 49,148 | 32,654 | 97,135 |
| Accrued interest payable | (7,134) | - | - | (7,134) |
| Other accrued expenses | (6,821) | 18,094 | 54,083 | 65,356 |
| Due to other funds | 220,449 | 867,032 | 979,637 | 2,067,118 |
| Due to HUD | - | (19,642) | - | (19,642) |
| Security deposits | 1,403 | 47,983 | 176,098 | 225,484 |
| Deferred income | - | (2,205) | - | (2,205) |
| Net cash provided by operating activities | \$ 491,366 | \$ 839,359 | \$ 6,261,487 | \$ 7,592,212 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2005

| ASSETS | Multifamily Housing Revenue Bond Fund | State of Hawaii Affordable Rental Program | University of Hawaii Faculty Housing Program Revenue Bond Fund | Total |
|---|---------------------------------------|---|--|----------------------|
| Current assets | | | | |
| Cash | \$ - | \$ - | \$ 373,510 | \$ 373,510 |
| Receivables | | | | |
| Mortgage loans | 33,450 | - | - | 33,450 |
| Accrued interest | 96,070 | - | - | 96,070 |
| Other | 2,483 | - | 22,568 | 25,051 |
| Due from other funds | 220,527 | - | - | 220,527 |
| Net investment in financing lease | - | - | 477,655 | 477,655 |
| Deferred bond discount and issuance costs | - | - | 18,517 | 18,517 |
| Total current assets | <u>352,530</u> | <u>-</u> | <u>892,250</u> | <u>1,244,780</u> |
| Assets held by trustees under Revenue Bond Programs | | | | |
| Cash | 7,915 | - | - | 7,915 |
| Investments | 32,378,073 | - | - | 32,378,073 |
| Mortgage loans, net of current portion | 1,672,758 | - | - | 1,672,758 |
| Net investment in financing lease, net of current portion | - | - | 16,363,078 | 16,363,078 |
| Deferred bond discount and issuance costs, net of current portion | - | - | 280,601 | 280,601 |
| TOTAL ASSETS | <u>\$ 34,411,276</u> | <u>\$ -</u> | <u>\$ 17,535,929</u> | <u>\$ 51,947,205</u> |
| LIABILITIES AND NET ASSETS | | | | |
| Revenue bonds payable | | | | |
| Current liabilities | | | | |
| Accrued interest | \$ 706,042 | \$ - | \$ 212,402 | \$ 918,444 |
| Other accrued expenses | 8,120 | - | - | 8,120 |
| Due to other funds | 2,423 | - | - | 2,423 |
| Revenue bonds payable | 383,450 | - | 395,000 | 778,450 |
| Total current liabilities | <u>1,100,035</u> | <u>-</u> | <u>607,402</u> | <u>1,707,437</u> |
| Revenue bonds payable, net of current portion | 31,257,758 | - | 14,670,000 | 45,927,758 |
| Net assets | | | | |
| Restricted by legislation and contractual agreements | 32,385,988 | - | - | 32,385,988 |
| Unrestricted | (30,332,505) | - | 2,258,527 | (28,073,978) |
| Total net assets | <u>2,053,483</u> | <u>-</u> | <u>2,258,527</u> | <u>4,312,010</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 34,411,276</u> | <u>\$ -</u> | <u>\$ 17,535,929</u> | <u>\$ 51,947,205</u> |

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES - NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2005

| | Multifamily Housing Revenue Bond Fund | State of Hawaii Affordable Rental Program | University of Hawaii Faculty Housing Program Revenue Bond Fund | Total |
|---|--|---|--|-----------------|
| Operating revenues | | | | |
| Interest on mortgages, notes, loans, mortgage-backed securities and net investment in financing lease (note J) | \$ 116,671 | \$ - | \$ 788,653 | \$ 905,324 |
| Rental | - | 1,186,243 | - | 1,186,243 |
| Other | 63,263 | 30,953 | - | 94,216 |
| Total operating revenues | 179,934 | 1,217,196 | 788,653 | 2,185,783 |
| Operating expenses | | | | |
| Project | - | 255,289 | - | 255,289 |
| Personal services | 25,140 | 23,115 | - | 48,255 |
| Depreciation | - | 505,086 | - | 505,086 |
| Administration | 10,286 | 9,500 | - | 19,786 |
| Professional services | 12,679 | 11,572 | - | 24,251 |
| Security | 10 | - | 15,554 | 15,564 |
| Insurance | 138 | - | - | 138 |
| Repairs and maintenance | 566 | 115 | 26 | 707 |
| Capital expenditures | 3 | 2,974 | - | 2,977 |
| Interest expense | 1,831,885 | - | - | 1,831,885 |
| Other | 59,005 | 29,696 | - | 88,701 |
| Total operating expenses | 1,939,712 | 837,347 | 15,580 | 2,792,639 |
| Operating income (loss) | (1,759,778) | 379,849 | 773,073 | (606,856) |
| Nonoperating revenues (expenses) | | | | |
| Interest income - cash and investments | 1,809,658 | 85,610 | - | 1,895,268 |
| Net increase in fair value of investments | 95,430 | - | - | 95,430 |
| Interest expense | - | (269,951) | (854,122) | (1,124,073) |
| Letter of credit fees | - | (63,272) | - | (63,272) |
| Trustee fees | (7,339) | (19,353) | - | (26,692) |
| Amortization of deferred bond issuance costs | - | (9,031) | (18,909) | (27,940) |
| Other revenues | - | 9,164 | 36,408 | 45,572 |
| Total nonoperating revenues (expenses) | 1,897,749 | (266,833) | (836,623) | 794,293 |
| Net operating transfers | - | (18,418,206) | - | (18,418,206) |
| CHANGE IN NET ASSETS | \$ 137,971 | \$ (18,305,190) | \$ (63,550) | \$ (18,230,769) |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS -
NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2005

| | Multifamily Housing Revenue Bond Fund | State of Hawaii Affordable Rental Program | University of Hawaii Faculty Housing Program Revenue Bond Fund | Total |
|-----------------------------|--|--|--|---------------------|
| Net assets at July 1, 2004 | \$ 1,915,512 | \$ 18,305,190 | \$ 2,322,077 | \$ 22,542,779 |
| Change in net assets | <u>137,971</u> | <u>(18,305,190)</u> | <u>(63,550)</u> | <u>(18,230,769)</u> |
| Net assets at June 30, 2005 | <u>\$ 2,053,483</u> | <u>\$ -</u> | <u>\$ 2,258,527</u> | <u>\$ 4,312,010</u> |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2005

| | Multifamily Housing Revenue Bond Fund | State of Hawaii Affordable Rental Program | University of Hawaii Faculty Housing Program Revenue Bond Fund | Total |
|---|--|--|--|--------------|
| Cash flows from operating activities: | | | | |
| Cash received from renters | \$ - | \$ 1,162,433 | \$ - | \$ 1,162,433 |
| Cash received from borrowers | 30,641 | - | - | 30,641 |
| Principal repayments | 116,671 | - | - | 116,671 |
| Interest income | - | - | 1,249,196 | 1,249,196 |
| Cash received from net investment in financing lease | (1,839,019) | - | - | (1,839,019) |
| Cash payments for interest | (25,140) | (23,115) | - | (48,255) |
| Cash payments to employees | (89,509) | (265,379) | (15,580) | (370,468) |
| Cash payments to suppliers | (14,958) | 14,888 | (8) | (79) |
| Cash receipts from (payments to) other funds | 63,264 | 89,110 | 37,872 | 190,246 |
| Other cash receipts | (1,758,050) | 977,936 | 1,271,480 | 491,366 |
| Net cash provided by (used in) operating activities | | | | |
| Cash flows from noncapital financing activities: | | | | |
| Operating transfers out | - | (9,609,601) | - | (9,609,601) |
| Net cash used in non-capital financing activities | | | | |
| Cash flows from capital and related financing activities: | | | | |
| Principal paid on revenue bond maturities and redemptions | (365,641) | (355,000) | (380,000) | (1,100,641) |
| Other financing source - refunding bond proceeds | - | 28,562,469 | - | 28,562,469 |
| Other financing source - refunded bond retirement | - | (29,800,000) | - | (29,800,000) |
| Note payable payment | - | (3,500,000) | - | (3,500,000) |
| Interest paid on revenue bonds | - | (570,887) | (861,267) | (1,432,154) |
| Net cash used in capital and related financial activities | | | | |
| | (365,641) | (5,663,418) | (1,241,267) | (7,270,326) |
| Cash flows from investing activities: | | | | |
| Purchases of investments | (1,777,052) | (7,356,080) | - | (9,133,132) |
| Proceeds from maturities of investments | 2,092,864 | 3,671,946 | - | 5,764,810 |
| Receipts of interest | 1,810,133 | (57,338) | - | 1,752,795 |
| Acquisition of property and equipment | - | (10,525) | - | (10,525) |
| Net cash provided by (used in) investing activities | | | | |
| | 2,125,945 | (3,751,997) | - | (1,626,052) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2,254 | (18,047,080) | 30,213 | (18,014,613) |
| Cash and cash equivalents at July 1, 2004 | 5,661 | 18,047,080 | 343,297 | 18,396,038 |
| | \$ 7,915 | \$ - | \$ 373,510 | \$ 381,425 |
| Reconciliation of cash to cash and cash equivalents: | | | | |
| Cash | \$ - | \$ - | \$ 373,510 | \$ 373,510 |
| Money market funds | 7,915 | - | - | 7,915 |
| Cash and cash equivalents at June 30, 2005 | \$ 7,915 | \$ - | \$ 373,510 | \$ 381,425 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR REVENUE BOND FUNDS (continued)

Year ended June 30, 2005

| | Multifamily Housing Revenue Bond Fund | State of Hawaii Affordable Rental Program | University of Hawaii Faculty Housing Program Revenue Bond Fund | Total |
|--|--|--|--|-------------------|
| Cash flows from operating activities: | | | | |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Operating (loss) income | \$ (1,759,778) | \$ 379,849 | \$ 773,073 | \$ (606,856) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | |
| Depreciation | - | 505,086 | - | 505,086 |
| Changes in assets and liabilities: | | | | |
| Mortgage loans receivables | 30,641 | - | - | 30,641 |
| Tenant receivables | - | (25,213) | - | (25,213) |
| Due from other funds | (220,527) | - | - | (220,527) |
| Other receivables | - | 58,157 | 37,872 | 96,029 |
| Prepaid expenses and other assets | - | 28,434 | - | 28,434 |
| Net investment in lease financing | - | - | 460,543 | 460,543 |
| Accounts payable | - | 15,333 | - | 15,333 |
| Accrued interest payable | (7,134) | - | - | (7,134) |
| Other accrued expenses | (6,821) | - | - | (6,821) |
| Due to other funds | 205,569 | 14,888 | - | 220,449 |
| Security deposits | - | 1,403 | (8) | 1,403 |
| Net cash provided by (used in) operating activities | <u>\$ (1,758,050)</u> | <u>\$ 977,936</u> | <u>\$ 1,271,480</u> | <u>\$ 491,366</u> |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2005

| ASSETS | Housing Revolving Fund | Housing for Elders Revolving Fund | Teacher Housing Revolving Fund | Banyan Street Manor Project | Wilikina Apartments Project | Kekuilani Gardens Project | Kekumu at Waikoloa Project | Total |
|--|------------------------|-----------------------------------|--------------------------------|-----------------------------|-----------------------------|---------------------------|----------------------------|---------------|
| Current assets | | | | | | | | |
| Cash | \$ 469,938 | \$ 2,428,695 | \$ 805,541 | \$ 8,635 | \$ 1,434,797 | \$ - | \$ - | \$ 5,147,606 |
| Receivables | | | | | | | | |
| Accrued interest | - | 14,787 | 9,365 | - | - | 1,575 | - | 25,727 |
| Tenant receivables, less allowance for doubtful accounts | 56,060 | 7,234 | 52,353 | 406 | 22,617 | 31,041 | 4,062 | 173,773 |
| Other | 9,720 | 2,785 | 9,989 | - | 7,240 | - | - | 29,734 |
| Due from other funds | 103,474 | 686,933 | - | - | - | - | - | 790,407 |
| Due from HUD | - | - | - | - | 3,485 | - | - | 3,485 |
| Inventories | | | | | | | | |
| Materials and supplies, less allowance | 27,734 | 48,379 | - | - | - | - | - | 76,113 |
| Prepaid expenses and other assets | - | - | 1,400 | 63,392 | - | - | - | 64,792 |
| Deposits held in trust | - | - | - | 17,732 | 21,196 | 36,096 | 24,979 | 100,003 |
| Total current assets | 666,926 | 3,188,813 | 878,648 | 90,165 | 1,489,335 | 68,712 | 29,041 | 6,411,640 |
| Notes and loans | 426,100 | - | - | - | - | - | - | 426,100 |
| Other receivables | 479,363 | - | - | - | - | - | - | 479,363 |
| Advances to other funds | 175,000 | 130,000 | 20,000 | - | - | - | - | 325,000 |
| Restricted deposits and funded reserves | - | - | - | 2,460,050 | 4,367,446 | 627,853 | 1,087 | 7,456,436 |
| Capital assets, less accumulated depreciation | 13,196,906 | 45,389,277 | 1,346,003 | 2,484,755 | 5,602,319 | 4,923,695 | - | 72,942,955 |
| TOTAL ASSETS | \$ 14,944,295 | \$ 48,708,090 | \$ 2,244,651 | \$ 5,034,970 | \$ 11,459,100 | \$ 5,620,260 | \$ 30,128 | \$ 88,041,494 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR OTHER ENTERPRISE FUNDS (continued)

June 30, 2005

| | Housing Revolving Fund | Housing for Elders Revolving Fund | Teacher Housing Revolving Fund | Banyan Street Manor Project | Wilikina Apartments Project | Kekaulani Gardens Project | Kekumu at Waikoloa Project | Total |
|--|------------------------|-----------------------------------|--------------------------------|-----------------------------|-----------------------------|---------------------------|----------------------------|----------------------|
| LIABILITIES AND NET ASSETS | | | | | | | | |
| Current liabilities | | | | | | | | |
| Accounts payable | \$ 50 | \$ - | \$ - | \$ 33,538 | \$ 17,793 | \$ 12,857 | \$ 32,695 | \$ 96,933 |
| Accrued expenses | - | - | - | - | - | - | - | - |
| Interest | - | - | - | - | - | - | - | - |
| Other | 163,315 | 159,572 | 16,321 | - | 7,920 | - | 283,777 | 630,905 |
| Due to other funds | 2,494,427 | 757,942 | 1,453 | - | - | - | - | 3,253,822 |
| Due to HUD | - | - | - | 1,901 | 1,801 | - | - | 3,702 |
| Security deposits | 31,642 | 142,648 | 20,900 | 11,216 | 21,196 | 36,096 | 24,979 | 288,677 |
| Mortgage payable | - | - | - | 91,200 | - | 30,308 | - | 121,508 |
| Deferred income | - | - | - | - | 2,633 | - | - | 2,633 |
| Total current liabilities | 2,689,434 | 1,060,162 | 38,674 | 137,855 | 51,343 | 79,261 | 341,451 | 4,398,180 |
| Note payable, net of current portion | - | - | - | - | - | - | - | - |
| Mortgage payable, net of current portion | - | - | - | 553,764 | - | 5,667,411 | - | 6,221,175 |
| Net assets | | | | | | | | |
| Invested in capital assets, net of related debt | 13,196,906 | 45,389,277 | 1,346,003 | 1,839,791 | 5,602,319 | (774,024) | - | 66,600,272 |
| Restricted by legislation and contractual agreements | - | - | - | 2,460,050 | 4,367,446 | 627,853 | 1,087 | 7,456,436 |
| Unrestricted | (942,045) | 2,258,651 | 859,974 | 43,510 | 1,437,992 | 19,759 | (312,410) | 3,365,431 |
| Total net assets | 12,254,861 | 47,647,928 | 2,205,977 | 4,343,351 | 11,407,757 | (126,412) | (311,323) | 77,422,139 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 14,944,295 | \$ 48,708,090 | \$ 2,244,651 | \$ 5,034,970 | \$ 11,459,100 | \$ 5,620,260 | \$ 30,128 | \$ 88,041,494 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES - NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2005

| | Housing Revolving Fund | Housing for Elders Revolving Fund | Teacher Housing Revolving Fund | Banyan Street Manor Project | Wilikina Apartments Project | Kekuilani Garden Project | Kekumu at Waikoloa Project | Total |
|--|------------------------|-----------------------------------|--------------------------------|-----------------------------|-----------------------------|--------------------------|----------------------------|----------------|
| Operating revenues | | | | | | | | |
| Rental | \$ 813,979 | \$ 1,627,173 | \$ 211,233 | \$ 101,268 | \$ 652,117 | \$ 409,405 | \$ 326,851 | \$ 4,142,026 |
| Other | 38,743 | 67,307 | 6,000 | 103,151 | - | - | 9,474 | 224,675 |
| Total operating revenues | 852,722 | 1,694,480 | 217,233 | 204,419 | 652,117 | 409,405 | 336,325 | 4,366,701 |
| Operating expenses | | | | | | | | |
| Personal services | 802,481 | 338,892 | 27,501 | 28,814 | 219,134 | 107,751 | 55,504 | 1,580,077 |
| Depreciation | 399,831 | 1,386,789 | 53,821 | 89,090 | 322,040 | 155,861 | - | 2,407,432 |
| Administration | 82,932 | 158,674 | 41,763 | 9,755 | 3,386 | 26,480 | 190,196 | 513,186 |
| Provision for losses | 164,555 | 7,399 | - | - | - | - | - | 171,954 |
| Professional services | 38,004 | 15,174 | 11,444 | 11,250 | 52,636 | 17,424 | 5,513 | 151,445 |
| Security | 440 | 611 | 25 | 13,250 | 48,925 | - | - | 63,251 |
| Insurance | 8,785 | 17,273 | 970 | 7,514 | 28,033 | 14,076 | 17,185 | 93,836 |
| Repairs and maintenance | 174,173 | 495,188 | 48,625 | 20,723 | 67,036 | 40,143 | 34,214 | 880,102 |
| Utilities | 385,173 | 598,045 | 7,439 | 21,514 | 80,321 | 47,150 | 72,126 | 1,211,768 |
| Capital expenditures | 14,544 | 16,805 | - | - | - | - | - | 31,349 |
| Other | 1,475 | 534 | - | - | 113,546 | 49,751 | - | 165,306 |
| Total operating expenses | 2,072,393 | 3,035,384 | 191,588 | 201,910 | 935,057 | 458,636 | 374,738 | 7,269,706 |
| Operating income (loss) | (1,219,671) | (1,340,904) | 25,645 | 2,509 | (282,940) | (49,231) | (38,413) | (2,903,005) |
| Nonoperating revenues (expenses) | | | | | | | | |
| Interest income - cash and investments | 101,089 | 64,409 | 17,447 | - | 258,861 | 4,664 | - | 446,470 |
| Interest expense | (1,812) | - | - | (33,866) | - | (120,110) | - | (155,788) |
| Total nonoperating revenues (expenses) | 99,277 | 64,409 | 17,447 | (33,866) | 258,861 | (115,446) | - | 290,682 |
| Income (loss) before operating transfers | (1,120,394) | (1,276,495) | 43,092 | (31,357) | (24,079) | (164,677) | (38,413) | (2,612,323) |
| Operating transfers in | 177,869 | - | - | - | - | - | - | 177,869 |
| CHANGE IN NET ASSETS | \$ (942,525) | \$ (1,276,495) | \$ 43,092 | \$ (31,357) | \$ (24,079) | \$ (164,677) | \$ (38,413) | \$ (2,434,454) |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS - NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2005

| | Housing Revolving Fund | Housing for Elders Revolving Fund | Teacher Housing Revolving Fund | Bryan Street Manor Project | Waiikina Apartments Project | Kekulani Gardens Project | Kekumu at Waikoloa Project | Total |
|-----------------------------|------------------------------|--|---|-------------------------------------|-----------------------------------|--------------------------------|----------------------------------|---------------|
| Net assets at July 1, 2004 | \$ 13,197,386 | \$ 48,924,423 | \$ 2,162,885 | \$ 4,374,708 | \$ 11,431,836 | \$ 38,265 | \$ (272,910) | \$ 79,856,593 |
| Change in net assets | (942,525) | (1,276,495) | 43,092 | (31,357) | (24,079) | (164,677) | (38,413) | (2,434,454) |
| Net assets at June 30, 2005 | \$ 12,254,861 | \$ 47,647,928 | \$ 2,205,977 | \$ 4,343,351 | \$ 11,407,757 | \$ (126,412) | \$ (311,323) | \$ 77,422,139 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2005

| | Housing Revolving Fund | Housing for Elders Revolving Fund | Teacher Housing Revolving Fund | Banyan Street Manor Project | Wilikina Apartments Project | Kekuilani Gardens Project | Kekumu at Waikoloa Project | Total |
|--|------------------------|-----------------------------------|--------------------------------|-----------------------------|-----------------------------|---------------------------|----------------------------|--------------|
| Cash flows from operating activities: | | | | | | | | |
| Cash received from renters | \$ 765,829 | \$ 1,671,346 | \$ 209,042 | \$ 96,720 | \$ 652,117 | \$ 432,918 | \$ 326,851 | \$ 4,154,823 |
| Cash payments to employees | (802,481) | (338,892) | (27,501) | (28,814) | (219,134) | (107,751) | (55,504) | (1,580,077) |
| Cash payments to suppliers | (742,422) | (1,253,567) | (108,972) | (73,537) | (393,884) | (194,946) | (286,539) | (3,053,867) |
| Cash receipts from other funds | 833,985 | 6,722 | 1,401 | - | - | - | - | 842,108 |
| Other cash receipts | 36,467 | 63,988 | - | 366,443 | - | - | 9,474 | 476,372 |
| Net cash provided by (used in) operating activities | 91,378 | 149,597 | 73,970 | 360,812 | 39,099 | 130,221 | (5,718) | 839,359 |
| Cash flows from noncapital financing activities: | | | | | | | | |
| Interest paid to Department of Budget and Finance | (1,812) | - | - | - | - | - | - | (1,812) |
| Operating transfers in | 177,869 | - | - | - | - | - | - | 177,869 |
| Net cash provided by noncapital financing activities | 176,057 | - | - | - | - | - | - | 176,057 |
| Cash flows from capital and related financing activities: | | | | | | | | |
| Payments for acquisition of property and equipment | - | - | - | (101,540) | (12,039) | - | - | (113,579) |
| Principal payments on mortgage loans | - | - | - | (262,689) | - | (18,609) | - | (281,298) |
| Payments of interest | - | - | - | (104,939) | - | (120,110) | - | (225,049) |
| Net cash used in capital and related financing activities | - | - | - | (469,168) | (12,039) | (138,719) | - | (619,926) |
| Cash flows from investing activities: | | | | | | | | |
| Receipts of interest | 62,740 | 59,459 | 16,119 | - | 258,861 | 4,664 | - | 401,843 |
| Net (increase) decrease in restricted deposits and funded reserves | - | - | - | 55,372 | (143,895) | (15,469) | 4 | (103,988) |
| Net cash provided by (used in) investing activities | 62,740 | 59,459 | 16,119 | 55,372 | 114,966 | (10,805) | 4 | 297,855 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 330,175 | 209,056 | 90,089 | (52,984) | 142,026 | (19,303) | (5,714) | 693,345 |
| Cash and cash equivalents at July 1, 2004 | 139,763 | 2,219,639 | 715,452 | 61,619 | 1,292,771 | 19,303 | 5,714 | 4,454,261 |
| Cash and cash equivalents at June 30, 2005 | \$ 469,938 | \$ 2,428,695 | \$ 805,541 | \$ 8,635 | \$ 1,434,797 | \$ - | \$ - | \$ 5,147,606 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR OTHER ENTERPRISE FUNDS (continued)

Year ended June 30, 2005

| | Housing Revolving Fund | Housing for Elders Revolving Fund | Teacher Housing Revolving Fund | Banyan Street Manor Project | Wilikina Apartments Project | Kekuilani Gardens Project | Kekumu at Waikoloa Project | Total |
|--|------------------------------|--|---|--------------------------------------|-----------------------------------|---------------------------------|----------------------------------|----------------|
| Cash flows from operating activities: | | | | | | | | |
| Reconciliation of operating (loss) income to net cash provided by (used in) operating activities: | | | | | | | | |
| Operating income (loss) | \$ (1,219,671) | \$ (1,340,904) | \$ 25,645 | \$ 2,509 | \$ (282,940) | \$ (49,231) | \$ (38,413) | \$ (2,903,005) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities: | | | | | | | | |
| Depreciation | 399,831 | 1,386,789 | 53,821 | 89,090 | 322,040 | 155,861 | - | 2,407,432 |
| Loss on disposal | - | - | - | 268,314 | - | - | - | 268,314 |
| Provision for losses | 164,555 | 7,399 | - | - | - | - | - | 171,954 |
| Changes in assets and liabilities: | | | | | | | | |
| Tenant receivables | (47,534) | (7,089) | (3,741) | 1,901 | - | 23,512 | - | (32,951) |
| Other receivables | (801) | (2,785) | (6,000) | - | - | - | - | (9,586) |
| Due from other funds | (24,924) | - | - | - | - | - | - | (24,924) |
| Due from HUD | - | - | - | 16,825 | - | - | - | 16,825 |
| Inventories | (14,445) | (10,541) | - | - | - | - | - | (24,986) |
| Prepaid expenses and other assets | - | 18,019 | - | (5,908) | - | - | - | 12,111 |
| Deposits held in trust | - | - | - | (5,229) | 2,634 | 507 | (147) | (2,235) |
| Accounts payable | - | - | - | 16,377 | (1) | 78 | 32,694 | 49,148 |
| Other accrued expenses | (23,926) | 40,725 | 1,294 | - | - | - | 1 | 18,094 |
| Due to other funds | 858,909 | 6,722 | 1,401 | - | - | - | - | 867,032 |
| Due to HUD | - | - | - | (19,642) | - | - | - | (19,642) |
| Security deposits | (616) | 51,262 | 1,550 | (1,220) | (2,634) | (506) | 147 | 47,983 |
| Deferred income | - | - | - | (2,205) | - | - | - | (2,205) |
| Net cash provided by (used in) operating activities | \$ 91,378 | \$ 149,597 | \$ 73,970 | \$ 360,812 | \$ 39,099 | \$ 130,221 | \$ (5,718) | \$ 839,359 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

June 30, 2005

| ASSETS | Free Simple Residential Revolving Fund | Rental Assistance Fund | Housing Finance Revolving Fund | Disbursing Fund | Rental Housing Trust Fund | KPT Resource Center | Federal Grant Program Fund | Grant-In-Aid Fund | Hamakua | Waialua | Total |
|--|--|------------------------|--------------------------------|-----------------|---------------------------|---------------------|----------------------------|-------------------|-----------|-----------|----------------|
| | | | | | | | | | | | |
| Current Assets | | | | | | | | | | | |
| Cash | \$ 58,107 | \$ 24,202,030 | \$ 2,215,263 | \$ 916,452 | \$ 25,182,060 | \$ 386,147 | \$ - | \$ 134,567 | \$ - | \$ 22,590 | \$ 53,117,216 |
| Receivables | | | | | | | | | | | |
| Mortgage loans | - | - | 57,397 | - | 353,065 | - | - | - | 8,188 | 19,879 | 438,529 |
| Notes and loans | - | 3,250,002 | - | - | - | - | - | - | - | - | 3,250,002 |
| Accrued interest | 8,276 | 767,844 | 139,512 | - | 1,293,833 | - | - | - | 1,851 | 1,314 | 2,212,630 |
| Other | - | - | - | - | - | 45,558 | 8,610 | - | - | - | 54,168 |
| Due from other funds | 100,337 | - | 2,109,508 | 5,033,591 | - | - | - | - | - | - | 7,243,436 |
| Due from State of Hawaii | - | - | - | 2,257 | - | - | - | - | - | - | 2,257 |
| Inventories | - | - | - | - | - | - | - | - | - | - | - |
| Materials and supplies | - | - | - | 94,265 | - | - | - | - | - | - | 94,265 |
| Prepaid expenses and other assets | - | 137,117 | - | 263,369 | - | - | - | - | - | - | 400,486 |
| Deposits held in trust | 6,898 | - | - | - | - | - | - | - | - | - | 6,898 |
| Total current assets | 173,618 | 28,356,993 | 4,521,680 | 6,309,934 | 26,828,958 | 431,705 | 8,610 | 134,567 | 10,039 | 43,783 | 66,819,887 |
| Investments | - | 7,119,156 | 13,421 | - | - | - | - | - | - | - | 7,132,577 |
| Mortgage loans, net of current portion | - | 2,249,985 | 1,635,733 | - | 49,637,996 | - | - | - | - | - | 53,523,714 |
| TOTAL ASSETS | \$ 173,618 | \$ 37,726,134 | \$ 6,170,834 | \$ 6,309,934 | \$ 76,466,954 | \$ 431,705 | \$ 8,610 | \$ 134,567 | \$ 10,039 | \$ 43,783 | \$ 127,476,178 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS (continued)

June 30, 2005

| | Fee Simple Residential Revolving Fund | Rental Assistance Fund | Housing Finance Revolving Fund | Disbursing Fund | Rental Housing Trust Fund | KPT Resource Center | Federal Grant Program Fund | Grant-In-Aid Fund | Harmakua | Waialua | Total |
|---|---------------------------------------|------------------------|--------------------------------|-----------------|---------------------------|---------------------|----------------------------|-------------------|-----------|-----------|----------------|
| LIABILITIES AND NET ASSETS | | | | | | | | | | | |
| Current Liabilities | | | | | | | | | | | |
| Accounts payable | \$ 5,452 | \$ - | \$ 823 | \$ 275,294 | \$ - | \$ 10,126 | \$ - | \$ - | \$ - | \$ - | \$ 291,695 |
| Accrued expenses | | | | | | | | | | | |
| Other | 22,716 | 43,749 | 121,416 | 5,506 | 6,564 | 64,322 | - | - | - | - | 264,273 |
| Due to other funds | 1,453 | 3,833 | 1,889,347 | 5,880,183 | 2,574 | 45,000 | 8,610 | - | 13,376 | 25,175 | 7,869,551 |
| Due to State of Hawaii | - | - | - | 25,000 | - | - | - | - | - | - | 25,000 |
| Security deposits | 6,898 | - | 545,358 | - | - | - | - | - | - | - | 552,256 |
| Total current liabilities | 36,519 | 47,582 | 2,556,944 | 6,185,983 | 9,138 | 119,448 | 8,610 | - | 13,376 | 25,175 | 9,002,775 |
| Net assets | | | | | | | | | | | |
| Unrestricted | 137,099 | 37,678,552 | 3,613,890 | 123,951 | 76,457,816 | 312,257 | - | 134,567 | (3,337) | 18,608 | 118,473,403 |
| Total net assets | 137,099 | 37,678,552 | 3,613,890 | 123,951 | 76,457,816 | 312,257 | - | 134,567 | (3,337) | 18,608 | 118,473,403 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 173,618 | \$ 37,726,134 | \$ 6,170,834 | \$ 6,309,934 | \$ 76,466,954 | \$ 431,705 | \$ 8,610 | \$ 134,567 | \$ 10,039 | \$ 43,783 | \$ 127,476,178 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2005

| | Fee Simple Residential Revolving Fund | Rental Assistance Fund | Housing Finance Revolving Fund | Disbursing Fund | Rental Housing Trust Fund | KPT Resource Center | Federal Grant Program Fund | Grant-In-Aid Fund | Hamakua | Waialua | Total |
|---|---------------------------------------|------------------------|--------------------------------|-----------------|---------------------------|---------------------|----------------------------|-------------------|------------|------------|--------------|
| Operating revenues | | | | | | | | | | | |
| Interest on mortgages, notes, loans, mortgage-backed securities, and net investment in financing lease (note f) | \$ - | \$ 184,594 | \$ 103,262 | \$ - | \$ 734,852 | \$ - | \$ - | \$ - | \$ 1,376 | \$ 818 | \$ 1,024,852 |
| Conveyance tax | - | - | - | - | 6,079,510 | - | - | - | - | - | 6,079,510 |
| Other | 51,788 | 32,500 | 1,615,960 | - | 600 | 894,580 | 1,783,679 | - | 7,496 | 25 | 4,386,628 |
| Total operating revenues | 51,788 | 217,094 | 1,719,222 | - | 6,814,962 | 894,580 | 1,783,679 | - | 8,822 | 843 | 11,490,990 |
| Operating expenses | | | | | | | | | | | |
| Project | - | - | - | - | - | - | 1,681,724 | - | - | - | 1,681,724 |
| Personal services | 84,580 | 100,000 | 1,400,748 | - | 108,177 | 173,882 | 68,185 | - | - | - | 1,935,572 |
| Housing assistance payments | - | 1,854,214 | - | - | - | - | - | - | - | - | 1,854,214 |
| Administration | 13,221 | 16,819 | 175,216 | - | 29,671 | 86,679 | 26,128 | - | - | - | 347,734 |
| Provision for losses | 257,750 | - | - | - | - | - | - | - | - | - | 257,750 |
| Professional services | 15,011 | 13,069 | 38,611 | - | 20,184 | - | 7,442 | - | 5,301 | 6,338 | 105,956 |
| Security | 24 | 44 | 88 | - | - | - | - | - | - | - | 156 |
| Insurance | 299 | 388 | 7,260 | - | 1,255 | - | - | - | - | - | 9,202 |
| Repairs and maintenance | 167 | 515 | 8,906 | - | 1,026 | 57,625 | - | - | - | - | 68,239 |
| Capital expenditures | 2 | 2 | 584 | - | 9 | 4,071 | - | - | - | - | 4,668 |
| Other | 246,500 | - | 5,049 | - | - | 260,241 | 200 | - | - | - | 511,990 |
| Total operating expenses | 617,554 | 1,985,051 | 1,636,462 | - | 160,322 | 582,498 | 1,783,679 | - | 5,301 | 6,338 | 6,777,205 |
| Operating income (loss) | (565,766) | (1,767,957) | 82,760 | - | 6,654,640 | 312,082 | - | - | 3,521 | (5,495) | 4,713,785 |
| Nonoperating revenues (expenses) | | | | | | | | | | | |
| Interest income - cash and investments | 5,054 | 1,187,039 | 60,032 | - | 532,788 | 175 | - | 373 | - | - | 1,785,461 |
| Net increase (decrease) in fair value of investments | - | 377,887 | (328) | - | - | - | - | - | - | - | 377,559 |
| Interest expense | - | (13,659) | (9,242) | - | - | - | - | - | - | - | (22,901) |
| Total nonoperating revenues | 5,054 | 1,551,267 | 50,462 | - | 532,788 | 175 | - | 373 | - | - | 2,140,119 |
| Income (loss) before operating transfers | (560,712) | (216,690) | 133,222 | - | 7,187,428 | 312,257 | - | 373 | 3,521 | (5,495) | 6,853,904 |
| Operating transfers out | - | - | - | - | - | - | - | - | (9,487) | - | (9,487) |
| CHANGE IN NET ASSETS | \$ (560,712) | \$ (216,690) | \$ 133,222 | \$ - | \$ 7,187,428 | \$ 312,257 | \$ - | \$ 373 | \$ (5,966) | \$ (5,495) | \$ 6,844,417 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CHANGES IN FUND NET ASSETS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2005

| | Fee Simple Residential Revolving Fund | Rental Assistance Fund | Housing Finance Revolving Fund | Disbursing Fund | Rental Housing Trust Fund | KPT Resource Center | Federal Grant Program Fund | Grant-In-Aid Fund | Hamakua | Waialua | Total |
|-----------------------------|---------------------------------------|------------------------|--------------------------------|-----------------|---------------------------|---------------------|----------------------------|-------------------|------------|-----------|----------------|
| Net assets at July 1, 2004 | \$ 697,811 | \$ 37,895,242 | \$ 3,480,668 | \$ 123,951 | \$ 69,270,388 | \$ - | \$ - | \$ 134,194 | \$ 2,629 | \$ 24,103 | \$ 111,628,986 |
| Change in net assets | (560,712) | (216,690) | 133,222 | - | 7,187,428 | 312,257 | - | 373 | (5,966) | (5,495) | 6,844,417 |
| Net assets at June 30, 2005 | \$ 137,099 | \$ 37,678,552 | \$ 3,613,890 | \$ 123,951 | \$ 76,457,816 | \$ 312,257 | \$ - | \$ 134,567 | \$ (3,337) | \$ 18,608 | \$ 118,473,403 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2005

| | Fee Simple Revolving Fund | Rental Assistance Fund | Housing Finance Revolving Fund | Disbursing Fund | Rental Housing Trust Fund | KPT Resource Center | Federal Grant Program Fund | Grant-In-Aid Fund | Hamakua | Waiahua | Total |
|--|---------------------------|------------------------|--------------------------------|-----------------|---------------------------|---------------------|----------------------------|-------------------|----------|-----------|---------------|
| Cash flows from operating activities: | | | | | | | | | | | |
| Cash received from borrowers: | | | | | | | | | | | |
| Principal repayments | \$ 2,616 | \$ - | \$ 306,336 | \$ - | \$ 9,421,034 | \$ - | \$ - | \$ - | \$ 2,237 | \$ 8,688 | \$ 9,740,911 |
| Interest income | - | 28,254 | 92,981 | - | 451,510 | - | - | - | 8,822 | 818 | 582,385 |
| Cash received from renters | - | - | - | - | - | 849,022 | - | - | - | - | 849,022 |
| Cash received for conveyance taxes | - | - | - | - | 6,079,510 | - | - | - | - | - | 6,079,510 |
| Cash payments for loan originations | - | - | - | - | (6,329,002) | - | - | - | - | - | (6,329,002) |
| Cash payments to employees | (84,580) | (100,000) | (1,400,748) | - | (82,973) | (173,882) | (68,185) | - | - | - | (1,910,368) |
| Cash payments to suppliers | (25,896) | (2,009,073) | (215,523) | (230,548) | (73,061) | (334,168) | (1,715,494) | - | (5,301) | (842) | (4,609,906) |
| Cash receipts from (payments to) other funds | 7,005 | 2,977 | 4,996 | (1,396,156) | 1,852 | 45,000 | (58,822) | - | 3,729 | - | (1,389,419) |
| Other cash receipts (payments to) | (194,711) | 32,502 | 1,615,960 | - | 600 | - | 1,793,978 | - | - | 25 | 3,248,354 |
| Net cash provided by (used in) operating activities | (295,566) | (2,045,340) | 404,002 | (1,626,704) | 9,469,470 | 385,972 | (48,523) | - | 9,487 | 8,689 | 6,261,487 |
| Cash flows from noncapital financing activities: | | | | | | | | | | | |
| Disbursement of loan interest paid to the Department of Budget and Finance | - | (3,250,002) | - | - | - | - | - | - | - | - | (3,250,002) |
| Operating transfers out | - | (13,659) | (9,242) | - | - | - | - | - | (9,487) | - | (22,901) |
| Net cash used in noncapital financing activities | - | (3,263,661) | (9,242) | - | - | - | - | - | (9,487) | - | (3,282,390) |
| Cash flows from investing activities: | | | | | | | | | | | |
| Proceeds from maturities of investments | - | - | 1,511 | - | - | - | - | - | - | - | 1,511 |
| Receipts of interest | 4,537 | 1,187,037 | 60,032 | - | 494,666 | 175 | - | 373 | - | - | 1,746,820 |
| Net cash provided by investing activities | 4,537 | 1,187,037 | 61,543 | - | 494,666 | 175 | - | 373 | - | - | 1,748,331 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (291,029) | (4,121,964) | 456,303 | (1,626,704) | 9,964,136 | 386,147 | (48,523) | 373 | - | 8,689 | 4,727,428 |
| Cash and cash equivalents at July 1, 2004 | 349,136 | 28,323,994 | 1,758,960 | 2,543,156 | 15,217,924 | - | 48,523 | 134,194 | - | 13,901 | 48,389,788 |
| Cash and cash equivalents at June 30, 2005 | \$ 58,107 | \$ 24,202,030 | \$ 2,215,263 | \$ 916,452 | \$ 25,182,060 | \$ 386,147 | \$ - | \$ 134,567 | \$ - | \$ 22,590 | \$ 53,117,216 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS (continued)

Year ended June 30, 2005

| | Fee Simple Residential Revolving Fund | Rental Assistance Fund | Housing Finance Revolving Fund | Disbursing Fund | Rental Housing Trust Fund | KPT Resource Center | Federal Grant Program Fund | Grant-In-Aid Fund | Hamakua | Waialua | Total |
|--|---------------------------------------|------------------------|--------------------------------|-----------------|---------------------------|---------------------|----------------------------|-------------------|----------|------------|--------------|
| | \$ (565,766) | \$ (1,767,957) | \$ 82,760 | \$ - | \$ 6,654,640 | \$ 312,082 | \$ - | \$ - | \$ 3,521 | \$ (5,495) | \$ 4,713,785 |
| Cash flows from operating activities: | | | | | | | | | | | |
| Reconciliation of operating income (loss) to net cash provided by (used in) operating activities: | | | | | | | | | | | |
| Operating income (loss) | 257,750 | - | - | - | - | - | - | - | 8,452 | 9,415 | 275,617 |
| Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities: | | | | | | | | | | | |
| Provision for losses | - | - | 130,238 | - | 3,092,032 | - | - | - | (6,215) | (727) | 3,215,328 |
| Changes in assets and liabilities: | | | | | | | | | | | |
| Mortgage loans receivables | - | - | (10,281) | - | (283,342) | - | 10,299 | - | - | - | (439,664) |
| Notes and loans receivables | 2,616 | - | - | - | - | (45,558) | - | - | - | - | (42,942) |
| Accrued interest receivable on mortgages, notes and loans | 5,647 | - | (970,961) | (1,396,835) | - | - | - | - | - | - | (2,362,149) |
| Other receivables | - | - | - | (1,411) | - | - | - | - | - | - | (1,411) |
| Due from other funds | - | - | - | 7,200 | - | - | - | - | - | - | 7,200 |
| Due from State of Hawaii | - | - | - | (255,336) | - | - | - | - | - | - | (346,749) |
| Inventories | - | (91,413) | 642 | 21,886 | - | - | - | - | - | - | 32,654 |
| Prepaid expenses and other assets | - | - | 19,549 | (4,298) | 4,288 | 10,126 | - | - | - | - | 54,083 |
| Accounts payable | 2,829 | (32,607) | 975,957 | 2,090 | 1,852 | 45,000 | (58,822) | - | 3,729 | 5,496 | 979,637 |
| Other accrued expenses | 1,358 | 2,977 | 176,098 | - | - | - | - | - | - | - | 176,098 |
| Due to other funds | - | - | - | - | - | - | - | - | - | - | - |
| Security deposits | - | - | - | - | - | - | - | - | - | - | - |
| Net cash provided by (used in) operating activities | \$ (295,566) | \$ (2,045,340) | \$ 404,002 | \$ (1,626,704) | \$ 9,469,470 | \$ 385,972 | \$ (48,523) | \$ - | \$ 9,487 | \$ 8,689 | \$ 6,261,487 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS

June 30, 2005

| ASSETS | Equipment rental | Vehicle rental | Total |
|---|---------------------|-------------------|---------------------|
| Current assets | | | |
| Cash | \$ 722,587 | \$ 510,859 | \$ 1,233,446 |
| Accrued interest receivable | 3,541 | 2,615 | 6,156 |
| Total current assets | 726,128 | 513,474 | 1,239,602 |
| Capital assets, less accumulated depreciation | 19,286 | 47,523 | 66,809 |
| TOTAL ASSETS | <u>\$ 745,414</u> | <u>\$ 560,997</u> | <u>\$ 1,306,411</u> |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities | | | |
| Due to other funds | \$ 725 | \$ 536 | \$ 1,261 |
| Total liabilities | 725 | 536 | 1,261 |
| Net assets | | | |
| Invested in capital assets | 19,286 | 47,523 | 66,809 |
| Unrestricted | 725,403 | 512,938 | 1,238,341 |
| Total net assets | 744,689 | 560,461 | 1,305,150 |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 745,414</u> | <u>\$ 560,997</u> | <u>\$ 1,306,411</u> |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES AND
CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS

Year ended June 30, 2005

| | <u>Equipment rental</u> | <u>Vehicle rental</u> | <u>Total</u> |
|--|-----------------------------|---------------------------|---------------------|
| Operating revenues | | | |
| Rental | \$ 10,421 | \$ 13,069 | \$ 23,490 |
| Total operating revenues | 10,421 | 13,069 | 23,490 |
| Operating expenses | | | |
| Depreciation | 9,846 | 11,983 | 21,829 |
| Professional services | 4,746 | 4,704 | 9,450 |
| Capital expenditures | 34,593 | 4,150 | 38,743 |
| Total operating expenses | 49,185 | 20,837 | 70,022 |
| Operating loss | (38,764) | (7,768) | (46,532) |
| Nonoperating revenue | | | |
| Interest income - cash and investments | 21,661 | 13,892 | 35,553 |
| Total nonoperating revenue | 21,661 | 13,892 | 35,553 |
| Change in net assets | (17,103) | 6,124 | (10,979) |
| Net assets at July 1, 2004 | \$ 761,792 | \$ 554,337 | \$ 1,316,129 |
| Net assets at June 30, 2005 | <u>\$ 744,689</u> | <u>\$ 560,461</u> | <u>\$ 1,305,150</u> |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS

Year ended June 30, 2005

| | <u>Equipment rental</u> | <u>Vehicle rental</u> | <u>Total</u> |
|--|-----------------------------|---------------------------|---------------------|
| Cash flows from operating activities: | | | |
| Cash received from renters | \$ 10,421 | \$ 13,069 | \$ 23,490 |
| Cash payments to suppliers | <u>(38,614)</u> | <u>(8,318)</u> | <u>(46,932)</u> |
| Net cash provided by (used in) operating activities | <u>(28,193)</u> | <u>4,751</u> | <u>(23,442)</u> |
| Cash flows from capital and related financing activities: | | | |
| Payments for acquisition of property and equipment | <u>(5,212)</u> | <u>(19,000)</u> | <u>(24,212)</u> |
| Net cash used in capital and related financing activities | <u>(5,212)</u> | <u>(19,000)</u> | <u>(24,212)</u> |
| Cash flows provided by investing activities: | | | |
| Receipts of interest | <u>19,965</u> | <u>13,917</u> | <u>33,882</u> |
| Net cash provided by investing activities | <u>19,965</u> | <u>13,917</u> | <u>33,882</u> |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | (13,440) | (332) | (13,772) |
| Cash and cash equivalents at July 1, 2004 | <u>736,027</u> | <u>511,191</u> | <u>1,247,218</u> |
| Cash and cash equivalents at June 30, 2005 | <u>\$ 722,587</u> | <u>\$ 510,859</u> | <u>\$ 1,233,446</u> |
| Cash flows from operating activities: | | | |
| Reconciliation of operating loss to net cash provided by operating activities: | | | |
| Operating loss | \$ (38,764) | \$ (7,768) | \$ (46,532) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | | | |
| Depreciation | 9,846 | 11,983 | 21,829 |
| Changes in assets and liabilities: | | | |
| Accounts payable | <u>725</u> | <u>536</u> | <u>1,261</u> |
| Net cash provided by (used in) operating activities | <u>\$ (28,193)</u> | <u>\$ 4,751</u> | <u>\$ (23,442)</u> |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

June 30, 2005

The Corporation's cash and short-term investments consists of the following as of June 30, 2005:

| | |
|--|-----------------------|
| Equity in State Treasury investment pool - Gov't Wide | \$ 136,923,027 |
| Equity in State Treasury investment pool - Fiduciary Funds | 658,931 |
| Cash in banks | 21,520,675 |
| Cash held by trustees | 4,487,371 |
| Certificates of deposits and money market funds | 52,758,630 |
| Deposits held in trust | <u>106,901</u> |
| | <u>\$ 216,455,535</u> |

Total cash and short-term investments are in agreement with the State Comptroller's central accounting records as of June 30, 2005, as reconciled below:

| | <u>Appropriation symbol</u> | <u>June 30, 2005</u> |
|--------------------------|---------------------------------|--------------------------|
| Cash in State Treasury | | |
| General Fund | G-02-022-K | \$ 2,078 |
| | G-02-303-K | 7,653 |
| | G-03-020-K | 7,825 |
| | G-03-022-K | 61,550 |
| | G-03-303-K | 26,500 |
| | G-04-020-K | 60,577 |
| | G-04-022-K | 156,768 |
| | G-05-020-K | 239,737 |
| | G-05-022-K | 359,829 |
| Bond Funds | B-00-404-K | 22,542 |
| | B-00-405-K | 25,481 |
| | B-01-410-K | 95,096 |
| | B-01-411-K | 93,401 |
| | B-01-415-K | 500 |
| | B-02-431-K | 174,892 |
| | B-02-434-K | 24,589 |
| | B-02-435-K | 37,611 |
| | B-02-436-K | 565,853 |
| | B-97-479-K | 28,179 |
| | B-97-481-K | 14,011 |
| | B-04-409-K | 300,000 |
| | B-04-411-K | 3,130 |
| | B-04-412-K | 65,000 |
| | B-04-418-K | 250,000 |
| | B-04-419-K | 250,000 |
| | B-04-420-K | <u>280,000</u> |
| Subtotal carried forward | | \$ 3,152,802 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS (continued)

June 30, 2005

| | <u>Appropriation symbol</u> | <u>June 30, 2005</u> |
|--------------------------|---------------------------------|--------------------------|
| Subtotal brought forward | | \$ 3,152,802 |
| Special Funds | S-97-801-K | 10,889 |
| | S-97-803-K | 26,991 |
| | S-00-308-K | 8,790 |
| | S-02-308-K | 1,062 |
| | S-02-800-K | 564,067 |
| | S-03-308-K | 1,274 |
| | S-03-337-K | 963 |
| | S-04-310-K | 112,367 |
| | S-04-308-K | 3,668 |
| | S-04-330-K | 22,500 |
| | S-04-332-K | 1,249 |
| | S-04-337-K | 761,048 |
| | S-05-210-K | 52,866 |
| | S-05-308-K | 98,573 |
| | S-05-310-K | 22,599 |
| | S-05-319-K | 22,590 |
| | S-05-320-K | 243,273 |
| | S-05-322-K | 54,762 |
| | S-05-324-K | 5,912 |
| | S-05-330-K | 84,280 |
| | S-05-332-K | 1,129,149 |
| | S-05-334-K | 671,461 |
| | S-05-335-K | 480,907 |
| | S-05-336-K | 722,587 |
| | S-05-337-K | 1,592,782 |
| | S-05-338-K | 79,182 |
| | S-05-374-K | 52,196 |
| | S-05-375-K | 75,667,939 |
| | S-05-376-K | 2,160,484 |
| | S-05-377-K | 373,510 |
| | S-05-378-K | 24,204,231 |
| Trust Funds | T-04-927-K | 367 |
| | T-05-913-K | 20,328 |
| | T-05-927-K | 56,616 |
| | T-05-930-K | <u>25,182,060</u> |
| Subtotal carried forward | | \$ 137,646,324 |

See accompanying independent auditor's report.

Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS (continued)

June 30, 2005

| | <u>Appropriation symbol</u> | <u>June 30, 2005</u> |
|---|---------------------------------|--------------------------|
| Subtotal brought forward | | \$ 137,646,324 |
| Total cash held in State Treasury as reported by State Comptroller's accounting records carried forward | | 137,646,324 |
| Reconciling items: | | |
| Journal vouchers not recorded by DAGS | | 26,284 |
| Lapsed funds not recorded by DAGS | | (62,861) |
| Adjustments not recorded on books | | (27,807) |
| Other | | 18 |
| | | <u>(64,366)</u> |
| Cash and short-term investments held outside State Treasury: | | |
| Cash in bank | | 21,520,675 |
| Cash held by trustees | | 4,487,371 |
| Investments held by bank | | 1,500,000 |
| Investments held by trustees | | 51,258,630 |
| Deposits held in trust | | 106,901 |
| | | <u>78,873,577</u> |
| Cash and short-term investments on statement of net assets | | <u>\$ 216,455,535</u> |

See accompanying independent auditor's report.