

Financial statements and report of independent certified public accountants

State of Hawaii, Housing and Community Development Corporation of Hawaii

Year ended June 30, 2003

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Report of Independent Certified Public Accountants

Board of Directors
State of Hawaii
Housing and Community Development Corporation of Hawaii

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and aggregate remaining fund information of the State of Hawaii, Housing and Community Development Corporation of Hawaii as of and for the year ended June 30, 2003, which collectively comprise the Corporation's basic financial statements as listed in the contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 State of Hawaii, Housing and Community Development Corporation of Hawaii, 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, 2003, 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 financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii, Housing and Community Development Corporation of Hawaii as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
State of Hawaii
Housing and Community Development Corporation of Hawaii

Management's Discussion and Analysis on pages 6 to 17 and Budgetary Comparison Schedules on pages 82 to 84 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 supplementary information. However, we did not audit the information and express no opinion on them.

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 contents is presented for purposes of additional analysis rather than to report the financial position, changes in financial position, and cash flows, where applicable, of the individual funds and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Honolulu, Hawaii
November 3, 2003 (except for note C, as
to which the date is June 29, 2004)

State of Hawaii
Housing and Community Development Corporation of Hawaii

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2003

This section of the Housing and Community Development Corporation of Hawaii's (Corporation) annual financial report presents management's discussion and analysis of the Corporation's financial performance during the fiscal year that ended on June 30, 2003. Please read it in conjunction with the Corporation's financial statements, which follows this section.

FINANCIAL HIGHLIGHTS

- The Corporation's total net assets increased by \$22.6 million, or 3.4%, to \$687.9 million, as of June 30, 2003. The total increase in net assets was attributed to increases in both the Corporation's Governmental and Business-type activities of \$2.6 million and \$20.0 million, respectively.
- Net assets of the Corporation's proprietary funds increased from the June 30, 2002 amount by \$20.0 million or 3.3% to \$634.9 million. The increase was due primarily to the following items:
 - HUD grants increased by \$13.9 million from the prior year. This was primarily due to additional revenues attributed to the comprehensive grant programs.
 - The Single Family Mortgage Purchase Revenue Bond Fund recognized an increase in net assets of approximately \$23.7 million. The increase was primarily due to an adjustment to the fair value of investments in mortgage-backed securities of \$21.2 million.
 - During the fiscal year ending June 30, 2003, the Corporation transferred approximately \$25.8 million to the State General Fund.
 - During 2003, the Corporation revised its revenue assumptions for the Kapolei Project. Changes in those estimates resulted in a decreases of estimated costs of the land sold liability of approximately \$4.5 million, which was recorded as a reduction of current year cost of land sold. During the fiscal year ending June 30, 2002, the Corporation revised its revenue assumptions and cost to complete estimates of the Villages of Kapolei. Changes in those estimates resulted in the reallocation of development costs and approximately \$36.7 million of additional costs to complete estimates. Consequently, for the 2002 year, reallocated costs of approximately \$23.0 million were charged to cost of land sold for land previously sold.
- The Corporation's revenue bonds payable outstanding balance of approximately \$782.0 million as of June 30, 2003 is a decrease of \$53.9 million, or 6.4% from the amount outstanding as of June 30, 2002. The decrease is primarily the result of Single Family Mortgage Purchase Revenue bond redemptions of approximately \$50.4 million, of which \$41.6 million were early redemptions.
- At the end of the fiscal year ending June 30, 2003, the Corporation's governmental funds reported a combined ending fund balance of \$14.3 million, a decrease of \$1.0 million in comparison with prior year. Approximately 45% of this total amount, or \$6.4 million, is unreserved.

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial statements consists of four (4) parts: management's discussion and analysis, the basic financial statements and related notes to the financial statements, other required supplementary information, and other 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 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 Statement" 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 provides both short term and long-term information about the Corporation's financial position, which assists in assessing the Corporation's economic conditions 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

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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 showing 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. The Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements – Management's Discussion and Analysis- for State and Local Governments*, sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining section of the financial statements.

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Fund Financial Statements (continued)

The Corporation has three types of funds:

- Governmental Funds:
 - General Fund-The general fund is the operating fund of the Corporation. It is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget is authorized by the State Legislature and 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 that are legally restricted to specific purposes. These funds include, but are not limited to, the Section 8 Housing Voucher Program, and Section 8 Contract Administration.
- Proprietary Funds:
 - Enterprise funds-These funds account for those activities for which the intent of management is to recover, primarily through users charges, the cost of providing services to customers, or where sound financial management dictates that periodic determinations of results of operations are appropriate.
- Fiduciary Funds: The private-purpose trust funds account for net assets held in a trustee capacity for others.

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.

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

Other information

The combining statements, which include nonmajor funds, for governmental, enterprises fund, and internal service fund are presented as other information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net assets may serve over time as a useful indicator of the Corporation's financial position. The combined net assets of the Corporation increased by \$22.6 million, or 3.4%, from the June 30, 2002 amount. As of June 30, 2003, the Corporation's total net assets was approximately \$687.9 million.

	Statement of Net Assets June 30, 2003		
	Governmental Activities	Business-type Activities	Total
Current assets	\$18,980,467	\$ 275,369,867	\$ 294,350,334
Assets held by trustee	-	739,752,159	739,752,159
Capital assets	37,563,258	379,967,630	417,530,888
Other assets	-	118,275,118	118,275,118
	Total assets	\$1,513,364,774	\$1,569,908,499
Current liabilities	\$ 4,746,575	\$ 85,490,777	\$ 90,237,352
Long-term liabilities	250,019	791,459,122	791,709,141
	Total liabilities	876,949,899	881,946,493
Net assets:			
Invested in capital assets net of related debt	37,563,258	242,017,286	279,580,544
Restricted	-	746,854,963	746,854,963
Unrestricted	13,983,873	(352,457,374)	(338,473,501)
	Total net assets	636,414,875	687,962,006
	Total liabilities and net assets	\$1,513,364,774	\$1,569,908,499

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Statement of Net Assets
June 30, 2002

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets	\$18,248,490	\$ 300,226,545	\$ 318,475,035
Assets held by trustee	–	754,604,332	754,604,332
Capital assets	33,945,516	374,843,896	408,789,412
Other assets	–	119,397,304	119,397,304
	<u>\$52,194,006</u>	<u>\$1,549,072,077</u>	<u>\$1,601,266,083</u>
Current liabilities	\$ 2,997,961	\$ 87,386,495	\$ 90,384,456
Long-term liabilities	<u>240,078</u>	<u>845,311,643</u>	<u>845,551,721</u>
	3,238,039	932,698,138	935,936,177
Net assets:			
Invested in capital assets net of related debt	33,945,516	234,847,377	268,792,893
Restricted	–	761,861,257	761,861,257
Unrestricted	<u>15,010,451</u>	<u>(380,334,695)</u>	<u>(365,324,244)</u>
	48,955,967	616,373,939	665,329,906
	<u>\$52,194,006</u>	<u>\$1,549,072,077</u>	<u>\$1,601,266,083</u>

Net assets from the Corporation's governmental activities increased by approximately \$2.6 million, or 5.3%, to \$51.5 million. Net assets from the Corporation's business-type activities increased by approximately \$20 million, or 3.3%, to \$636.4 million. The largest portion of the Corporation's net assets from business-type activities represents resources that are subject to external restrictions on how they may be used.

The largest portion of the Corporation's 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 \$657.6 million of assets held by trustees under the Single Family Mortgage Revenue Bond Fund. 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.

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

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, 2003, unrestricted net assets reflected a deficit balance. This was primarily due to the Single Family Mortgage Revenue Bond Fund's revenue bonds payable balances of approximately \$603.0 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 from business-type activities is primarily due to the redemptions of approximately \$53.8 million of revenues bonds in 2003.

Statement of Activities
Year ended June 30, 2003

	Governmental Activities	Business-type Activities	Total
Revenues			
Program revenue:			
Charges for services	\$ —	\$ 73,081,621	\$ 73,081,621
Operating grants and contributions	46,805,102	56,214,619	103,019,721
Capital grants and contributions	—	24,141,939	24,141,939
General revenues:			
State allotted appropriations, net of lapses	10,730,153	—	10,730,153
Total revenues	57,535,255	153,438,179	210,973,434
Total expenses	54,705,625	107,919,420	162,625,045
Excess of revenues over expenses	2,829,630	45,518,759	48,348,389
Transfers	(238,466)	(25,477,823)	(25,716,289)
Change in net assets	2,591,164	20,040,936	22,632,100
Net assets-beginning	48,955,967	616,373,939	665,329,906
Net assets-end of year	\$51,547,131	\$636,414,875	\$687,962,006

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Statement of Activities
Year ended June 30, 2002

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Revenues			
Program revenue:			
Charges for services	\$ —	\$ 70,943,308	\$ 70,943,308
Operating grants and contributions	42,312,692	57,247,550	99,560,242
Capital grants and contributions	—	10,799,476	10,799,476
General revenues:			
State allotted appropriations, net of lapses	<u>13,216,619</u>	<u>—</u>	<u>13,216,619</u>
Total revenues	55,529,311	138,990,334	194,519,645
Total expenses	<u>45,407,418</u>	<u>134,647,836</u>	<u>180,055,254</u>
Excess (deficiency) before extraordinary items and transfers	10,121,893	4,342,498	14,464,391
Transfers	(468,810)	468,810	—
Other	<u>—</u>	<u>(277,827)</u>	<u>(277,827)</u>
Change in net assets	9,653,083	4,533,481	14,186,564
Net assets-beginning	<u>39,302,884</u>	<u>611,840,458</u>	<u>651,143,342</u>
Net assets-end of year	<u><u>\$48,955,967</u></u>	<u><u>\$616,373,939</u></u>	<u><u>\$665,329,906</u></u>

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

Statement of Program Expenses
Year ended June 30,

	2003	2002
Governmental activities		
Homeless services and assistance program	\$ 5,475,497	\$ 5,470,912
Rental housing and assistance program	49,230,128	39,936,506
Total governmental activities expenses	54,705,625	45,407,418
Business-type activities		
Rental assistance program	39,337,650	34,885,816
Housing development program	2,216,667	27,968,117
Multi-family mortgage loan programs	3,086,599	3,202,307
Single-family mortgage loan program	38,110,372	41,068,295
Rental housing program	22,239,509	25,569,292
Others	2,928,623	1,954,009
Total business-type activities expenses	107,919,420	134,647,836
Total governmental expenses	\$162,625,045	\$180,055,254

During 2003, Governmental activities increased the Corporation's net assets by \$2.6 million. The increase was primarily due to the HUD contributions and State allotted appropriations for capital projects.

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, which investments and income is restricted to those funds.

For the fiscal year ending June 30, 2003, business-type activities increased the Corporation's net assets by \$20.0 million. Key elements of this increase are as follows:

- The Single Family Mortgage Purchase Revenue Bond Fund recognized an increase in net assets of approximately \$23.7 million. The increase was primarily due to an adjustment to the fair value of investments in mortgage-backed securities of \$21.2 million. The adjustment to fair value in the prior year was approximately \$19 million.
- The Federal Low Rent program recognized an increase in net assets of approximately \$12.0 million, primarily due to an increase in HUD grants received of approximately \$13.9 million from the prior year. This represents an increase of \$10 million from prior year results of \$1.9 million.

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)

- The Dwelling Unit Revolving Fund recognized a decrease in net assets of approximately \$9.6 million, primarily due to a \$12.0 million transfer to the State General Fund.
- The Homes Revolving Fund recognized an increase in net assets of approximately \$2.3 million, inclusive of a \$1.5 million operating transfer to the State of Hawaii General Fund. This represents a change of approximately \$25.1 million from prior year results. The majority of the increase was primarily due to the Corporation's revisions in its revenue assumptions for the Kapolei project. Changes in those estimates resulted in a decrease of the estimated future costs of the land sold liability of approximately \$4,555,000, which was recorded as a reduction of current year cost of land sold. In comparison with the prior year, the Homes Revolving Fund recognized a decrease in net assets of approximately \$22.8 million. The decrease was due to revisions to the cost to complete estimates of the Kapolei development project. Changes in those estimates resulted in the reallocation of development costs and approximately \$36.7 million of additional costs to complete estimates. Consequently, for the prior year, reallocated costs of approximately \$23.0 million were charged to the cost of land sold for land previously sold.

FINANCIAL ANALYSIS OF FUND FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2003 general fund revenues and expenditures were \$6.9 million and \$6.4 million, respectively. During 2003, \$238,466 was transferred out from the general fund to the Housing Revolving Fund to cover repair and maintenance expenditures for state public housing projects.

The Capital Projects Fund received approximately \$10.5 million of HUD annual contributions and State allotted appropriations for capital projects. Capital projects funds are used to account for financial resources to acquire or construct major capital facilities. During the current year, approximately \$11.5 million was expended for capital outlays.

The net change in fund balance of the Section 8 Housing Voucher and Contract Administration Programs amounted to \$(47,806) and \$(173,191), respectively.

The proprietary funds consist of five major and several non-major funds. The four major funds are: 1) Federal Low Rent program, 2) Dwelling Unit Revolving Fund, 3) Homes Revolving Fund, 4) 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 5,398 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 the 2003 year, the Corporation received approximately \$35.1 million of HUD operating subsidies and grants, an increase of \$13.9 million in subsidies from the prior year. The increase was primarily due to additional revenues attributed to the comprehensive grant programs.

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

FINANCIAL ANALYSIS OF FUND FINANCIAL STATEMENTS (continued)

The Dwelling Unit Revolving Fund accounts for state funds used for acquiring, developing, selling, leasing and renting, commercial and industrial properties, providing mortgage and interim financing and rental income and sales proceeds and interest earnings. Change in net assets was \$(9.6) million in 2003 as compared with \$2.0 million in the prior year. The decrease was primarily due to a \$12.0 million transfer to the State General Fund.

The Homes Revolving Fund accounts for the proceeds from state contributions for the purpose of developing and implementing affordable housing development programs. Operating income before transfers to the State of Hawaii General Fund of \$1.5 million amounted to approximately \$3.8 million in 2003 compared with an operating loss of \$22.8 million in the prior year. In 2003, the Corporation revised its revenue assumption for the Kapolei Project. Changes in those estimates resulted in a reduction of the estimated future cost of land sold liability of approximately \$(4,555,000) being recognized as a reduction to cost of land sold for land previously sold. In comparison with prior year, the Corporation revised its revenue assumption and cost to complete estimated of the Villages of Kapolei development project. Changes in those estimates resulted in the reallocation of development costs and approximately \$36.7 million of additional costs to complete estimates. Consequently, for the 2002 year, reallocated costs of approximately \$23.0 million were charged to cost of land sold for land previously sold.

The 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. For the year ended 2003, the fund recognized an operating loss of approximately (\$656,000) increasing the fund deficit in net assets to approximately (\$5.9) million as of June 30, 2003.

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 \$23.7 million in 2003 as compared with \$21.2 million in the prior year. The increase in change in net assets of \$2.5 million was primarily due to the increase in the amount of adjustment to the fair value of investments of \$2.2 million.

BUDGETARY ANALYSIS

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 \$238,112 less than the budgeted expenditures. This was due primarily to changes in program requirements.

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2003, the Corporation had invested approximately \$417.5 million (net of accumulated depreciation) in a broad range of capital assets. This amount represents an increase of about \$8.7 million, or two percent, over last year. See Note H to the Corporation's financial statements for a description of capital assets activities for the fiscal year ended June 30, 2003.

Corporation's Capital Assets
June 30, 2003

	Governmental Activities	Business-type Activities	Total
Land	\$ 2,373,410	\$ 61,548,938	\$ 63,922,348
Buildings and improvements	30,301,806	549,050,268	579,352,074
Equipment	1,096,574	10,860,771	11,957,345
Construction in progress	20,426,854	32,904,792	53,331,646
Total	54,198,644	654,364,769	708,563,413
Accumulated depreciation	(16,635,386)	(274,397,139)	(291,032,525)
Total capital assets, net	<u>\$ 37,563,258</u>	<u>\$ 379,967,630</u>	<u>\$ 417,530,888</u>

Corporation's Capital Assets
June 30, 2002

	Governmental Activities	Business-type Activities	Total
Land	\$ 2,373,410	\$ 61,587,686	\$ 63,961,096
Buildings and improvements	34,830,331	534,122,850	568,953,181
Equipment	1,096,574	11,194,999	12,291,573
Construction in progress	11,068,507	25,558,491	36,626,998
Total	49,368,822	632,464,026	681,832,848
Accumulated depreciation	(15,423,306)	(257,602,130)	(273,025,436)
Total capital assets, net	<u>\$ 33,945,516</u>	<u>\$ 374,861,896</u>	<u>\$ 408,807,412</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

June 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Long-Term Debt (continued)

Through June 30, 2003, approximately \$1,941,523,000 of revenue bonds has 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. As of June 30, 2003, the Corporation had \$782.0 million in outstanding revenue bonds payable. During the year ended June 30, 2003, the Corporation redeemed approximately \$54.0 million of bond principal, of which \$50.3 million were Single Family Mortgage Purchase revenue bonds. 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 approximately \$41.2 million. The early redemptions were from mortgage principal payments and prepayments received from mortgagors.

See Note J to the Corporation's financial statements for a description of revenue bonds payable transactions during the fiscal year ended June 30, 2003.

During the 2003 year, Moody's Investors Service's rating of the Corporation continued to be A1 with a negative outlook. The Corporation's bonds 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

In July 2003, the Corporation transferred \$23,429,000 from its various funds to the State of Hawaii General Fund, pursuant to Act 178, SLH 2003.

On July 1, 2003, the Corporation redeemed certain outstanding revenue bonds totaling \$93.0 million, of which approximately \$85.2 million were early redemptions.

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.

State of Hawaii
Housing and Community Development Corporation of Hawaii

STATEMENT OF NET ASSETS

June 30, 2003

ASSETS	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Current assets			
Cash (notes A7 and C)	\$ 12,179,072	\$ 150,404,276	\$ 162,583,348
Investments (notes A8 and D)	2,450,000	6,729,878	9,179,878
Receivables			
Mortgage loans (note E)	-	4,348,513	4,348,513
Notes and loans (note E)	-	-	-
Accrued interest	1,469	5,529,114	5,530,583
Tenant receivables, less allowance for doubtful receivables of \$5,038,828	-	1,548,869	1,548,869
Other	756,072	3,086,239	3,842,311
	<u>757,541</u>	<u>14,512,735</u>	<u>15,270,276</u>
Internal balances	1,727,000	(1,727,000)	-
Due from State of Hawaii	-	1,919	1,919
Due from HUD	442,908	7,771,697	8,214,605
Inventories (note A9)			
Developments in progress and dwelling units	-	95,757,544	95,757,544
Materials and supplies	-	722,505	722,505
Net investment in direct financing lease (note F)	-	438,232	438,232
Prepaid expenses and other assets	1,423,946	361,635	1,785,581
Deposits held in trust	-	97,830	97,830
Deferred bond discount and issuance costs	-	298,616	298,616
	<u>18,980,467</u>	<u>275,369,867</u>	<u>294,350,334</u>
Assets held by trustees under revenue bond programs			
Cash	-	17,814,723	17,814,723
Investments (notes A8, D, G and K)	-	721,937,436	721,937,436
	<u>-</u>	<u>739,752,159</u>	<u>739,752,159</u>
Investments	-	12,757,834	12,757,834
Mortgage loans, net of current portion (note E)	-	69,001,260	69,001,260
Notes and loans	-	5,702,512	5,702,512
Other receivables	-	773,405	773,405
Restricted deposits and funded reserves	-	7,070,287	7,070,287
Net investment in financing lease, net of current portion	-	17,301,276	17,301,276
Deferred bond issuance costs (note A12)	-	5,668,544	5,668,544
	<u>-</u>	<u>127,474,828</u>	<u>127,474,828</u>
Capital assets, less accumulated depreciation (notes A5, H and L)	<u>37,563,258</u>	<u>379,967,630</u>	<u>417,530,888</u>
TOTAL ASSETS	<u><u>\$ 56,543,725</u></u>	<u><u>\$ 1,513,364,774</u></u>	<u><u>\$ 1,569,908,499</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

STATEMENT OF NET ASSETS

June 30, 2003

LIABILITIES AND NET ASSETS	Governmental Activities	Business-type Activities	Total
Current liabilities			
Accounts payable	\$ 1,012,662	\$ 5,866,183	\$ 6,878,845
Accrued expenses			
Interest (notes I and J)	-	18,851,375	18,851,375
Other	181,082	2,199,953	2,381,035
Internal balances	1,658,721	(1,658,721)	-
Due to State of Hawaii, including Office of Hawaiian Affairs (note M)	-	5,598,604	5,598,604
Due to HUD	1,894,106	2,079	1,896,185
Security deposits	-	2,174,598	2,174,598
Note payable (note I)	-	37,867	37,867
Mortgage payable (note I)	-	106,893	106,893
Revenue bonds payable, less deferred refunding cost (notes J and K)	-	12,296,690	12,296,690
Deferred income	4	517,990	517,994
Deferred commitment fees	-	610,848	610,848
Deferred gain on sale of units and land	-	261,276	261,276
Estimated future costs of land sold	-	38,625,142	38,625,142
	4,746,575	85,490,777	90,237,352
Total current liabilities			
Deferred commitment fees, net of current portion	-	5,141,707	5,141,707
Arbitrage rebate payable (note J)	-	6,299,108	6,299,108
Note payable, net of current portion (note I)	-	4,088,334	4,088,334
Mortgage payable, net of current portion (note I)	-	6,452,666	6,452,666
Revenue bonds payable, less deferred refunding costs, net of current portion (notes J and K)	-	768,020,644	768,020,644
Others	250,019	1,456,663	1,706,682
Commitments and contingencies (notes L, M, N, O and P)	-	-	-
Net assets			
Invested in capital assets, net of related debt	37,563,258	242,017,286	279,580,544
Restricted by legislation and contractual agreements	-	746,854,963	746,854,963
Unrestricted	13,983,873	(352,457,374)	(338,473,501)
	51,547,131	636,414,875	687,962,006
Total net assets			
TOTAL LIABILITIES AND NET ASSETS	\$ 56,543,725	\$ 1,513,364,774	\$ 1,569,908,499

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

STATEMENT OF ACTIVITIES

Year ended June 30, 2003

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	\$ 5,475,497	\$ -	\$ 519,851	\$ -	\$ (4,955,646)	\$ -	\$ (4,955,646)
Rental housing and assistance program	49,230,128	-	46,285,251	-	(2,944,877)	-	(2,944,877)
Total governmental activities	54,705,625	-	46,805,102	-	(7,900,523)	-	(7,900,523)
Business-type activities							
Rental assistance program	39,337,650	15,619,254	11,582,398	24,141,939	-	12,005,941	12,005,941
Housing development program	2,216,667	5,978,847	2,468,550	-	-	6,230,730	6,230,730
Multi-family mortgage loan programs	3,086,599	4,537,557	5,461,786	-	-	6,912,744	6,912,744
Single-family mortgage loan program	38,110,372	26,150,826	35,656,105	-	-	23,696,559	23,696,559
Rental housing program	22,239,509	18,248,889	879,536	-	-	(3,111,084)	(3,111,084)
Others	2,928,623	2,546,248	166,244	-	-	(216,131)	(216,131)
Total business-type activities	107,919,420	73,081,621	56,214,619	24,141,939	-	45,518,759	45,518,759
Total government	<u>\$ 162,625,045</u>	<u>\$ 73,081,621</u>	<u>\$ 103,019,721</u>	<u>\$ 24,141,939</u>	(7,900,523)	45,518,759	37,618,236
State allotted appropriations, net of lapses					10,730,153	-	10,730,153
Transfers					(238,466)	(25,477,823)	(25,716,289)
Total general revenues and transfers					10,491,687	(25,477,823)	(14,986,136)
Change in net assets					2,591,164	20,040,936	22,632,100
Net assets at July 1, 2002					48,955,967	616,373,939	665,329,906
Net assets at June 30, 2003					<u>\$ 51,547,131</u>	<u>\$ 636,414,875</u>	<u>\$ 687,962,006</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2003

ASSETS	General	Capital Projects	Housing Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Current assets						
Cash	\$ 715,023	\$ 7,301,776	\$ 3,230,247	\$ 931,029	\$ 997	\$ 12,179,072
Investments	-	-	-	2,450,000	-	2,450,000
Accrued interest receivable	-	-	-	1,469	-	1,469
Other receivables	-	704,314	-	51,758	-	756,072
Due from other funds	-	-	1,717,521	30,811	-	1,748,332
Due from HUD	-	-	-	126,675	316,233	442,908
Prepaid expenses and other assets	58,921	-	1,364,905	120	-	1,423,946
	<u>\$ 773,944</u>	<u>\$ 8,006,090</u>	<u>\$ 6,312,673</u>	<u>\$ 3,591,862</u>	<u>\$ 317,230</u>	<u>\$ 19,001,799</u>
LIABILITIES AND FUND BALANCE						
Current liabilities						
Accounts payable	\$ 83,286	\$ 714,002	\$ -	\$ -	\$ 215,374	\$ 1,012,662
Accrued expenses	45,238	-	42,196	-	-	87,434
Due to other funds	5,474	-	1,514,531	58,243	101,804	1,680,052
Due to HUD	-	-	1,079,839	814,215	52	1,894,106
Deferred income	-	4	-	-	-	4
	<u>133,998</u>	<u>714,006</u>	<u>2,636,566</u>	<u>872,458</u>	<u>317,230</u>	<u>4,674,258</u>
Fund balances						
Reserved	639,946	7,292,084	-	-	-	7,932,030
Unreserved	-	-	3,676,107	2,719,404	-	6,395,511
	<u>639,946</u>	<u>7,292,084</u>	<u>3,676,107</u>	<u>2,719,404</u>	<u>-</u>	<u>14,327,541</u>
	<u>\$ 773,944</u>	<u>\$ 8,006,090</u>	<u>\$ 6,312,673</u>	<u>\$ 3,591,862</u>	<u>\$ 317,230</u>	<u>\$ 19,001,799</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

June 30, 2003

Total fund balance - governmental funds		\$ 14,327,541
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.	\$ 37,563,258	
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds	<u>(343,668)</u>	<u>37,219,590</u>
Net assets of governmental activities		<u><u>\$ 51,547,131</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	General	Capital Projects	Housing Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Revenues						
Intergovernmental – HUD annual contributions and others	\$ -	\$ 6,680,568	\$ 19,425,959	\$ 18,672,445	\$ 1,999,460	\$ 46,778,432
State allotted appropriations	6,900,405	3,829,748	-	-	-	10,730,153
Interest	-	-	4,918	21,752	-	26,670
Total revenues	6,900,405	10,510,316	19,430,877	18,694,197	1,999,460	57,535,255
Expenditures						
Current						
Housing assistance payments	716,083	-	17,095,058	17,591,238	1,584	35,403,963
Homeless services	4,403,756	-	-	-	-	4,403,756
Personal services	584,327	20,357	1,679,320	340,614	168,431	2,793,049
Administration	54,281	1,320	439,458	45,484	1,816,630	2,357,173
Professional services	44,091	-	78,555	15,542	9,050	147,238
Security	499,947	-	1,547	65	-	501,559
Repairs and maintenance	109,381	-	146,201	377	2,989	258,948
Utilities	1,165	-	1,162	-	-	2,327
Insurance	476	-	20,190	3,120	592	24,378
Other	3,006	-	8,497	869,494	-	880,997
Capital outlays	17,163	11,505,745	8,693	1,454	184	11,533,239
Total expenditures	6,433,676	11,527,422	19,478,681	18,867,388	1,999,460	58,306,627
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	466,729	(1,017,106)	(47,804)	(173,191)	-	(771,372)
Other financing uses						
Transfers out	238,466	-	-	-	-	238,466
Total other financing uses	238,466	-	-	-	-	238,466
NET CHANGE IN FUND BALANCE	228,263	(1,017,106)	(47,804)	(173,191)	-	(1,009,838)
Fund balance at July 1, 2002	411,683	8,309,190	3,723,911	2,892,595	-	15,337,379
Fund balance at June 30, 2003	<u>\$ 639,946</u>	<u>\$ 7,292,084</u>	<u>\$ 3,676,107</u>	<u>\$ 2,719,404</u>	<u>\$ -</u>	<u>\$ 14,327,541</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
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, 2003

Net change in fund balances - total governmental funds		\$ (1,009,838)
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.	\$ 3,617,742	
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>(16,740)</u>	<u>3,601,002</u>
Change in net assets of governmental activities		<u><u>\$ 2,591,164</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2003

ASSETS	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	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)	\$ 9,307,004	\$ 83,725,451	\$ 5,029,377	\$ 1,203,665	\$ -	\$ 49,776,878	\$ 149,042,375	\$ 1,361,901
Investments (notes A8 and D)	5,350,000	-	-	-	-	1,379,878	6,729,878	-
Receivables								
Mortgage loans (note E)	-	403,817	-	-	3,164,935	779,761	4,348,513	-
Notes and loans (note E)	-	-	-	-	-	-	-	-
Accrued interest	-	576,610	23,341	10,439	3,020,083	1,894,597	5,525,070	4,044
Tenant receivables, less allowance for doubtful accounts of \$5,038,828	588,459	31,051	-	727,509	-	201,850	1,548,869	-
Other	1,531,882	787,090	-	473,260	-	201,288	2,993,520	-
	<u>2,120,341</u>	<u>1,798,568</u>	<u>23,341</u>	<u>1,211,208</u>	<u>6,185,018</u>	<u>3,077,496</u>	<u>14,415,972</u>	<u>4,044</u>
Due from other funds	3,440,955	27,818,036	-	-	-	4,437,015	35,696,006	-
Due from State of Hawaii	-	-	-	-	-	1,919	1,919	-
Due from HUD	7,763,592	-	-	-	-	8,105	7,771,697	-
Inventories (note A9)								
Developments in progress and dwelling units	-	8,500,689	87,256,855	-	-	-	95,757,544	-
Materials and supplies	587,409	-	-	-	-	135,096	722,505	-
Net investment in financing lease (note F)	-	-	-	-	-	438,232	438,232	-
Prepaid expenses and other assets	-	29,952	-	14,254	18,573	298,856	361,635	-
Deposits held in trust	-	-	-	-	-	97,830	97,830	-
Deferred bond discount and issuance costs	-	-	-	60,933	193,412	44,271	298,616	-
	<u>28,569,301</u>	<u>121,872,696</u>	<u>92,309,573</u>	<u>2,490,060</u>	<u>6,397,003</u>	<u>59,695,576</u>	<u>311,334,209</u>	<u>1,365,945</u>
Assets held by trustees under Revenue Bond Programs								
Cash	-	-	-	11,310	17,800,029	3,384	17,814,723	-
Investments (notes A8, D, G and K)	-	-	-	28,021,060	639,787,236	54,129,140	721,937,436	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,032,370</u>	<u>657,587,265</u>	<u>54,132,524</u>	<u>739,752,159</u>	<u>-</u>
Investments	-	-	-	-	-	12,757,834	12,757,834	-
Mortgage loans, net of current portion (note E)	-	613,000	-	-	20,189,446	48,198,814	69,001,260	-
Notes and loans	-	276,412	-	-	-	5,426,100	5,702,512	-
Other receivables	-	-	-	-	-	773,405	773,405	-
Advances to other funds	-	-	-	-	-	325,000	325,000	-
Restricted deposits and funded reserves	-	-	-	-	-	7,070,287	7,070,287	-
Net investment in financing lease, net of current portion	-	-	-	-	-	17,301,276	17,301,276	-
Deferred bond discount and issuance costs, net of current portion (note A12)	-	-	-	653,521	4,288,028	726,995	5,668,544	-
Capital assets, less accumulated depreciation (notes A5, H and L)	182,541,573	24,178,328	-	56,321,621	-	116,826,765	379,868,287	99,343
	<u>182,541,573</u>	<u>24,178,328</u>	<u>-</u>	<u>56,321,621</u>	<u>-</u>	<u>116,826,765</u>	<u>379,868,287</u>	<u>99,343</u>
TOTAL ASSETS	<u>\$ 211,110,874</u>	<u>\$ 146,940,436</u>	<u>\$ 92,309,573</u>	<u>\$ 87,497,572</u>	<u>\$ 688,461,742</u>	<u>\$ 323,234,576</u>	<u>\$ 1,549,554,773</u>	<u>\$ 1,465,288</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2003

LIABILITIES AND NET ASSETS	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	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	\$ 4,558,511	\$ 539,306	\$ 15,734	\$ 528,202	\$ 52,989	\$ 171,441	\$ 5,866,183	\$ -
Accrued expenses								
Interest (notes I and J)	-	8,520	-	499,200	17,094,930	1,248,725	18,851,375	-
Other	2,337,168	326,857	-	37,686	110,455	844,449	3,656,615	-
Due to other funds	1,340,384	-	27,377,125	45,932	94,412	7,138,714	35,996,567	-
Due to State of Hawaii, including Office of Hawaiian Affairs (note M)	-	-	5,573,604	-	-	25,000	5,598,604	-
Due to HUD	-	-	-	-	-	2,079	2,079	-
Security deposits	642,494	52,506	-	603,929	-	875,669	2,174,598	-
Note payable (note I)	-	37,867	-	-	-	-	37,867	-
Mortgage payable (note I)	-	-	-	-	-	106,893	106,893	-
Revenue bonds payable, less deferred refunding cost (notes J and K)	-	-	-	1,455,000	9,586,314	1,255,376	12,296,690	-
Deferred income	485,297	30,636	-	-	-	2,057	517,990	-
Deferred commitment fees	-	-	-	-	610,848	-	610,848	-
Deferred gain on sale of units and land	-	261,276	-	-	-	-	261,276	-
Estimated future costs of land sold	-	-	38,625,142	-	-	-	38,625,142	-
Total current liabilities	9,363,854	1,256,968	71,591,605	3,169,949	27,549,948	11,670,403	124,602,727	-
Deferred commitment fees, net of current portion	-	-	-	-	5,141,707	-	5,141,707	-
Arbitrage rebate payable (note J)	-	-	-	23,456	6,273,958	1,694	6,299,108	-
Note payable, net of current portion (note I)	-	417,007	-	-	-	3,671,327	4,088,334	-
Mortgage payable, net of current portion (note I)	-	-	-	-	-	6,452,666	6,452,666	-
Revenue bonds payable, less deferred refunding cost, net of current portion (notes J and K)	-	-	-	90,285,000	593,446,734	84,288,910	768,020,644	-
Commitments and contingencies (notes L, M, N, O and P)	-	-	-	-	-	-	-	-
Net assets								
Invested in capital assets, net of related debt	182,541,573	24,140,461	-	(34,703,925)	-	69,939,834	241,917,943	99,343
Restricted by legislation and contractual agreements	-	-	-	28,032,370	657,587,265	61,235,328	746,854,963	-
Unrestricted	19,205,447	121,126,000	20,717,968	690,722	(601,537,870)	85,974,414	(353,823,319)	1,365,945
Total net assets	201,747,020	145,266,461	20,717,968	(5,980,833)	56,049,395	217,149,576	634,949,587	1,465,288
TOTAL LIABILITIES AND NET ASSETS	\$ 211,110,874	\$ 146,940,436	\$ 92,309,573	\$ 87,497,572	\$ 688,461,742	\$ 323,234,576	\$ 1,549,554,773	\$ 1,465,288

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

Total net assets of proprietary funds	\$ 634,949,587
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>1,465,288</u>
Net assets of business-type activities	<u><u>\$ 636,414,875</u></u>

The accompanying notes are an integral part of these statements.

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	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 and mortgage-backed securities (note J)	\$ -	\$ 404,248	\$ -	\$ -	\$ 26,105,948	\$ 3,313,841	\$ 29,824,037	\$ -
Net increase in fair value of mortgage-backed securities (note A8)	-	-	-	-	21,237,731	-	21,237,731	-
Sales of land	-	712,083	1,766,875	-	-	-	2,478,958	-
Sales of units	-	-	-	-	-	-	-	-
Rental (note J)	12,800,726	1,003,027	-	9,547,730	-	7,957,277	31,308,760	166,796
Conveyance tax	-	-	-	-	-	2,954,615	2,954,615	-
Other	1,134,632	2,092,614	-	427,848	41,292	2,817,901	6,514,287	-
Total operating revenues	13,935,358	4,211,972	1,766,875	9,975,578	47,384,971	17,043,634	94,318,388	166,796
Operating expenses								
Cost of land sold (note M)	-	294,593	(1,907,462)	-	-	-	(1,612,869)	-
Project	5,014,073	789,494	-	3,533,485	-	2,983,869	12,320,921	-
Personal services	10,262,023	1,669,343	-	125,339	271,371	2,153,528	14,481,604	-
Depreciation	9,267,083	314,267	-	3,313,463	-	4,067,932	16,962,745	75,679
Housing assistance payments	-	-	-	-	-	2,131,957	2,131,957	-
Administration	2,250,835	531,099	-	22,122	208,823	917,231	3,930,110	-
Provision for losses	-	12,813	-	88,409	-	427,827	529,049	-
Loan servicing fees	-	-	-	-	93,001	-	93,001	-
Professional services	266,297	275,741	-	22,626	20,777	225,638	811,079	6,350
Mortgage insurance	-	-	-	-	30,182	6,009	36,191	-
Security	588,525	675	-	86	115	50,036	639,437	-
Insurance	134,847	22,434	-	1,017	4,185	34,016	196,499	-
Repairs and maintenance	1,921,548	151,830	-	4,808	10,493	1,072,091	3,160,770	-
Utilities	6,098,517	-	-	938	2,708	1,119,687	7,221,850	-
Payments in lieu of taxes	938,729	-	-	-	-	-	938,729	-
Capital expenditures	274,947	14,431	-	112,700	1,605	91,266	494,949	87,054
Interest expense	-	-	-	-	35,179,423	1,925,396	37,104,819	-
Other	15,559	21,713	-	7,500	-	197,595	242,367	-
Total operating expenses	37,032,983	4,098,433	(1,907,462)	7,232,493	35,822,683	17,404,078	99,683,208	169,083
Operating (loss) income carried forward	\$ (23,097,625)	\$ 113,539	\$ 3,674,337	\$ 2,743,085	\$ 11,562,288	\$ (360,444)	\$ (5,364,820)	\$ (2,287)

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	Rental Housing System Revenue Bond Fund	Single Family Mortgage Purchase Revenue Bond Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating (loss) income brought forward	\$ (23,097,625)	\$ 113,539	\$ 3,674,337	\$ 2,743,085	\$ 11,562,288	\$ (360,444)	\$ (5,364,820)	\$ (2,287)
Nonoperating revenues (expenses)								
Interest income - investments	105,630	2,313,869	148,536	294,738	14,418,374	3,253,049	20,534,196	38,048
Net increase in fair value of investments	-	-	-	-	-	3,411,087	3,411,087	-
HUD operating subsidy and others	35,073,668	-	-	-	-	-	35,073,668	-
Interest expense	(53,108)	(25,696)	-	(3,125,437)	-	(1,930,062)	(5,134,303)	-
Letter of credit fees	-	-	-	(371,171)	-	(154,843)	(526,014)	-
Trustee fees	-	-	-	(175,689)	(111,447)	(69,652)	(356,788)	-
Amortization of deferred bond issuance costs	-	-	-	(62,231)	(541,059)	(45,696)	(648,986)	-
Arbitrage rebate	-	-	-	-	(1,605,284)	-	(1,605,284)	-
Loss on disposal of property and equipment	-	-	-	(279)	-	(320)	(599)	-
Other revenues	-	-	6,146	41,120	-	53,575	100,841	-
Total nonoperating revenues	35,126,190	2,288,173	154,682	(3,398,949)	12,160,584	4,517,138	50,847,818	38,048
Operating income before transfers	12,028,565	2,401,712	3,829,019	(655,864)	23,722,872	4,156,694	45,482,998	35,761
Operating transfers in	-	-	-	-	-	290,225	290,225	-
Operating transfers out	-	(12,000,000)	(1,500,000)	-	-	(12,268,048)	(25,768,048)	-
Net operating transfers	-	(12,000,000)	(1,500,000)	-	-	(11,977,823)	(25,477,823)	-
CHANGE IN NET ASSETS	12,028,565	(9,598,288)	2,329,019	(655,864)	23,722,872	(7,821,129)	20,005,175	35,761
Fund net assets at July 1, 2002	189,718,455	154,864,749	18,388,949	(5,324,969)	32,326,523	224,970,705	614,944,412	1,429,527
Fund net assets at June 30, 2003	<u>\$ 201,747,020</u>	<u>\$ 145,266,461</u>	<u>\$ 20,717,968</u>	<u>\$ (5,980,833)</u>	<u>\$ 56,049,395</u>	<u>\$ 217,149,576</u>	<u>\$ 634,949,587</u>	<u>\$ 1,465,288</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
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, 2003

Net change in fund balances - total enterprise funds	\$ 20,005,175
Net change in fund balances - internal service funds	<u>35,761</u>
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES	<u><u>\$ 20,040,936</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

Year ended June 30, 2003

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	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	\$ 13,100,845	\$ 982,940	\$ -	\$ 9,349,027	\$ -	\$ 7,798,088	\$ 31,230,900	\$ 166,796
Cash received from borrowers								
Principal repayments	-	3,613,010	-	-	6,976,183	2,732,599	13,321,792	-
Interest income	-	404,248	-	-	26,105,948	2,299,344	28,809,540	-
Cash received from net investment in financing lease	-	-	-	-	-	1,237,249	1,237,249	-
Cash received from sale of land	-	712,083	1,766,875	-	-	-	2,478,958	-
Cash received for conveyance taxes	-	-	-	-	-	2,954,615	2,954,615	-
Cash received for payments on mortgage-backed securities	-	-	-	-	87,102,686	-	87,102,686	-
Cash payments for loan originations	-	-	-	-	-	(9,070,742)	(9,070,742)	-
Cash payment for acquisition of mortgage-backed securities	-	-	-	-	(16,620,459)	-	(16,620,459)	-
Cash payments for interest	-	-	-	-	(36,035,234)	(1,946,887)	(37,982,121)	-
Cash payments to employees	(10,262,023)	(1,669,343)	-	(125,339)	(271,371)	(2,130,523)	(14,458,599)	-
Cash payments to suppliers	(13,065,975)	(2,167,957)	(215,628)	(4,242,404)	(475,613)	(8,894,721)	(29,062,298)	(93,404)
Cash receipts from (payments to) other funds	70,397	226,618	-	2,379	42,366	76,469	418,229	14,315
Payment in lieu of taxes	(938,729)	-	-	-	-	-	(938,729)	-
Other cash receipts (payments)	(198,894)	2,217,289	207,694	454,158	(589,833)	2,955,445	5,045,859	-
Net cash (used in) provided by operating activities	(11,294,379)	4,318,888	1,758,941	5,437,821	66,234,673	(1,989,064)	64,466,880	87,707
Cash flows from noncapital financing activities:								
Arbitrage rebate liability paid	-	-	-	-	(1,377,377)	-	(1,377,377)	-
Principal paid on revenue bond maturities	-	-	-	-	(50,385,000)	-	(50,385,000)	-
Bond issuance costs paid	-	-	-	-	(80,001)	-	(80,001)	-
Interest paid to the Department of Budget and Finance	(53,108)	(14,456)	-	-	-	(12,301)	(79,865)	-
HUD operating subsidy and others received	34,102,911	-	-	-	-	-	34,102,911	-
Operating transfers in	-	-	-	-	-	290,225	290,225	-
Advances from other funds	-	-	(712,745)	-	-	-	(712,745)	-
Operating transfers out	-	(12,000,000)	(1,500,000)	-	-	(12,268,048)	(25,768,048)	-
Net cash provided by (used in) noncapital financing activities	34,049,803	(12,014,456)	(2,212,745)	-	(51,842,378)	(11,990,124)	(44,009,900)	-
Cash flows from capital and related financing activities:								
Acquisition of property and equipment	-	-	-	(12,438)	-	-	(12,438)	-
Arbitrage rebate liability paid	-	-	-	-	-	(178,606)	(178,606)	-
Principal paid on revenue bond maturities and redemptions	-	-	-	(1,335,000)	-	(2,215,933)	(3,550,933)	-
Interest paid on revenue bonds	-	-	-	(3,129,634)	-	(1,739,618)	(4,869,252)	-
Principal payments on notes payable	-	(37,491)	-	-	-	-	(37,491)	-
Principal payments on mortgage loans	-	-	-	-	-	(99,963)	(99,963)	-
Payments of interest	-	(13,488)	-	-	-	(186,896)	(200,384)	-
Payments for acquisition of property and equipment	(22,285,435)	-	-	-	-	(87,003)	(22,372,438)	-
Proceeds on sale of property and equipment	182,400	38,748	-	-	-	-	221,148	-
Net cash used in capital and related financial activities	(22,103,035)	(12,231)	-	(4,477,072)	-	(4,508,019)	(31,100,357)	-
Subtotal carried forward	\$ 652,389	\$ (7,707,799)	\$ (453,804)	\$ 960,749	\$ 14,392,295	\$ (18,487,207)	\$ (10,643,377)	\$ 87,707

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (continued)

Year ended June 30, 2003

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	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	\$ 652,389	\$ (7,707,799)	\$ (453,804)	\$ 960,749	\$ 14,392,295	\$ (18,487,207)	\$ (10,643,377)	\$ 87,707
Cash flows from investing activities:								
Purchases of investments	-	-	-	(35,323,650)	(114,633,996)	272,009	(149,685,637)	-
Proceeds from maturities of investments	-	-	-	35,307,837	120,556,949	109,120	155,973,906	-
Receipts of interest	119,540	2,725,071	171,220	304,886	14,861,441	3,516,068	21,698,226	45,336
Net increase in restricted deposits and funded reserves	-	-	-	-	-	(341,757)	(341,757)	-
Net cash provided by investing activities	119,540	2,725,071	171,220	289,073	20,784,394	3,555,440	27,644,738	45,336
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	771,929	(4,982,728)	(282,584)	1,249,822	35,176,689	(14,931,767)	17,001,361	133,043
Cash and cash equivalents at July 1, 2002	8,535,075	88,708,179	5,311,961	19,202,374	7,168,819	81,206,639	210,133,047	1,228,858
Cash and cash equivalents at June 30, 2003	<u>\$ 9,307,004</u>	<u>\$ 83,725,451</u>	<u>\$ 5,029,377</u>	<u>\$ 20,452,196</u>	<u>\$ 42,345,508</u>	<u>\$ 66,274,872</u>	<u>\$ 227,134,408</u>	<u>\$ 1,361,901</u>
Reconciliation of cash to cash and cash equivalents:								
Cash	\$ 9,307,004	\$ 83,725,451	\$ 5,029,377	\$ 1,214,975	\$ 17,800,029	\$ 49,780,262	\$ 166,857,098	\$ 1,361,901
Money market funds	-	-	-	19,237,221	18,684,479	16,494,610	54,416,310	-
U.S. Government securities	-	-	-	-	5,861,000	-	5,861,000	-
Cash and cash equivalents at June 30, 2003	<u>\$ 9,307,004</u>	<u>\$ 83,725,451</u>	<u>\$ 5,029,377</u>	<u>\$ 20,452,196</u>	<u>\$ 42,345,508</u>	<u>\$ 66,274,872</u>	<u>\$ 227,134,408</u>	<u>\$ 1,361,901</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (continued)

Year ended June 30, 2003

	Federal Low Rent Program	Dwelling Unit Revolving Fund	Homes Revolving Fund	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 (used in) provided by operating activities:								
Operating (loss) income	\$ (23,097,625)	\$ 113,539	\$ 3,674,337	\$ 2,743,085	\$ 11,562,288	\$ (360,444)	\$ (5,364,820)	\$ (2,287)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:								
Net increase in fair value of mortgage-backed securities	-	-	-	-	(21,237,731)	-	(21,237,731)	-
Depreciation	9,267,083	314,267	-	3,313,463	-	4,067,932	16,962,745	75,679
Provision for losses	-	12,813	-	88,409	-	427,827	529,049	-
Changes in assets and liabilities:								
Mortgage loans receivable	-	129,701	-	-	6,976,183	(1,367,533)	5,738,351	-
Notes and loans receivable	-	3,564,199	-	-	-	(5,000,000)	(1,435,801)	-
Accrued interest receivable on mortgages, notes and loans	-	-	-	-	-	(171,801)	(171,801)	-
Tenant receivables	159,634	(31,051)	-	(220,557)	-	(121,294)	(213,268)	-
Other receivables	(1,333,526)	124,675	207,694	26,310	-	98,419	(876,428)	-
Due from other funds	(79,806)	227,326	-	-	-	(97,623)	49,897	14,315
Due from State of Hawaii	-	-	-	-	-	1,053	1,053	-
Due from HUD	-	-	-	-	-	18,284	18,284	-
Inventories	(114,158)	73,261	2,416,221	-	-	(7,988)	2,367,336	-
Prepaid expenses and other assets	-	-	-	103	3,848	69,838	73,789	-
Net investment in lease financing	-	-	-	-	-	420,538	420,538	-
Deposits held in trust	-	-	-	-	-	(1,909)	(1,909)	-
Investments in mortgage-backed securities	-	-	-	-	70,482,227	-	70,482,227	-
Accounts payable	3,249,365	(150,167)	15,734	(542,884)	(112,501)	(276,961)	2,182,586	-
Accrued interest payable	-	-	-	-	(921,543)	(14,199)	(935,742)	-
Other accrued expenses	363,966	10,959	-	5,659	4,929	164,597	550,110	-
Due to other funds	150,203	(708)	-	2,379	42,366	173,716	367,956	-
Due to HUD	-	-	-	-	-	(2,234)	(2,234)	-
Security deposits	48,684	(689)	-	21,854	-	(9,493)	60,356	-
Deferred income	91,801	11,653	-	-	-	211	103,665	-
Deferred refunding costs	-	-	-	-	65,732	-	65,732	-
Deferred commitment fees	-	-	-	-	(631,125)	-	(631,125)	-
Deferred gain on sale of units and land	-	(80,890)	-	-	-	-	(80,890)	-
Estimated future costs of land sold	-	-	(4,555,045)	-	-	-	(4,555,045)	-
Net cash (used in) provided by operating activities	<u>\$ (11,294,379)</u>	<u>\$ 4,318,888</u>	<u>\$ 1,758,941</u>	<u>\$ 5,437,821</u>	<u>\$ 66,234,673</u>	<u>\$ (1,989,064)</u>	<u>\$ 64,466,880</u>	<u>\$ 87,707</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

June 30, 2003

ASSETS	<u>Private Purpose Trusts</u>
Cash	10,757,246
Accrued interest	<u>-</u>
TOTAL ASSETS	<u>\$ 10,757,246</u>
LIABILITIES AND NET ASSETS	
Liabilities	
Accounts payable	<u>\$ 1,532</u>
Total liabilities	1,532
Net assets	
Held in trust	<u>10,755,714</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,757,246</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS - FIDUCIARY FUNDS

Year ended June 30, 2003

	<u>Private Purpose Trusts</u>
Additions	
State allotted appropriations	\$ 24,500,000
Interest	<u>7,099</u>
Total additions	24,507,099
Deductions	
Capital outlays	<u>19,006,182</u>
Total deductions	<u>19,006,182</u>
CHANGE IN NET ASSETS	5,500,917
Net assets at July 1, 2002	<u>5,254,797</u>
Net assets at June 30, 2003	<u><u>\$ 10,755,714</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

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.

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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, 2003, 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 includes 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.

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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 \$42,239,000 were included as direct function expenses during the year ended June 30, 2003.

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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, 2003 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.

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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 Voucher Program, Contract Administration, Drug Elimination Programs, Shelter Plus Care, Family

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

4. Fund Accounting (continued)

a. Governmental Funds (continued)

Investment Center, Youth Sports Program, Safe and Drug Free Schools and Communities, Housing Opportunities for Persons with AIDS (HOPWA) Program, Emergency Shelter Grant Program, Residential Opportunities Self-Sufficient Programs (ROSS) and Supportive Housing 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 for 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, Homes 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

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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 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, Hawaii Development Revolving Fund, Rental Assistance Fund, Housing Finance Revolving Fund, Disbursing Fund, Rental Housing Trust Fund, Housing Alteration Revolving Loan Fund, 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.

Homes Revolving Fund – accounts for the proceeds from state contributions for the purpose of developing and implementing appropriate housing development programs.

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.

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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.

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.

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
Building and building improvements	25 years	10 – 40 years
Equipment	7 years	1 – 10 years

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2003 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.

9. Inventories

Development in Progress and Dwelling Units

Inventories consist of developments in progress and units available for sale. Units available for sale include constructed units, developed lots and repurchased units available for sale. Developments in progress include construction in progress and land held for future development. The Corporation currently has three development projects in progress. These master planned community projects include Kapolei (Oahu), La'ī'opua (Hawaii), and Leiali'i (Maui). Costs included in developments in progress relate to infrastructure construction for these master planned communities.

Inventories are stated at the lower of cost or estimated net realizable value. All estimated carrying costs to the anticipated date of disposition are considered in the determination of estimated net realizable value. Valuation allowances for estimated losses on units available for sale are provided when the total estimated carrying costs exceeds the estimated net realizable value. Estimated net

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Inventories (continued)

Development in Progress and Dwelling Units (continued)

realizable value represents management's estimates, based on managements' 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.

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.

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.

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Amortization

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

13. Vacation and Sick Pay

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 paid during the next year is approximately \$639,000. The change in accumulated unpaid vacation during the year is approximately as follows:

<u>Balance at July 1, 2002</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2003</u>
\$2,212,000	\$946,000	\$812,000	\$2,346,000

Unused sick leave may be accumulated without limit but can be taken only in the event of illness and is not convertible to pay upon termination of employment.

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 the Corporation.

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.

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE B – BUDGETING AND BUDGETARY CONTROL

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, 2003 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 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.

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE C – CASH (continued)

At June 30, 2003, total cash reported in the Statement of Net Assets is \$180,495,901, which consisted of the following:

State pool and petty cash	\$145,592,740
Cash in bank (book balance)	16,990,608
	<hr/>
	162,583,348
Assets held by trustees	17,814,723
Deposits held in trust	97,830
	<hr/>
Total cash	<u><u>\$180,495,901</u></u>

The bank balance of cash in bank was \$18,310,330, of which \$300,000 was covered by federal depository insurance or collateral held by the Corporation or Corporation's agent in the Corporation's name; \$18,010,330 by collateral held by the pledging financial institution's trust department or agent in the Corporation's name, and \$0 was uninsured or uncollateralized.

NOTE D – INVESTMENTS

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. Uninsured certificates of deposit are required to be collateralized by investment securities of an equal or greater market value. Repurchase agreements are generally treated as collateral lending. 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. At June 30, 2003, the underlying market values of the securities approximated carrying amount. These investments are included on the statement of net assets as assets held by trustees.

Investments are categorized to give an indication of the level of risk assumed by the Corporation at June 30, 2003. Category 1 includes investments that are insured or registered, or for which the securities are held by the Corporation or its agent in the Corporation's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Corporation's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Corporation's name.

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE D – INVESTMENTS (continued)

Investments at June 30, 2003 are summarized as follows:

	Category			Reported amount	Fair value
	1	2	3		
Certificates of deposit	\$ –	\$ 5,050,000	\$ –	\$ 5,050,000	\$ 5,050,000
U. S. government securities	9,633,745	14,644,839	–	24,278,584	24,278,888
Mortgage-backed securities	7,253,968	412,677,477	–	419,931,445	419,931,445
Repurchase agreements	–	239,263,140	–	239,263,140	239,263,140
	<u>\$16,887,713</u>	<u>\$671,635,456</u>	<u>\$ –</u>	688,523,169	688,523,473
Money market funds				54,416,310	54,416,310
Guaranteed investment contracts				<u>935,669</u>	<u>935,669</u>
Total investments				<u>\$743,875,148</u>	<u>\$743,875,452</u>

NOTE E – MORTGAGE LOANS AND NOTES AND LOANS RECEIVABLE

Mortgage loans and other notes and loans receivable at June 30, 2003 are comprised of the following:

	Mortgage Loans	Notes and loans
Mortgage loans bearing interest at 0.0% to 11.0%, maturing at various dates through 2044	\$73,349,773	\$ –
Interim construction loans bearing interest at 5.0% and 6.0%, maturing in 2005 and 2007	–	5,276,412
Promissory note bearing interest at 9%, due 2010	–	426,100
	<u>73,349,773</u>	<u>5,702,512</u>
Less current maturities	<u>(4,348,513)</u>	<u>–</u>
	<u>\$69,001,260</u>	<u>\$5,702,512</u>

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

The \$426,100 promissory note receivable from a developer is uncollateralized. On January 1, 2010, the Corporation has the option to acquire certain improvements constructed by the developer. 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.

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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, 2003:

Total minimum lease payments to be received	\$ 31,298,617
Less unearned interest income	<u>(13,559,109)</u>
Net investment in direct financing lease	17,739,508
Less current portion	<u>438,232</u>
	<u><u>\$ 17,301,276</u></u>

The future minimum lease payments to be received through 2008 and in five-year increments thereafter are as follows:

Year ending June 30,	
2004	\$ 1,236,030
2005	1,238,635
2006	1,235,031
2007	1,235,078
2008	809,702
2009 – 2013	4,048,510
2014 – 2018	9,233,402
2019 – 2023	2,448,150
2024 – 2026	<u>9,814,079</u>
	<u><u>\$31,298,617</u></u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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, 2003, the debt service reserves and mortgage loan reserves required by the indentures were as follows:

	Single Family Mortgage Purchase
Debt service reserve requirements	\$60,478,000
Mortgage loan reserve requirements	<u>3,908,747</u>
	<u>\$64,386,747</u>

At June 30, 2003, approximately \$60 million and \$5.9 million of investment securities, at cost, were being held in the debt service reserve funds and mortgage loan reserve funds, respectively.

Under the trust indenture agreement between the Corporation and the trustee for the Rental Housing System and SHARP revenue bonds, 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, 2003, the Rental Housing System and SHARP revenue bond funds provided net revenues (as defined in the trust indenture agreement) together with lawfully available funds of 6.72 and 18.81 times the aggregate debt service on outstanding bonds during the year, respectively, and net revenues (as defined in the trust indenture agreement) of 1.34 and 2.20 times the aggregate debt service on outstanding bonds during the year, respectively. As per the trust indenture agreement, the Rental Housing System Revenue Bond Fund may use unrestricted assets of the Corporation's other funds to calculate the ratio of net revenues and lawfully available funds to the aggregate debt service on outstanding bonds during the year.

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, 2003.

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE H – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2003 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	21,473,032	11,574,985	12,621,163	20,426,854
Total capital assets not being depreciated	23,846,442	11,574,985	12,621,163	22,800,264
Capital assets, being depreciated				
Building and improvements	24,425,806	5,876,000	–	30,301,806
Equipment	1,096,574	–	–	1,096,574
Total capital assets being depreciated	25,522,380	5,876,000	–	31,398,380
Less accumulated depreciation for:				
Building and improvements	14,411,856	1,179,383	–	15,591,239
Equipment	1,011,450	32,697	–	1,044,147
Total accumulated depreciation	15,423,306	1,212,080	–	16,635,386
Governmental activities, net	<u>\$ 33,945,516</u>	<u>\$16,238,905</u>	<u>\$12,621,163</u>	<u>\$ 37,563,258</u>
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 61,587,686	\$ –	\$ 38,748	\$ 61,548,938
Construction in progress	10,811,231	23,900,138	1,806,577	32,904,792
Total capital assets not being depreciated	72,398,917	23,900,138	1,845,325	94,453,730
Capital assets being depreciated				
Building and improvements	548,870,109	180,159	–	549,050,268
Equipment	11,183,918	29,391	352,538	10,860,771
Total capital assets being depreciated	560,054,027	209,550	352,538	559,911,039
Less accumulated depreciation for:				
Building and improvements	248,294,787	7,500,670	4,648	255,790,809
Equipment	9,314,261	9,537,754	245,685	18,606,330
Total accumulated depreciation	257,609,048	17,038,424	250,333	274,397,139
Business-type activities capital assets, net	<u>\$374,843,896</u>	<u>\$ 7,071,264</u>	<u>\$ 1,947,530</u>	<u>\$379,967,630</u>

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE H – CAPITAL ASSETS (continued)

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

Governmental activities	
Homeless Service and Assistance Program	\$ 127,211
Rental Housing and Assistance Program	<u>1,084,869</u>
Total depreciation expense – governmental activities	<u><u>\$1,212,080</u></u>

At June 30, 2003, capital assets for the proprietary funds consisted of the following:

	Proprietary Fund Type					Total
	Enterprise Funds			Internal Service		
	Revenue Bond Funds	Dwelling Unit Revolving Fund	Other Funds	Equipment Rental	Vehicle Rental	
Land	\$ 16,186,850	\$21,321,412	\$ 24,040,676	\$ –	\$ –	\$ 61,548,938
Buildings and improvements	129,119,274	9,146,380	410,784,614	–	–	549,050,268
Equipment, furniture and fixtures	1,611,104	259,234	6,984,973	1,539,705	465,755	10,860,771
Construction in progress	–	–	32,904,792	–	–	32,904,792
	146,917,228	30,727,026	474,715,055	1,539,705	465,755	654,364,769
Less accumulated depreciation	51,695,593	6,548,698	214,246,731	1,494,304	411,813	274,397,139
Net property and equipment	<u>\$ 95,221,635</u>	<u>\$24,178,328</u>	<u>\$260,468,324</u>	<u>\$ 45,401</u>	<u>\$ 53,942</u>	<u>\$379,967,630</u>

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% 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, 2003, the mortgage payable balance was \$814,338.

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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE I – MORTGAGE AND NOTES PAYABLE (continued)

Mortgage Payable (continued)

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% 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, 2003, the mortgage payable balance was \$5,127,901.

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 \$372,400 to \$116,600.

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% 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, 2003, the mortgage payable balance was \$617,320.

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%, 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%, 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, 2003 totaled \$454,874.

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 upon the earlier of June 30, 2027, or the redemption of all SHARP revenue bonds associated with the Kekuilani Courts Rental Housing project.

Notes payable also consists of a \$171,327 unsecured promissory note payable to an individual (the former owner of Banyan Street). The entire principal balance plus accrued interest, which accrues at the same rate as the residual receipt funds held by GSCI, Inc. (approximately 1.0% for the year ended June 30, 2003), is due within 45 days of full payment of the 7.5% GSCI, Inc. mortgage note collateralized by HUD which matures on January 1, 2018.

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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE I – MORTGAGE AND NOTES PAYABLE (continued)

Notes Payable (continued)

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

	Balance at July 1, 2002	Additions	Reductions	Balance at June 30, 2003
Mortgage payable	\$ 6,659,522	\$ –	\$ 99,963	\$ 6,559,559
Notes payable	4,163,692	–	37,491	4,126,201
Totals	\$10,823,214	\$ –	\$137,454	\$10,685,760

The approximate debt service requirements of mortgage and notes payable through 2007 and in five-year increments thereafter to maturity are as follows:

	Principal	Interest	Total
Year ending June 30,			
2004	\$ 145,000	\$ 184,000	\$ 329,000
2005	153,000	177,000	330,000
2006	161,000	168,000	329,000
2007	170,000	159,000	329,000
2008	180,000	150,000	330,000
2009-2013	632,000	599,000	1,231,000
2014-2018	343,000	488,000	831,000
2019-2023	596,000	391,000	987,000
2024-2028	4,064,000	254,000	4,318,000
2029-2033	688,000	64,000	752,000
2034-2038	959,000	9,000	968,000
2039-2043	1,346,000	5,000	1,351,000
2044-2047	1,249,000	1,000	1,250,000
	\$10,686,000	\$2,649,000	\$13,335,000

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE J – REVENUE BONDS PAYABLE

Through June 30, 2003, approximately \$1,941,523,000 of revenue bonds has 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.

Revenue bonds payable at June 30, 2003 consist of the following issuances:

Single Family Mortgage Purchase revenue bonds:

1991 Series A:	
Serial bonds maturing annually through 2004 (6.55% to 6.75%)	\$ 440,000
Term bonds maturing annually from 2005 through 2012, 2018 through 2021, and 2026 through 2025 (6.75% to 7.10%)	<u>11,980,000</u>
	12,420,000
1991 Series B:	
Term bonds maturing annually from 2013 through 2017 and 2016 through 2032 (6.90% and 7.00%)	19,635,000
1994 Series A:	
Serial bonds maturing annually through 2010 (4.95% to 5.75%)	25,760,000
Term bonds maturing annually from 2017 through 2027 (5.05% to 6.00%)	<u>67,145,000</u>
	92,905,000
1994 Series B:	
Term bonds maturing annually from 2011 through 2018 and 2027 through 2028 (5.75% to 5.90%)	87,285,000
1997 Series A:	
Term bonds maturing annually through 2031 (4.90% to 5.75%)	72,905,000
1997 Series B:	
Serial bonds maturing annually from 2004 to 2010 (4.45% to 5.00%)	15,995,000
Term bonds maturing annually from 2011 through 2018 (5.45%)	<u>29,405,000</u>
	45,400,000
Single Family Mortgage Purchase revenue bonds subtotal carried forward	<u>\$330,550,000</u>

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE J – REVENUE BONDS PAYABLE (continued)

Single Family Mortgage Purchase revenue bonds subtotal brought forward	\$330,550,000
1998 Series A:	
Serial bonds maturing annually through 2014 (4.25% to 5.25%)	27,120,000
Term bonds maturing annually from 2008 through 2031 (4.85% to 5.40%)	<u>94,615,000</u>
	121,735,000
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	
Serial bonds maturing annually from 2003 through 2013 (5.30% to 6.15%)	12,490,000
Term bonds maturing annually from 2003 through 2033 (5.93% to 6.38%)	<u>86,850,000</u>
	99,340,000
2000 Series B	
Term bonds maturing annually from 2014 through 2016 (6.00%)	1,980,000
2002 Series A	
Serial bonds maturing from 2004 through 2013 (2.05% to 4.80%)	6,180,000
Term bonds maturing in 2015 through 2034 (4.40% to 5.38%)	24,075,000
Placed bonds maturing in 2024 through 2034 (5.38%)	<u>3,965,000</u>
	34,220,000
2002 Series B	
Term bonds maturing in 2027 through 2029 (5.25%)	<u>1,810,000</u>
Total Single Family Mortgage Purchase revenue bonds	<u>\$604,780,000</u>

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE J – REVENUE BONDS PAYABLE (continued)

Multifamily Housing revenue bonds:

1999 Series (Manana Gardens Apartment project) – serial Bonds maturing in 2035 (6.30%)	\$ 3,670,000
2000 Series (Sunset Villas project) – serial bonds maturing in 2012, 2022, 2032 and 2036 (5% to 5.75%)	26,915,000
2002 Series (Hale Hoaloha Apartments Project) – mortgage installment bonds maturing annually through 2018 (6.75%)	<u>2,064,286</u>
Total Multifamily Housing revenue bonds	32,649,286

Rental Housing System revenue bonds:

1989 Series A (Honokowai Kauhale project) – serial Bonds maturing annually through 2025 (variable rate in accordance with the terms of the indenture, 1.03% at June 30, 2003)	14,600,000
1990 Series A (Kamakee Vista project) – serial bonds maturing annually through 2026 (variable rate in accordance with The terms of the indenture, 3.78% at June 30, 2003)	32,100,000
1990 Series B (Pohulani project) – serial bonds maturing annually through 2026 (variable rate in accordance with The terms of the indenture, 3.78% at June 30, 2003)	<u>34,300,000</u>
	81,000,000

1993 Series A (La'ilani project):

Serial bonds maturing annually through 2006 (4.00% to 5.20%)	1,180,000
Term bonds maturing in 2013 and 2019 (5.60% and 5.70%)	<u>9,560,000</u>
	<u>10,740,000</u>

Total Rental Housing System revenue bonds	\$ 91,740,000
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State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE J – REVENUE BONDS PAYABLE (continued)

State of Hawaii Affordable Rental Housing Program revenue bonds:	
1993 Series A (Kauhale Kakaako project) – serial Bonds maturing annually through 2028 (variable rate in accordance with the terms of The indenture, 1.15% at June 30, 2003)	\$ 30,300,000
1995 Series A (Kekuilani Courts Rental Housing project) – term bonds maturing on 2016, 2023 and 2031 (6.00%, 6.05% and 6.10%)	<u>6,790,000</u>
Total State of Hawaii Affordable Rental Housing Program revenue bonds	37,090,000
University of Hawaii Faculty Housing Program revenue bonds:	
1995 Series:	
Serial bonds maturing annually through 2007 (4.45% to 5.00%)	1,550,000
Term bonds maturing annually from 2017 through 2026 (5.65% and 5.70%)	<u>14,255,000</u>
Total University of Hawaii Faculty Housing Program revenue bonds	<u>15,805,000</u>
	782,064,286
Less deferred refunding amount (difference between reacquisition price and net carrying value of old debt)	<u>1,746,952</u>
Total Revenue Bonds	780,317,334
Less current portion	<u>12,296,690</u>
	<u><u>\$768,020,644</u></u>

Interest on the Single Family Mortgage Purchase, Multifamily Housing and University of Hawaii Faculty Housing Program revenue bonds is payable semi-annually. Interest on the Rental Housing System (RHS) and SHARP revenue bonds are payable monthly except for the RHS 1993 Series A and SHARP 1995 Series A bond issues, which are payable semi-annually.

Interest on the Rental Housing System 1989 Series A and 1990 Series A and B and State of Hawaii Affordable Rental Housing Program 1993 Series A revenue bonds bears interest at the rate determined each week by the Remarketing Agent on the basis of market conditions as more fully described in the indenture agreement.

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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE J – REVENUE BONDS PAYABLE (continued)

The Single Family Mortgage Purchase and Rental Housing System revenue bonds with designated maturity dates, the Multifamily Housing revenue bonds, the SHARP 1995 Series A 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% to zero; 2008 for the Single Family Mortgage Purchase 1998 Series, subject to a redemption premium that ranges from 1.5% to zero; 2010 for the Single Family Mortgage Purchase 2000 Series, and 2014 for the Single Family Mortgage Purchase 2002 Series, 2010 for the Multifamily Housing 1999 Series, 2011 for the 2000 Series, subject to a redemption premium which ranges from 2% to zero; 2005 for the SHARP 1995 Series A subject to redemption premiums that ranges from 2% to zero; and 2005 for the University of Hawaii Faculty Housing Program 1995 Series subject to redemption premiums that range from 1% 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). The Rental Housing System and SHARP revenue bonds with variable interest rates may be redeemed early at face value at the option of either the bondholders or the Corporation during the variable interest rate period. Subsequent to the variable interest rate period, the bonds may be redeemed early at the option of the Corporation subject to a redemption premium that ranges from 2.00% to zero.

During the year ended June 30, 2003, early redemptions totaled \$41,160,000.

Revenue bonds activity during the year was as follows:

	Balance at July 1, 2002	Additions	Reductions	Balance at June 30, 2003
Single Family Mortgage Purchase	\$655,165,000	\$ –	\$50,385,000	\$604,780,000
Multifamily Housing	34,275,219	–	1,625,933	32,649,286
Rental Housing System	93,075,000	–	1,335,000	91,740,000
State of Hawaii Affordable Rental Housing Program	37,335,000	–	245,000	37,090,000
University of Hawaii Faculty Housing Program	16,150,000	–	345,000	15,805,000
	<u>836,000,219</u>	<u>–</u>	<u>53,935,933</u>	<u>782,064,286</u>
Less deferred refunding amount	1,812,684	–	65,732	1,746,952
Total	<u>\$834,187,535</u>	<u>\$ –</u>	<u>\$53,870,201</u>	<u>\$780,317,334</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE J – REVENUE BONDS PAYABLE (continued)

The approximate annual debt service requirements through 2008 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>
2004	\$ 12,760,000	\$ 40,686,000	\$ 53,446,000
2005	13,560,000	41,144,000	54,704,000
2006	14,580,000	39,484,000	54,064,000
2007	16,155,000	38,765,000	54,920,000
2008	16,190,000	37,967,000	54,157,000
2009 – 2013	106,570,000	175,315,000	281,885,000
2014 – 2018	146,225,000	143,098,000	289,323,000
2019 – 2023	152,080,000	106,405,000	258,485,000
2024 – 2028	201,909,000	59,806,000	261,715,000
2029 – 2033	96,735,000	14,040,000	110,775,000
2034 – 2036	3,553,000	622,000	4,175,000
	<u>\$780,317,000</u>	<u>\$697,332,000</u>	<u>\$1,477,649,000</u>

Arbitrage Rebate

In order to ensure the exclusion of interest on the Corporation's 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, 2003, the Corporation determined that \$6,299,108 of rebates were 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.

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE K – CONDUIT DEBT OBLIGATIONS (continued)

As of June 30, 2003, there were three series of Revenue Bonds outstanding, with an aggregate principal amount payable of \$32,649,286.

NOTE L – LEASES

Lease Commitments

The Corporation leases land, buildings, and improvements under various noncancelable 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 2008 and in five-year increments thereafter are as follows:

Year ending June 30,	
2004	\$606,000
2005	617,000
2006	628,000
2007	640,000
2008	652,000
2009 – 2013	2,602,000
2014 – 2018	2,879,000
2019 – 2023	3,254,000
2024 – 2028	3,514,000
2029 – 2033	3,819,000
2034 – 2038	3,857,000
2039 – 2043	4,367,000
2044 – 2048	4,629,000
2049 – 2053	5,240,000
2054 – 2056	3,668,000
	<u>\$40,972,000</u>

Rent expense for the year ended June 30, 2003 totaled approximately \$671,000.

Lease Rentals

The Corporation leases approximately \$20,100,000 of land 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, 2003 was approximately \$324,000.

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE L – LEASES (continued)

Lease Rentals (continued)

The future minimum lease rent from these operating leases at June 30, 2003 is as follows:

Year ending June 30:	
2004	\$324,000
2005	284,000
2006	203,000
2007	181,000
2008	176,000
2009 – 2013	837,000
2014 – 2018	831,000
2019 – 2022	<u>569,000</u>
	<u>\$3,405,000</u>

NOTE M – COMMITMENTS AND CONTINGENCIES

Loan Commitments and Guarantee

The Corporation has outstanding commitments to purchase loans from participating lenders of approximately \$33,600,000 at June 30, 2003.

In accordance with the provision of the Development Agreement (Agreement) dated February 14, 1997 for the Single Family phases of Villages 7 and 8 at Kapolei, the Corporation shall provide interim construction financing of approximately \$67,000,000, subject to the satisfaction of certain terms and conditions of the Agreement. The term of the interim loan shall mature on the date, which is 48 months from the effective date of the Agreement and will accrue interest at 7.5%. In June 2000, the Corporation approved an extension for execution of the loan agreement until February 2001. During 2001, a request by the developer to amend the Agreement was approved by the Corporation. The major amendments include reduction in the number of units and acres of the development, the land purchase price, reduction to the interim construction financing to \$42,000,000, and the extension for the execution of loan agreement until November 2001. In January 2002, the Corporation and the developer executed the loan agreement and entered into an Amended and Restated Development Agreement, whereby, the Corporation will sell to the developer the parcel of land known as Kapolei Village 7 for \$2,570,000. The purchase price without interest, shall be paid from the net proceeds from the sale of a unit to an individual buyer. The Corporation shall convey the title to the buyers provided that certain events, as detailed in the development agreement, have occurred.

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Loan Commitments and Guarantee (continued)

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, 2003, the outstanding balance of mortgage loans that have been sold to the ERS which are covered by the loan guarantee was approximately \$858,000. At June 30, 2003, notes and loans receivable include approximately \$138,000 of delinquent loans purchased back from the ERS.

Construction Contracts

At June 30, 2003, the Dwelling Unit Revolving Fund had outstanding commitments to expend approximately \$1,268,000 for the construction and renovation of housing projects and outstanding commitments to fund interim loans for various projects totaling approximately \$8,904,000.

At June 30, 2003, the Homes Revolving Fund had outstanding commitments for construction contracts related to three master planned development projects of approximately \$11,400,000 of which approximately \$10,700,000 will be funded by the Corporation's Dwelling Unit Revolving Fund.

The Capital Projects Fund and the Fiduciary Funds had outstanding construction contract commitments of approximately \$11,343,000 at June 30, 2003.

Development Costs

The Kapolei development project primarily consists of eight villages spread over approximately 888 acres of land. As of June 30, 2003, six villages have been substantially completed and sold. The infrastructure for the remaining villages of the Kapolei project is currently under construction.

Development costs are periodically assessed for impairment when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable. Because of the current real estate market conditions, management believes it is reasonably possible that the costs associated with the Kapolei project may not be recoverable in the near term. As of June 30, 2003, the most current assessment indicates a total project loss of approximately \$54,000,000. However, the Corporation is presently evaluating alternatives, including deferral of future expenditures until such time the real estate market improves, and remains committed to the project. Accordingly, no provision for any effect of the project's net realizable value, if any, has been made to the accompanying financial statements.

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Development Costs (continued)

The estimated future cost of land sold relates primarily to the completion of certain off-site improvements at the Kapolei project. During 2003, the Corporation revised its revenue assumptions for the Kapolei project. Changes in those estimates resulted in a reduction of the estimated future cost of land sold liability of approximately (\$4,555,000) being recognized as a reduction of cost of land sold for land previously sold.

The Leiali'i project is a residential planned community located in the West Maui area. A large portion of the site is public trust ("ceded") land owned by the State of Hawaii. The Corporation's Board of Directors has approved funding of development costs for the Leiali'i Master Planned Community project of approximately \$68,000,000. As of June 30, 2003 approximately \$37,000,000 has been expended, net of approximately \$1,370,000 from the County of Maui for the wastewater system design and water system and \$1,753,000 from the State Department of Transportation (DOT) for certain expenditures.

The La'i'opua project is designed to provide a range of housing opportunities within a master planned community located in North Kona. The project will consist of approximately 3,500 residential units on approximately 807 acres of land. A large portion of the site is public trust ("ceded") land owned by the State of Hawaii.

The Corporation's Board of Directors approved funding of the development costs for the infrastructure construction for the La'i'opua project of approximately \$40,600,000. The La'i'opua mauka/makai roadway is complete. Infrastructure for the phase 2A backbone is under construction with the remainder of the project in the master planning and design phases. As of June 30, 2003, approximately \$15,579,000 has been expended, net of approximately \$10,000,000 of reimbursements from DOT for certain expenditures. Because of the current real estate market conditions, management believes it is reasonably possible that the costs associated with the La'i'opua project may not be recoverable in the near term. As of June 30, 2003, the most current assessment indicates a total project loss of approximately \$39,000,000. The Corporation is presently evaluating alternatives, including deferral of future expenditures until such time the real estate market improves, and remains committed to the project. Accordingly, no provision for any effect of the project's net realizable value, if any, has been made to the accompanying financial statements.

Presently, the development of the La'i'opua and Leiali'i projects has been indefinitely delayed pending resolution of certain legal proceedings surrounding ceded lands. As discussed further in note M to the financial statements, the Corporation is a defendant in two lawsuits that seek injunctive relief barring the Corporation from sale or transfer of certain ceded lands. The Corporation's ability to recover the carrying amount of these development projects in progress is dependent on the success of future

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Development Costs (continued)

development of the properties, including the financial ability of the Corporation to hold the projects, future market conditions, and the ultimate outcome of the ceded land lawsuits.

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 the 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 ERS. Accumulated sick leave at June 30, 2003 amounted to approximately \$5,919,000.

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.

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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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% 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% 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, 2003. 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.

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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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.

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% 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.

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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

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

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% 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% of “revenues” to OHA on a quarterly basis.

On January 14, 1994, OHA filed suit against the State alleging that the State failed to properly account for and fully pay the pro rata share of proceeds and income derived from the lands of public trust established by the Admission Act and the 1978 amendments to the State Constitution. OHA seeks an accounting of all proceeds and income, funds and revenues derived from the lands since 1978, and restitution or damages amounting to 20% 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% 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

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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

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

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.

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 judicially 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. 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

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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

Ceded Lands (continued)

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

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

A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the Corporation's financial condition if an adverse resolution or decision against the State includes liability for gross rental income derived by the Corporation from rental housing projects situated on lands in the public trust and the liability is imposed upon the Corporation. However, the ultimate outcome of the litigation and its effect to 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 year ended June 30, 2003, the Corporation recorded a liability due to HUD of \$771,000 for the amounts paid under the construction contract.

In connection with this review, in September 2002, HUD issued a Corrective Action Order (CAO) for the Corporation. The CAO requires that the Corporation contract an independent consultant to perform an assessment to identify improvements in its operations as well as requires additional documentation be provided to HUD prior to execution of certain contracts and contract modifications. The Corporation's failure to comply with the terms of the CAO may result in further sanctions against the Corporation and other remedies as provided by law.

In September 2002, HUD issued a Request for Proposal (RFP) on behalf of the Corporation, and in December 2002, selected a consultant to conduct an independent assessment and a physical needs assessment.

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE M – COMMITMENTS AND CONTINGENCIES (continued)

HUD Examination (continued)

In April 2003, the consultant issued its Independent Assessment report on the Corporation's Federal Public Housing Program and made recommendations addressing management, organizational, and operational issues and concerns.

The consultant also completed the Physical Needs Assessment (PNA) study in September 2003 and provided the deliverables as specified in the contract, which included a detailed PNA report of each federal housing project; a Master Executive Summary, a database of inspection results, and a long-range portfolio plan.

The Corporation is currently developing corrective action strategies with HUD's Honolulu office in response to the HUD findings, which management believes will compliment the Corporation's current financial condition and operations. If efforts are unsuccessful, the results could have a material impact upon the Corporation's financial condition or results of operations.

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.

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.

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE N – RETIREMENT PLAN (continued)

Employees' Retirement System (continued)

Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8% 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% 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 were no employer contributions for the year ended June 30, 2003.

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 are 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.

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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE O – POST-RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS (continued)

The Corporation’s general fund share of the post-retirement benefits expense for the year ended June 30, 2003 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, 2003 approximated \$853,000 and is included in the financial statements.

NOTE P – RELATED PARTY TRANSACTIONS

In accordance with Act 95, SLH 1996, the Corporation transferred certain parcels of land located within the Villages of La’i’opua on the island of Hawaii, and Kapolei on the island of Oahu to the State Department of Hawaiian Home Lands (DHHL). The properties were conveyed in 1997 and approximately \$8,175,000 of allocated costs were charged against contributed capital. Any future costs of these parcels will be recognized as contributions returned to the State of Hawaii when costs are incurred. During 2003, the Corporation revised its revenue estimates of the Kapolei project. Changes in those estimates resulted in the reallocation of development costs that resulted in an allocation adjustment to the Kapolei parcel. The estimated allocated project costs and allocated costs incurred of these parcels of land located in La’i’opua and Kapolei as of June 30, 2003 are approximately as follows:

	<u>Allocated project cost</u>	<u>Allocated costs incurred to date</u>
La’i’opua	\$ 8,983,000	\$ 1,830,000
Kapolei	<u>14,816,000</u>	<u>9,986,500</u>
	<u>\$23,799,000</u>	<u>\$11,816,500</u>

During 2000, the Corporation and DHHL entered into an agreement to transfer the Village 4 parcel property and improvements located in the La’i’opua development for approximately \$1,816,100. The property was conveyed in 2001. The Corporation recognized approximately \$157,000 of losses of allocated cost incurred to date. Given the current uncertainties surrounding the development (note M), the estimated costs of the development costs cannot be reasonably estimated. Any estimated future development cost will be recognized as costs of land sold when costs are incurred.

During 2003, the Corporation’s Dwelling Unit Revolving Fund funded approximately \$844,000 of development costs for the Villages of Kapolei.

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

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE P – RELATED PARTY TRANSACTIONS (continued)

of the Corporation's various projects approximated \$1,293,000 and \$443,000, respectively, during the year ended June 30, 2003. These amounts have been recorded by the Corporation as rental income in the 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 is owned by the RHS. During the year ended June 30, 2003, the RHS recorded rental income of approximately \$855,000, which was allocated as office rental expense to various funds of the Corporation. In addition, the State Department of Accounting and General Services (DAGS) incurred \$914,000 in rent to the RHS 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%). The minimum annual rent for the initial year was approximately \$493,000.

The contributed capital of the Dwelling Unit Revolving Fund was funded with proceeds of \$125,000,000 of State general obligation bonds, for which the principal payments are being funded by the State of Hawaii General Fund. These bonds are the State's general obligation and are not included in the statement of net assets. The Dwelling Unit Revolving Fund, however, is required to reimburse the State of Hawaii General Fund for the interest portion of the debt service, at rates ranging from 3.85% to 5.50%. Interest cost incurred for the year ended June 30, 2003 was approximately \$11,200.

The annual interest requirement for the general obligation bonds as of June 30 2003 is \$13,487.

Act 178, SLH 2002, provided for the transfer of approximately \$25,750,000 from the Corporation's various funds to the State of Hawaii General Fund. On July 1, 2002, the Corporation transferred the following amounts to the State of Hawaii General Fund:

Fund	Amount
Dwelling Unit Revolving Fund	\$12,000,000
Fee Simple Residential Revolving Fund	300,000
Homes Revolving Fund	1,500,000
Housing Finance Revolving Fund	5,000,000
Housing for Elders Revolving Fund	250,000
Rental Assistance Revolving Fund	6,000,000
Housing Alteration Revolving Fund	280,000
Hawaii Development Revolving Fund	420,000
Total	\$25,750,000

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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)

	<u>Multifamily Housing Revenue Bond Fund</u>	<u>State of Hawaii Affordable Rental Program</u>	<u>University of Hawaii Faculty Housing Program Revenue Bond Fund</u>
Assets:			
Cash	\$ –	\$ 528	\$ 324
Investment in financing lease	–	–	17,740
Receivables	2,169	181	21
Assets held by trustees	34,620	19,513	–
Capital assets, net	–	38,900	–
Other assets	–	437	337
Total assets	<u>\$ 36,789</u>	<u>\$59,559</u>	<u>\$18,422</u>
Liabilities:			
Bonds payable	\$ 32,649	\$37,090	\$15,805
Note payable	–	3,500	–
Other liabilities	553	651	228
Total liabilities	33,202	41,241	16,033
Net assets:			
Invested in capital assets, net of related debt	–	(1,256)	–
Restricted	34,620	–	–
Unrestricted	(31,033)	19,574	2,389
Total net assets	<u>3,587</u>	<u>18,318</u>	<u>2,389</u>
Total liabilities and net assets	<u>\$ 36,789</u>	<u>\$59,559</u>	<u>\$18,422</u>

State of Hawaii
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NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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	\$ 177	\$ —	\$825
Rental	—	3,523	—
Other	66	165	—
Total revenues	243	3,688	825
Expenses			
Project	—	1,049	—
Depreciation	—	1,563	—
Interest	1,925	—	—
Other operating expenses	106	250	13
Total expenses	2,031	2,862	13
Operating (loss) income	(1,788)	826	812
Nonoperating income (expenses)			
Interest income	1,769	214	—
Net increase (decrease) in fair value of investments	3,066	—	—
Interest expense	—	(841)	(888)
Other	(7)	(226)	16
Total nonoperating income (expenses)	4,828	(853)	(872)
Change in net assets	3,040	(27)	(60)
Net assets at July 1, 2002	547	18,345	2,449
Net assets at June 30, 2003	\$ 3,587	\$18,318	\$2,389

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

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	\$ (498)	\$ 2,216	\$ 1,276
Capital and related financing activities	(1,626)	(1,271)	(1,237)
Investing activities	2,125	222	—
Net (decrease) increase in cash and cash equivalents	1	1,167	39
Cash and cash equivalents at July 1, 2002	2	15,856	285
Cash and cash equivalents at June 30, 2003	<u>\$ 3</u>	<u>\$17,023</u>	<u>\$ 324</u>

NOTE R – INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of June 30, 2003 is as follows:

Due from	General Fund	Housing Voucher Program	Section 8	Dwelling Unit Revolving Fund	Federal Low Rent Program	Nonmajor – Proprietary	Nonmajor – Government
Homes Revolving Fund	\$ –	\$ –	\$ –	\$27,377,125	\$ –	\$ –	\$ –
Housing Voucher Program	–	–	12,520	1,007	–	1,513,454	–
Section 8	–	–	–	–	–	22,000	–
Dwelling Unit Revolving Fund	–	–	–	–	–	415,000	–
Single Family	–	–	–	–	–	108,581	–
Federal Low-Rent Program	–	–	–	259	–	3,171,860	–
Rental Housing System	–	–	–	–	–	48,991	–
Nonmajor – Proprietary	5,474	1,705,000	45,008	(979)	88,836	1,718,791	91,660
Nonmajor – Government	–	–	8,811	–	–	2,048	–
TOTAL	<u>\$5,474</u>	<u>\$1,705,000</u>	<u>\$66,339</u>	<u>\$27,377,412</u>	<u>\$88,836</u>	<u>\$7,000,725</u>	<u>\$91,660</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE R – INTERFUND RECEIVABLES AND PAYABLES (continued)

The balance of \$27,377,125, due to the Dwelling Unit Revolving Fund from the Homes Revolving Fund, represents development costs for the Villages of Kapolei that were funded by the Dwelling Unit Revolving Fund. Amounts are not scheduled to be collected in the subsequent year.

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, 2003, the Corporation redeemed certain outstanding revenue bonds totaling \$93,040,000, of which \$85,245,000 were early redemptions.

Act 178, SLH 2003, provided for the transfer of approximately \$23,429,000 from the Corporation's various funds to the State of Hawaii General Fund. On July 1, 2003, the Corporation transferred the following amounts to the State of Hawaii General Fund:

<u>Fund</u>	<u>Amount</u>
Dwelling Unit Revolving Fund	\$15,000,000
Homes Revolving Fund	5,029,000
Housing Finance Revolving Fund	3,000,000
Teacher Housing Revolving Fund	<u>400,000</u>
Total	<u><u>\$23,429,000</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

State of Hawaii
Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2003

	General Fund		
	Original budget	Final budget	Budgetary Actual
Revenues			
State allotted appropriations	\$ 7,567,862	\$ 7,214,616	\$ 6,976,504
Expenditures			
Homeless service and assistance program	4,967,631	4,958,498	4,914,003
Rental housing and assistance program	2,600,231	2,256,118	2,062,501
	7,567,862	7,214,616	6,976,504
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ -
	Housing Voucher Program		
	Original budget	Final budget	Budgetary Actual
Revenues			
HUD contributions	\$ 22,885,204	\$ 20,498,086	\$ 19,418,247
Expenditures			
Rental housing and assistance program	22,885,204	20,498,086	19,478,681
	22,885,204	20,498,086	19,478,681
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ (60,434)

State of Hawaii
Housing and Community Development Corporation of Hawaii

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS (continued)

Year ended June 30, 2003

	Section 8 Contract Administration		
	Original budget	Final budget	Budgetary Actual
Revenues			
HUD contributions	\$ 47,988,350	\$ 49,154,436	\$ 18,672,445
Expenditures			
Rental housing and assistance program	47,988,350	49,154,436	18,867,388
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ (194,943)

State of Hawaii
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REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
BUDGET-TO-GAAP RECONCILIATION

Year ended June 30, 2003

	<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	\$ -	\$ (60,434)	\$ (194,943)
Reserve for encumbrances at year end*	640,298	-	-
Expenditures for liquidation of prior year's encumbrances	(404,247)	-	-
Reversion of prior year's allotments	(76,100)	-	-
Accrual adjustments and other	<u>306,778</u>	<u>12,630</u>	<u>21,752</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER USES - US GAAP BASIS	<u>\$ 466,729</u>	<u>\$ (47,804)</u>	<u>\$ (173,191)</u>

* Amount reflects the encumbrance balance included in continuing appropriation.

SUPPLEMENTARY INFORMATION

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

June 30, 2003

ASSETS	<u>Drug Elimination Program</u>	<u>Shelter Plus Care</u>	<u>HOPWA Program</u>	<u>Other</u>	<u>Total</u>
Current Assets					
Cash	\$ 946	\$ 12	\$ 10	\$ 29	\$ 997
Due from HUD	<u>284,468</u>	<u>-</u>	<u>6,105</u>	<u>25,660</u>	<u>316,233</u>
TOTAL ASSETS	<u>\$ 285,414</u>	<u>\$ 12</u>	<u>\$ 6,115</u>	<u>\$ 25,689</u>	<u>\$ 317,230</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities					
Accounts payable	\$ 185,658	\$ -	\$ 5,904	\$ 23,812	\$ 215,374
Due to other funds	99,756	-	201	1,847	101,804
Due to HUD	<u>-</u>	<u>12</u>	<u>10</u>	<u>30</u>	<u>52</u>
Total current liabilities	285,414	12	6,115	25,689	317,230
Fund balances					
Unreserved	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 285,414</u>	<u>\$ 12</u>	<u>\$ 6,115</u>	<u>\$ 25,689</u>	<u>\$ 317,230</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	Drug Elimination Program	Shelter Plus Care	HOPWA Program	Other	Total
Revenue					
Intergovernmental – HUD annual contributions and others	\$ 907,546	\$ 213,661	\$ 128,982	\$ 749,271	\$ 1,999,460
Total revenues	907,546	213,661	128,982	749,271	1,999,460
Expenditures					
Current					
Housing assistance payments	-	-	-	1,584	1,584
Personal services	168,431	-	-	-	168,431
Administration	728,723	213,661	128,982	745,264	1,816,630
Professional services	6,627	-	-	2,423	9,050
Repairs and maintenance	2,989	-	-	-	2,989
Insurance	592	-	-	-	592
Other	184	-	-	-	184
Total expenditures	907,546	213,661	128,982	749,271	1,999,460
NET CHANGE IN FUND BALANCES	-	-	-	-	-
Fund balance at July 1, 2002	-	-	-	-	-
Fund balance at June 30, 2003	\$ -	\$ -	\$ -	\$ -	\$ -

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR ENTERPRISE FUNDS

June 30, 2003

ASSETS	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Current assets				
Cash	\$ 851,752	\$ 3,857,011	\$ 45,068,115	\$ 49,776,878
Investments	-	-	1,379,878	1,379,878
Receivables				
Mortgage loans	330,376	-	449,385	779,761
Accrued interest	114,793	17,381	1,762,423	1,894,597
Tenant receivables, less allowance for doubtful accounts	14,907	186,943	-	201,850
Other	176,998	11,201	13,089	201,288
	<u>637,074</u>	<u>215,525</u>	<u>2,224,897</u>	<u>3,077,496</u>
Due from other funds	-	736,234	3,700,781	4,437,015
Due from State of Hawaii	-	-	1,919	1,919
Due from HUD	-	8,105	-	8,105
Inventories				
Materials and supplies	-	56,215	78,881	135,096
Net investment in financing lease	438,232	-	-	438,232
Prepaid expenses and other assets	4,237	79,487	215,132	298,856
Deposits held in trust	-	90,932	6,898	97,830
Deferred bond discount and issuance costs	44,271	-	-	44,271
	<u>1,975,566</u>	<u>5,043,509</u>	<u>52,676,501</u>	<u>59,695,576</u>
Total current assets				
Assets held by trustees under Revenue Bond Programs				
Cash	3,384	-	-	3,384
Investments	54,129,140	-	-	54,129,140
	<u>54,132,524</u>	<u>-</u>	<u>-</u>	<u>54,132,524</u>
Investments	-	-	12,757,834	12,757,834
Mortgage loans, net of current portion	1,733,910	-	46,464,904	48,198,814
Notes and loans, net of current portion	-	426,100	5,000,000	5,426,100
Other receivables	-	402,664	370,741	773,405
Advances to other funds	-	325,000	-	325,000
Restricted deposits and funded reserves	-	7,070,287	-	7,070,287
Net investment in financing lease, net of current portion	17,301,276	-	-	17,301,276
Deferred bond discount and issuance costs, net of current portion	726,995	-	-	726,995
Capital assets, less accumulated depreciation	38,900,014	77,926,751	-	116,826,765
	<u>38,900,014</u>	<u>77,926,751</u>	<u>-</u>	<u>116,826,765</u>
TOTAL ASSETS	<u>\$ 114,770,285</u>	<u>\$ 91,194,311</u>	<u>\$ 117,269,980</u>	<u>\$ 323,234,576</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR ENTERPRISE FUNDS

June 30, 2003

LIABILITIES AND FUND NET ASSETS	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current liabilities				
Accounts payable	\$ 111,461	\$ 50,410	\$ 9,570	\$ 171,441
Accrued expenses				
Interest	1,177,164	71,561	-	1,248,725
Other	33,513	628,029	182,907	844,449
Due to other funds	(153,521)	1,355,203	5,937,032	7,138,714
Due to State of Hawaii	-	-	25,000	25,000
Due to HUD	-	2,079	-	2,079
Security deposits	260,784	231,094	383,791	875,669
Mortgage payable	-	106,893	-	106,893
Revenue bonds payable, less deferred refunding cost	1,255,376	-	-	1,255,376
Deferred income	-	2,057	-	2,057
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total current liabilities	2,684,777	2,447,326	6,538,300	11,670,403
Arbitrage rebate payable	1,694	-	-	1,694
Note payable, net of current portion	3,500,000	171,327	-	3,671,327
Mortgage payable, net of current portion	-	6,452,666	-	6,452,666
Revenue bonds payable, less deferred refunding cost, net of current portion	84,288,910	-	-	84,288,910
Net assets				
Invested in capital assets, net of related debt	(1,256,031)	71,195,865	-	69,939,834
Restricted by legislation and contractual agreements	54,132,524	7,070,287	32,517	61,235,328
Unrestricted	(28,581,589)	3,856,840	110,699,163	85,974,414
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total net assets	24,294,904	82,122,992	110,731,680	217,149,576
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 114,770,285</u>	<u>\$ 91,194,311</u>	<u>\$ 117,269,980</u>	<u>\$ 323,234,576</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR ENTERPRISE FUNDS

Year ended June 30, 2003

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Operating revenues				
Interest on mortgages, notes, loans and mortgage-backed securities	\$ 1,002,881	\$ -	\$ 2,310,960	\$ 3,313,841
Rental	3,522,574	4,434,703	-	7,957,277
Conveyance tax	-	-	2,954,615	2,954,615
Other	230,442	151,352	2,436,107	2,817,901
Total operating revenues	4,755,897	4,586,055	7,701,682	17,043,634
Operating expenses				
Project	1,048,530	-	1,935,339	2,983,869
Personal services	75,664	1,485,382	592,482	2,153,528
Depreciation	1,563,387	2,504,545	-	4,067,932
Housing assistance payments	-	-	2,131,957	2,131,957
Administration	31,378	613,953	271,900	917,231
Provision for losses	40,002	90,239	297,586	427,827
Professional services	44,135	111,602	69,901	225,638
Mortgage insurance	-	6,009	-	6,009
Security	41	49,822	173	50,036
Insurance	926	12,196	20,894	34,016
Repairs and maintenance	3,967	1,049,348	18,776	1,072,091
Utilities	441	1,119,246	-	1,119,687
Capital expenditures	15,444	59,737	16,085	91,266
Interest expense	1,925,396	-	-	1,925,396
Other	154,607	32,874	10,114	197,595
Total operating expenses	4,903,918	7,134,953	5,365,207	17,404,078
Operating income (loss)	(148,021)	(2,548,898)	2,336,475	(360,444)
Nonoperating revenues (expenses)				
Interest income - investments	1,983,457	312,136	957,456	3,253,049
Net increase in fair value of investments	3,065,606	-	345,481	3,411,087
Interest expense	(1,729,039)	(191,593)	(9,430)	(1,930,062)
Letter of credit fees	(154,843)	-	-	(154,843)
Trustee fees	(69,652)	-	-	(69,652)
Amortization of deferred bond issuance costs	(45,696)	-	-	(45,696)
Loss on disposal of property and equipment	(136)	(184)	-	(320)
Other revenues	52,611	-	964	53,575
Total nonoperating (expenses) revenues	3,102,308	120,359	1,294,471	4,517,138
Operating income (loss) before operating transfers	2,954,287	(2,428,539)	3,630,946	4,156,694
Operating transfers in		290,225	-	290,225
Operating transfers out	-	(250,000)	(12,018,048)	(12,268,048)
Total operating transfers in (out)	-	40,225	(12,018,048)	(11,977,823)
CHANGE IN NET ASSETS	\$ 2,954,287	\$ (2,388,314)	\$ (8,387,102)	\$ (7,821,129)

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	<u>Revenue Bond Funds</u>	<u>Other Funds</u>	<u>Miscellaneous Funds</u>	<u>Total</u>
Net assets at July 1, 2002	\$ 21,340,617	\$ 84,511,306	\$ 119,118,782	\$ 224,970,705
Change in net assets	<u>2,954,287</u>	<u>(2,388,314)</u>	<u>(8,387,102)</u>	<u>(7,821,129)</u>
Net assets at June 30, 2003	<u><u>\$ 24,294,904</u></u>	<u><u>\$ 82,122,992</u></u>	<u><u>\$ 110,731,680</u></u>	<u><u>\$ 217,149,576</u></u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS

Year ended June 30, 2003

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Cash flows from operating activities:				
Cash received from renters	\$ 3,523,028	\$ 4,275,060	\$ -	\$ 7,798,088
Cash received from borrowers				
Principal repayments	1,330,933	-	1,401,666	2,732,599
Interest income	186,170	-	2,113,174	2,299,344
Cash received from net investment in financing lease	1,237,249	-	-	1,237,249
Cash received for conveyance taxes	-	-	2,954,615	2,954,615
Cash payments for loan originations	-	-	(9,070,742)	(9,070,742)
Cash payments for interest	(1,946,887)	-	-	(1,946,887)
Cash payments to employees	(75,664)	(1,485,382)	(569,477)	(2,130,523)
Cash payments to suppliers	(1,556,180)	(2,898,002)	(4,440,539)	(8,894,721)
Cash received (payments to) from other funds	8,260	210,973	(142,764)	76,469
Other cash receipts	287,169	206,184	2,462,092	2,955,445
Net cash provided by (used in) operating activities	2,994,078	308,833	(5,291,975)	(1,989,064)
Cash flows from noncapital financing activities:				
Interest paid to the Department of Budget and Finance	-	(2,871)	(9,430)	(12,301)
Operating transfers in	-	290,225	-	290,225
Operating transfers out	-	(250,000)	(12,018,048)	(12,268,048)
Net cash provided by (used in) noncapital financing activities	-	37,354	(12,027,478)	(11,990,124)
Subtotal carried forward	\$ 2,994,078	\$ 346,187	\$ (17,319,453)	\$ (13,979,188)

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Subtotal brought forward	\$ 2,994,078	\$ 346,187	\$ (17,319,453)	\$ (13,979,188)
Cash flows from capital and related financing activities:				
Payments for acquisition of property and equipment	-	(87,003)	-	(87,003)
Principal paid on revenue bond maturities and redemptions	(2,215,933)	-	-	(2,215,933)
Arbitrage rebate liability paid	(178,606)	-	-	(178,606)
Interest paid on revenue bonds	(1,739,618)	-	-	(1,739,618)
Principal payments on mortgage loans	-	(99,963)	-	(99,963)
Payments of interest	-	(186,896)	-	(186,896)
Net cash used in capital and related financing activities	(4,134,157)	(373,862)	-	(4,508,019)
Cash flows from investing activities:				
Purchases of investments	272,009	-	-	272,009
Proceeds from maturities of investments	-	70,000	39,120	109,120
Receipts of interest	2,074,867	261,431	1,179,770	3,516,068
Net increase in restricted deposits and funded reserves	-	(341,757)	-	(341,757)
Net cash provided by (used in) investing activities	2,346,876	(10,326)	1,218,890	3,555,440
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,206,797	(38,001)	(16,100,563)	(14,931,767)
Cash and cash equivalents at July 1, 2002	16,142,949	3,895,012	61,168,678	81,206,639
Cash and cash equivalents at June 30, 2003	\$ 17,349,746	\$ 3,857,011	\$ 45,068,115	\$ 66,274,872
Reconciliation of cash to cash and cash equivalents:				
Cash	\$ 855,136	\$ 3,857,011	\$ 45,068,115	\$ 49,780,262
Money market funds	16,494,610	-	-	16,494,610
Cash and cash equivalents at June 30, 2003	\$ 17,349,746	\$ 3,857,011	\$ 45,068,115	\$ 66,274,872

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	Revenue Bond Funds	Other Funds	Miscellaneous Funds	Total
Cash flows from operating activities:				
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (148,021)	\$ (2,548,898)	\$ 2,336,475	\$ (360,444)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,563,387	2,504,545	-	4,067,932
Provision for losses	40,002	90,239	297,586	427,827
Changes in assets and liabilities:				
Mortgage loan receivables	1,330,933	-	(2,698,466)	(1,367,533)
Notes and loans receivables	-	-	(5,000,000)	(5,000,000)
Accrued interest receivable on mortgages, notes and loans	-	-	(171,801)	(171,801)
Tenant receivables	(1,211)	(120,083)	-	(121,294)
Other receivables	56,727	38,795	2,897	98,419
Due from other funds	-	18,148	(115,771)	(97,623)
Due from State of Hawaii	-	-	1,053	1,053
Due from HUD	-	18,284	-	18,284
Inventories	-	(14,088)	6,100	(7,988)
Prepaid expenses and other assets	(211)	26,932	43,117	69,838
Net investment in lease financing	420,538	-	-	420,538
Deposits held in trust	-	(1,878)	(31)	(1,909)
Accounts payable	(267,092)	(10,049)	180	(276,961)
Accrued interest payable	(14,199)	-	-	(14,199)
Other accrued expenses	3,300	153,766	7,531	164,597
Due to other funds	8,260	192,825	(27,369)	173,716
Due to HUD	-	(2,234)	-	(2,234)
Security deposits	1,665	(37,682)	26,524	(9,493)
Deferred income	-	211	-	211
	<u>\$ 2,994,078</u>	<u>\$ 308,833</u>	<u>\$ (5,291,975)</u>	<u>\$ (1,989,064)</u>
Net cash provided by (used in) operating activities				

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR REVENUE BOND FUNDS

June 30, 2003

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	\$ -	\$ 527,809	\$ 323,943	\$ 851,752
Receivables				
Mortgage loans	330,376	-	-	330,376
Accrued interest	97,840	16,953	-	114,793
Tenant receivables, less allowance for doubtful accounts	-	14,907	-	14,907
Other	7,124	148,795	21,079	176,998
Net investment in financing lease	-	-	438,232	438,232
Prepaid expenses and other assets	-	4,237	-	4,237
Deferred bond discount and issuance costs	-	25,886	18,385	44,271
Total current assets	<u>435,340</u>	<u>738,587</u>	<u>801,639</u>	<u>1,975,566</u>
Assets held by trustees under Revenue Bond Programs				
Cash	3,384	-	-	3,384
Investments	34,616,530	19,512,610	-	54,129,140
Mortgage loans, net of current portion	1,733,910	-	-	1,733,910
Net investment in financing lease, net of current portion	-	-	17,301,276	17,301,276
Deferred bond discount and issuance costs, net of current portion	-	408,069	318,926	726,995
Capital assets, less accumulated depreciation	-	38,900,014	-	38,900,014
TOTAL ASSETS	<u>\$ 36,789,164</u>	<u>\$ 59,559,280</u>	<u>\$ 18,421,841</u>	<u>\$ 114,770,285</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ -	\$ 111,461	\$ -	\$ 111,461
Accrued expenses				
Interest	719,931	236,133	221,100	1,177,164
Other	14,019	19,494	-	33,513
Due to other funds	(181,422)	21,494	6,407	(153,521)
Security deposits	-	260,784	-	260,784
Revenue bonds payable, less deferred refunding cost	645,376	250,000	360,000	1,255,376
Total current liabilities	<u>1,197,904</u>	<u>899,366</u>	<u>587,507</u>	<u>2,684,777</u>
Arbitrage rebate payable	-	1,694	-	1,694
Note payable, net of current portion	-	3,500,000	-	3,500,000
Revenue bonds payable, less deferred refunding cost, net of current portion	32,003,910	36,840,000	15,445,000	84,288,910
Net assets				
Invested in capital assets, net of related debt	-	(1,256,031)	-	(1,256,031)
Restricted by legislation and contractual agreements	34,619,914	19,512,610	-	54,132,524
Unrestricted	(31,032,564)	61,641	2,389,334	(28,581,589)
Total net assets	<u>3,587,350</u>	<u>18,318,220</u>	<u>2,389,334</u>	<u>24,294,904</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 36,789,164</u>	<u>\$ 59,559,280</u>	<u>\$ 18,421,841</u>	<u>\$ 114,770,285</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2003

	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 and mortgage-backed securities	\$ 177,535	\$ -	\$ 825,346	\$ 1,002,881
Rental	-	3,522,574	-	3,522,574
Other	65,760	164,682	-	230,442
	<u>243,295</u>	<u>3,687,256</u>	<u>825,346</u>	<u>4,755,897</u>
Total operating revenues				
Operating expenses				
Project	-	1,048,530	-	1,048,530
Personal services	22,663	53,001	-	75,664
Depreciation	-	1,563,387	-	1,563,387
Administration	6,135	24,962	281	31,378
Provision for losses	-	40,002	-	40,002
Professional services	14,727	17,193	12,215	44,135
Security	10	31	-	41
Insurance	429	497	-	926
Repairs and maintenance	585	3,382	-	3,967
Utilities	-	441	-	441
Capital expenditures	(124)	15,568	-	15,444
Interest expense	1,925,396	-	-	1,925,396
Other	60,072	94,535	-	154,607
	<u>2,029,893</u>	<u>2,861,529</u>	<u>12,496</u>	<u>4,903,918</u>
Total operating expenses				
Operating (loss) income	(1,786,598)	825,727	812,850	(148,021)
Nonoperating revenues (expenses)				
Interest income - investments	1,769,142	214,315	-	1,983,457
Net increase in fair value of investments	3,065,606	-	-	3,065,606
Interest expense	(159)	(840,556)	(888,324)	(1,729,039)
Letter of credit fees	-	(154,843)	-	(154,843)
Trustee fees	(7,292)	(62,360)	-	(69,652)
Amortization of deferred bond issuance costs	-	(26,055)	(19,641)	(45,696)
Loss on disposal of property and equipment	-	(136)	-	(136)
Other revenues	-	17,227	35,384	52,611
	<u>4,827,297</u>	<u>(852,408)</u>	<u>(872,581)</u>	<u>3,102,308</u>
Total nonoperating revenues (expenses)				
CHANGE IN NET ASSETS	<u>\$ 3,040,699</u>	<u>\$ (26,681)</u>	<u>\$ (59,731)</u>	<u>\$ 2,954,287</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	<u>Multifamily Housing Revenue Bond Fund</u>	<u>State of Hawaii Affordable Rental Program</u>	<u>University of Hawaii Faculty Housing Program Revenue Bond Fund</u>	<u>Total</u>
Net assets at July 1, 2002	\$ 546,651	\$ 18,344,901	\$ 2,449,065	\$ 21,340,617
Change in net assets	<u>3,040,699</u>	<u>(26,681)</u>	<u>(59,731)</u>	<u>2,954,287</u>
Net assets at June 30, 2003	<u><u>\$ 3,587,350</u></u>	<u><u>\$ 18,318,220</u></u>	<u><u>\$ 2,389,334</u></u>	<u><u>\$ 24,294,904</u></u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR REVENUE BOND FUNDS

Year ended June 30, 2003

	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	\$ -	\$ 3,523,028	\$ -	\$ 3,523,028
Cash received from borrowers				
Principal repayments	1,330,933	-	-	1,330,933
Interest income	177,535	-	8,635	186,170
Cash received from net investment in financing lease	-	-	1,237,249	1,237,249
Cash payments for interest	(1,946,887)	-	-	(1,946,887)
Cash payments to employees	(22,663)	(53,001)	-	(75,664)
Cash payments to suppliers	(80,878)	(1,462,090)	(13,212)	(1,556,180)
Cash (payments to) receipts from other funds	(17,493)	19,810	5,943	8,260
Other cash receipts	61,119	188,375	37,675	287,169
Net cash (used in) provided by operating activities	(498,334)	2,216,122	1,276,290	2,994,078
Cash flows from capital and related financing activities:				
Principal paid on revenue bond maturities and redemptions	(1,625,933)	(245,000)	(345,000)	(2,215,933)
Arbitrage rebate liability paid	-	(178,606)	-	(178,606)
Interest paid on revenue bonds	-	(847,370)	(892,248)	(1,739,618)
Net cash used in capital and related financial activities	(1,625,933)	(1,270,976)	(1,237,248)	(4,134,157)
Cash flows from investing activities:				
Purchases of investments	272,009	-	-	272,009
Receipts of interest	1,853,296	221,571	-	2,074,867
Net cash provided by investing activities	2,125,305	221,571	-	2,346,876
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	1,038	1,166,717	39,042	1,206,797
Cash and cash equivalents at July 1, 2002	2,346	15,855,702	284,901	16,142,949
Cash and cash equivalents at June 30, 2003	<u>\$ 3,384</u>	<u>\$ 17,022,419</u>	<u>\$ 323,943</u>	<u>\$ 17,349,746</u>
Reconciliation of cash to cash and cash equivalents:				
Cash	\$ 3,384	\$ 527,809	\$ 323,943	\$ 855,136
Money market funds	-	16,494,610	-	16,494,610
Cash and cash equivalents at June 30, 2003	<u>\$ 3,384</u>	<u>\$ 17,022,419</u>	<u>\$ 323,943</u>	<u>\$ 17,349,746</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	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 (loss) income to net cash (used in) provided by operating activities:				
Operating (loss) income	\$ (1,786,598)	\$ 825,727	\$ 812,850	\$ (148,021)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:				
Depreciation	-	1,563,387	-	1,563,387
Provision for losses	-	40,002	-	40,002
Changes in assets and liabilities:				
Mortgage loans receivables	1,330,933	-	-	1,330,933
Tenant receivables	-	(1,211)	-	(1,211)
Other receivables	(4,641)	23,693	37,675	56,727
Prepaid expenses and other assets	-	(211)	-	(211)
Net investment in lease financing	-	-	420,538	420,538
Accounts payable	(7,292)	(259,084)	(716)	(267,092)
Accrued interest payable	(14,199)	-	-	(14,199)
Other accrued expenses	956	2,344	-	3,300
Due to other funds	(17,493)	19,810	5,943	8,260
Security deposits	-	1,665	-	1,665
	<u>\$ (498,334)</u>	<u>\$ 2,216,122</u>	<u>\$ 1,276,290</u>	<u>\$ 2,994,078</u>
Net cash (used in) provided by operating activities	<u>\$ (498,334)</u>	<u>\$ 2,216,122</u>	<u>\$ 1,276,290</u>	<u>\$ 2,994,078</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2003

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	\$ 283,568	\$ 1,432,717	\$ 1,007,269	\$ 57,968	\$ 1,003,515	\$ 59,848	\$ 12,126	\$ 3,857,011
Receivables								
Accrued interest	-	9,506	7,875	-	-	-	-	17,381
Tenant receivables, less allowance for doubtful accounts	78,692	14,032	52,611	2,335	11,386	23,773	4,114	186,943
Other	6,675	844	713	-	1,980	989	-	11,201
Due from other funds	49,301	686,933	-	-	-	-	-	736,234
Due from HUD	-	-	-	2,030	6,075	-	-	8,105
Inventories								
Materials and supplies	387	55,828	-	-	-	-	-	56,215
Prepaid expenses and other assets	-	18,019	-	61,468	-	-	-	79,487
Deposits held in trust	-	-	-	12,784	20,790	32,969	24,389	90,932
Total current assets	418,623	2,217,879	1,068,468	136,585	1,043,746	117,579	40,629	5,043,509
Notes and loans	426,100	-	-	-	-	-	-	426,100
Other receivables	402,664	-	-	-	-	-	-	402,664
Advances to other funds	175,000	130,000	20,000	-	-	-	-	325,000
Restricted deposits and funded reserves	-	-	-	2,423,945	4,094,966	550,286	1,090	7,070,287
Capital assets, less accumulated depreciation	14,007,431	48,145,539	1,453,738	2,868,268	6,216,188	5,235,587	-	77,926,751
TOTAL ASSETS	<u>\$ 15,429,818</u>	<u>\$ 50,493,418</u>	<u>\$ 2,542,206</u>	<u>\$ 5,428,798</u>	<u>\$ 11,354,900</u>	<u>\$ 5,903,452</u>	<u>\$ 41,719</u>	<u>\$ 91,194,311</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2003

LIABILITIES AND NET 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 liabilities								
Accounts payable	\$ 1,467	\$ -	\$ 3,334	\$ 18,348	\$ 20,295	\$ 6,630	\$ 336	\$ 50,410
Accrued expenses								
Interest	-	-	-	71,561	-	-	-	71,561
Other	126,666	200,373	11,263	-	5,951	-	283,776	628,029
Due to other funds	1,354,794	33	376	-	-	-	-	1,355,203
Due to HUD	-	-	-	1,349	730	-	-	2,079
Security deposits	32,104	85,985	22,100	12,757	20,790	32,969	24,389	231,094
Mortgage payable	-	-	-	78,000	-	28,893	-	106,893
Deferred income	-	-	-	886	1,171	-	-	2,057
Total current liabilities	1,515,031	286,391	37,073	182,901	48,937	68,492	308,501	2,447,326
Note payable, net of current portion	-	-	-	171,327	-	-	-	171,327
Mortgage payable, net of current portion	-	-	-	736,338	-	5,716,328	-	6,452,666
Net assets								
Invested in capital assets, net of related debt	14,007,431	48,145,539	1,453,738	1,882,603	6,216,188	(509,634)	-	71,195,865
Restricted by legislation and contractual agreements	-	-	-	2,423,945	4,094,966	550,286	1,090	7,070,287
Unrestricted	(92,644)	2,061,488	1,051,395	31,684	994,809	77,980	(267,872)	3,856,840
Total net assets	13,914,787	50,207,027	2,505,133	4,338,232	11,305,963	118,632	(266,782)	82,122,992
TOTAL LIABILITIES AND NET ASSETS	\$ 15,429,818	\$ 50,493,418	\$ 2,542,206	\$ 5,428,798	\$ 11,354,900	\$ 5,903,452	\$ 41,719	\$ 91,194,311

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2003

	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	\$ 681,015	\$ 1,585,639	\$ 227,273	\$ 426,802	\$ 772,974	\$ 419,915	\$ 321,085	\$ 4,434,703
Other	36,000	-	20,083	13,553	58,201	18,264	5,251	151,352
Total operating revenues	717,015	1,585,639	247,356	440,355	831,175	438,179	326,336	4,586,055
Operating expenses								
Personal services	627,547	354,072	75,583	65,066	193,259	98,640	71,215	1,485,382
Depreciation	415,127	1,387,540	58,734	141,904	346,786	154,454	-	2,504,545
Administration	99,312	154,988	43,460	29,889	60,257	22,583	203,464	613,953
Provision for losses	20,164	3,429	-	3,575	44,000	19,071	-	90,239
Professional services	35,800	18,673	7,370	13,500	13,934	17,385	4,940	111,602
Mortgage insurance	-	-	-	6,009	-	-	-	6,009
Security	627	695	25	-	48,475	-	-	49,822
Insurance	6,392	3,064	869	-	1,871	-	-	12,196
Repairs and maintenance	257,858	466,870	69,372	112,527	68,907	42,848	30,966	1,049,348
Utilities	353,937	552,315	7,865	35,575	73,451	40,339	55,764	1,119,246
Capital expenditures	8,624	39,672	11,441	-	-	-	-	59,737
Other	1,193	-	-	-	8,161	23,520	-	32,874
Total operating expenses	1,826,581	2,981,318	274,719	408,045	859,101	418,840	366,349	7,134,953
Operating (loss) income	(1,109,566)	(1,395,679)	(27,363)	32,310	(27,926)	19,339	(40,013)	(2,548,898)
Nonoperating revenues (expenses)								
Interest income - investments	175,263	42,379	27,394	13,045	50,288	3,767	-	312,136
Interest expense	(2,349)	-	(522)	(65,875)	-	(122,847)	-	(191,593)
Loss on disposal of property and equipment	-	(184)	-	-	-	-	-	(184)
Total nonoperating revenues (expenses)	172,914	42,195	26,872	(52,830)	50,288	(119,080)	-	120,359
(Loss) income before operating transfers	(936,652)	(1,353,484)	(491)	(20,520)	22,362	(99,741)	(40,013)	(2,428,539)
Operating transfers in	238,466	-	-	-	-	-	51,759	290,225
Operating transfers out	-	(250,000)	-	-	-	-	-	(250,000)
Total operating transfers in (out)	238,466	(250,000)	-	-	-	-	51,759	40,225
CHANGE IN NET ASSETS	\$ (698,186)	\$ (1,603,484)	\$ (491)	\$ (20,520)	\$ 22,362	\$ (99,741)	\$ 11,746	\$ (2,388,314)

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	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
Net assets at July 1, 2002	\$ 14,612,973	\$ 51,810,511	\$ 2,505,624	\$ 4,358,752	\$ 11,283,601	\$ 218,373	\$ (278,528)	\$ 84,511,306
Change in net assets	<u>(698,186)</u>	<u>(1,603,484)</u>	<u>(491)</u>	<u>(20,520)</u>	<u>22,362</u>	<u>(99,741)</u>	<u>11,746</u>	<u>(2,388,314)</u>
Net assets at June 30, 2003	<u>\$ 13,914,787</u>	<u>\$ 50,207,027</u>	<u>\$ 2,505,133</u>	<u>\$ 4,338,232</u>	<u>\$ 11,305,963</u>	<u>\$ 118,632</u>	<u>\$ (266,782)</u>	<u>\$ 82,122,992</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2003

	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	\$ 615,608	\$ 1,561,467	\$ 209,356	\$ 428,104	\$ 737,496	\$ 401,950	\$ 321,079	\$ 4,275,060
Cash payments to employees	(627,547)	(354,072)	(75,583)	(65,066)	(193,259)	(98,640)	(71,215)	(1,485,382)
Cash payments to suppliers	(725,142)	(1,109,988)	(135,236)	(209,401)	(278,106)	(145,191)	(294,938)	(2,898,002)
Cash receipts (payments) from other funds	211,138	(473)	308	-	-	-	-	210,973
Other cash receipts (payments)	59,578	(844)	19,370	29,535	74,485	18,809	5,251	206,184
Net cash (used in) provided by operating activities	(466,365)	96,090	18,215	183,172	340,616	176,928	(39,823)	308,833
Cash flows from noncapital financing activities:								
Interest paid to Department of Budget and Finance	(2,349)	-	(522)	-	-	-	-	(2,871)
Operating transfers in	238,466	-	-	-	-	-	51,759	290,225
Operating transfers out	-	(250,000)	-	-	-	-	-	(250,000)
Net cash provided by (used in) noncapital financing activities	236,117	(250,000)	(522)	-	-	-	51,759	37,354
Cash flows from capital and related financing activities:								
Payments for acquisition of property and equipment	-	-	-	-	(7,482)	(79,521)	-	(87,003)
Principal payments on mortgage loans	-	-	-	(72,392)	-	(27,571)	-	(99,963)
Payments of interest	-	-	-	(64,049)	-	(122,847)	-	(186,896)
Net cash used in capital and related financing activities	-	-	-	(136,441)	(7,482)	(229,939)	-	(373,862)
Cash flows from investing activities:								
Proceeds from maturities of investments	-	-	-	-	-	70,000	-	70,000
Receipts of interest	110,128	50,036	32,674	14,538	50,288	3,767	-	261,431
Net increase in restricted deposits and funded reserves	-	-	-	(67,140)	(122,008)	(152,608)	(1)	(341,757)
Net cash provided by (used in) investing activities	110,128	50,036	32,674	(52,602)	(71,720)	(78,841)	(1)	(10,326)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(120,120)	(103,874)	50,367	(5,871)	261,414	(131,852)	11,935	(38,001)
Cash and cash equivalents at July 1, 2002	403,688	1,536,591	956,902	63,839	742,101	191,700	191	3,895,012
Cash and cash equivalents at June 30, 2003	<u>\$ 283,568</u>	<u>\$ 1,432,717</u>	<u>\$ 1,007,269</u>	<u>\$ 57,968</u>	<u>\$ 1,003,515</u>	<u>\$ 59,848</u>	<u>\$ 12,126</u>	<u>\$ 3,857,011</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	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 (used in) provided by operating activities:								
Operating (loss) income	\$ (1,109,566)	\$ (1,395,679)	\$ (27,363)	\$ 32,310	\$ (27,926)	\$ 19,339	\$ (40,013)	\$ (2,548,898)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:								
Depreciation	415,127	1,387,540	58,734	141,904	346,786	154,454	-	2,504,545
Provision for losses	20,164	3,429	-	3,575	44,000	19,071	-	90,239
Changes in assets and liabilities:								
Tenant receivables	(27,824)	(16,511)	(22,969)	(578)	(35,478)	(16,717)	(6)	(120,083)
Other receivables	24,771	(844)	(713)	-	14,848	733	-	38,795
Due from other funds	18,148	-	-	-	-	-	-	18,148
Due from HUD	-	-	-	12,778	5,506	-	-	18,284
Inventories	4,122	(18,210)	-	-	-	-	-	(14,088)
Prepaid expenses and other assets	-	21,979	-	4,953	-	-	-	26,932
Deposits held in trust	-	-	-	2,142	(3,022)	1,611	(2,609)	(1,878)
Accounts payable	(664)	(25)	-	(15,885)	4,845	1,484	196	(10,049)
Other accrued expenses	33,950	122,545	5,166	-	(7,895)	-	-	153,766
Due to other funds	192,990	(473)	308	-	-	-	-	192,825
Due to HUD	-	-	-	1,349	(3,583)	-	-	(2,234)
Security deposits	(37,583)	(7,661)	5,052	(262)	3,022	(2,859)	2,609	(37,682)
Deferred income	-	-	-	886	(487)	(188)	-	211
Net cash (used in) provided by operating activities	<u>\$ (466,365)</u>	<u>\$ 96,090</u>	<u>\$ 18,215</u>	<u>\$ 183,172</u>	<u>\$ 340,616</u>	<u>\$ 176,928</u>	<u>\$ (39,823)</u>	<u>\$ 308,833</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

June 30, 2003

ASSETS	Fee Simple Residential Revolving Fund	Hawaii Development Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Current Assets												
Cash	\$ 360,663	\$ -	\$ 16,975,764	\$ 4,600,581	\$ 2,572,216	\$ 20,421,044	\$ -	\$ -	\$ 133,858	\$ -	\$ 3,989	\$ 45,068,115
Investments	-	-	1,379,878	-	-	-	-	-	-	-	-	1,379,878
Receivables												
Mortgage loans	-	-	-	137,800	-	304,574	-	-	-	2,763	4,248	449,385
Accrued interest	7,627	-	752,172	159,089	-	840,853	-	-	-	1,604	1,078	1,762,423
Other	-	-	-	-	-	-	-	13,089	-	-	-	13,089
Due from other funds	109,673	-	-	220,695	3,370,413	-	-	-	-	-	-	3,700,781
Due from State of Hawaii	-	-	-	-	1,919	-	-	-	-	-	-	1,919
Inventories												
Materials and supplies	-	-	-	-	78,881	-	-	-	-	-	-	78,881
Prepaid expenses and other assets	-	-	135,640	63,990	15,502	-	-	-	-	-	-	215,132
Deposits held in trust	6,898	-	-	-	-	-	-	-	-	-	-	6,898
Total current assets	484,861	-	19,243,454	5,182,155	6,038,931	21,566,471	-	13,089	133,858	4,367	9,315	52,676,501
Investments	-	-	12,737,485	20,349	-	-	-	-	-	-	-	12,757,834
Mortgage loans, net of current portion	-	-	2,249,985	1,918,780	-	42,247,231	-	-	-	14,676	34,232	46,464,904
Notes and loans, net of current portion	-	-	5,000,000	-	-	-	-	-	-	-	-	5,000,000
Other receivables	370,741	-	-	-	-	-	-	-	-	-	-	370,741
TOTAL ASSETS	\$ 855,602	\$ -	\$ 39,230,924	\$ 7,121,284	\$ 6,038,931	\$ 63,813,702	\$ -	\$ 13,089	\$ 133,858	\$ 19,043	\$ 43,547	\$ 117,269,980

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

June 30, 2003

LIABILITIES AND NET ASSETS	Fee Simple Residential Revolving Fund	Hawaii Development Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Current Liabilities												
Accounts payable	\$ 5,452	\$ -	\$ -	\$ 1,078	\$ 3,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,570
Accrued expenses												
Other	18,615	-	38,840	113,225	9,805	-	2,422	-	-	-	-	182,907
Due to other funds	-	-	101	18,015	5,877,135	1,041	-	13,089	-	8,364	19,287	5,937,032
Due to State of Hawaii	-	-	-	-	25,000	-	-	-	-	-	-	25,000
Security deposits	6,898	-	-	376,893	-	-	-	-	-	-	-	383,791
Total current liabilities	30,965	-	38,941	509,211	5,914,980	1,041	2,422	13,089	-	8,364	19,287	6,538,300
Net assets												
Restricted by legislation and contractual agreements	-	-	-	-	-	-	(2,422)	-	-	10,679	24,260	32,517
Unrestricted	824,637	-	39,191,983	6,612,073	123,951	63,812,661	-	-	133,858	-	-	110,699,163
Total net assets	824,637	-	39,191,983	6,612,073	123,951	63,812,661	(2,422)	-	133,858	10,679	24,260	110,731,680
TOTAL LIABILITIES AND NET ASSETS	\$ 855,602	\$ -	\$ 39,230,924	\$ 7,121,284	\$ 6,038,931	\$ 63,813,702	\$ -	\$ 13,089	\$ 133,858	\$ 19,043	\$ 43,547	\$ 117,269,980

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2003

	Fee Simple Residential Revolving Fund	Hawaii Development Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Operating revenues												
Interest on mortgages, notes, loans and mortgage-backed securities	\$ -	\$ -	\$ 1,679,599	\$ 113,483	\$ -	\$ 514,301	\$ -	\$ -	\$ -	\$ 1,499	\$ 2,078	\$ 2,310,960
Conveyance tax	-	-	-	-	-	2,954,615	-	-	-	-	-	2,954,615
Other	79,027	-	3,333	320,047	-	-	-	2,033,691	-	9	-	2,436,107
Total operating revenues	79,027	-	1,682,932	433,530	-	3,468,916	-	2,033,691	-	1,508	2,078	7,701,682
Operating expenses												
Project	-	-	-	-	-	-	-	1,935,339	-	-	-	1,935,339
Personal services	84,166	-	80,940	259,607	-	100,144	-	67,625	-	-	-	592,482
Housing assistance payments	-	-	2,131,957	-	-	-	-	-	-	-	-	2,131,957
Administration	23,702	-	24,613	187,989	-	11,677	-	23,919	-	-	-	271,900
Provision for losses	153,519	-	-	118,845	-	-	-	-	-	15,807	9,415	297,586
Professional services	3,391	-	9,457	36,912	-	13,668	-	1,796	-	2,747	1,930	69,901
Security	29	-	45	99	-	-	-	-	-	-	-	173
Insurance	936	-	866	17,440	-	1,652	-	-	-	-	-	20,894
Repairs and maintenance	1,777	-	2,243	13,445	-	1,311	-	-	-	-	-	18,776
Capital expenditures	1,655	-	-	14,088	-	342	-	-	-	-	-	16,085
Other	-	-	-	5,102	-	-	-	5,012	-	-	-	10,114
Total operating expenses	269,175	-	2,250,121	653,527	-	128,794	-	2,033,691	-	18,554	11,345	5,365,207
Operating (loss) income	(190,148)	-	(567,189)	(219,997)	-	3,340,122	-	-	-	(17,046)	(9,267)	2,336,475
Nonoperating revenues (expenses)												
Interest income - investments	13,730	1,400	197,796	151,060	-	591,654	895	-	921	-	-	957,456
Net increase (decrease) in fair value of investments	-	-	347,243	(1,762)	-	-	-	-	-	-	-	345,481
Interest expense	(440)	-	(1,439)	(7,551)	-	-	-	-	-	-	-	(9,430)
Other income	-	-	964	-	-	-	-	-	-	-	-	964
Total nonoperating revenues	13,290	1,400	544,564	141,747	-	591,654	895	-	921	-	-	1,294,471
(Loss) income before operating transfers	(176,858)	1,400	(22,625)	(78,250)	-	3,931,776	895	-	921	(17,046)	(9,267)	3,630,946
Operating transfers out	(300,000)	(427,588)	(6,000,000)	(5,000,000)	-	-	(276,283)	-	-	(2,611)	(11,566)	(12,018,048)
CHANGE IN NET ASSETS	\$ (476,858)	\$ (426,188)	\$ (6,022,625)	\$ (5,078,250)	\$ -	\$ 3,931,776	\$ (275,388)	\$ -	\$ 921	\$ (19,657)	\$ (20,833)	\$ (8,387,102)

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	Fee Simple Residential Revolving Fund	Hawaii Development Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Net assets at July 1, 2002	\$ 1,301,495	\$ 426,188	\$ 45,214,608	\$ 11,690,323	\$ 123,951	\$ 59,880,885	\$ 272,966	\$ -	\$ 132,937	\$ 30,336	\$ 45,093	\$ 119,118,782
Change in net assets	<u>(476,858)</u>	<u>(426,188)</u>	<u>(6,022,625)</u>	<u>(5,078,250)</u>	<u>-</u>	<u>3,931,776</u>	<u>(275,388)</u>	<u>-</u>	<u>921</u>	<u>(19,657)</u>	<u>(20,833)</u>	<u>(8,387,102)</u>
Net assets at June 30, 2003	<u>\$ 824,637</u>	<u>\$ -</u>	<u>\$ 39,191,983</u>	<u>\$ 6,612,073</u>	<u>\$ 123,951</u>	<u>\$ 63,812,661</u>	<u>\$ (2,422)</u>	<u>\$ -</u>	<u>\$ 133,858</u>	<u>\$ 10,679</u>	<u>\$ 24,260</u>	<u>\$ 110,731,680</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR MISCELLANEOUS ENTERPRISE FUNDS

Year ended June 30, 2003

	Fee Simple Revolving Fund	Hawaii Development Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Cash flows from operating activities:												
Cash received from borrowers												
Principal repayments	\$ 2,897	\$ -	\$ 884,083	\$ 57,842	\$ -	\$ 450,243	\$ -	\$ -	\$ -	\$ 2,611	\$ 3,990	\$ 1,401,666
Interest income	-	-	1,571,678	220,541	-	319,145	-	-	-	559	1,251	2,113,174
Cash received for conveyance taxes	-	-	-	-	-	2,954,615	-	-	-	-	-	2,954,615
Cash payments for loan originations	-	-	(5,000,000)	-	-	(4,070,742)	-	-	-	-	-	(9,070,742)
Cash payments to employees	(84,166)	-	(80,940)	(259,607)	-	(77,139)	-	(67,625)	-	-	-	(569,477)
Cash payments to suppliers	(30,260)	-	(2,118,169)	(265,786)	(4,603)	(51,655)	-	(1,966,066)	-	(2,747)	(1,253)	(4,440,539)
Cash (payments to) receipts from other funds	(953)	-	92	(64,481)	(46,610)	(7,006)	-	(25,994)	-	2,188	-	(142,764)
Other cash receipts	79,027	-	3,333	320,047	-	-	-	2,059,685	-	-	-	2,462,092
Net cash (used in) provided by operating activities	(33,455)	-	(4,739,923)	8,556	(51,213)	(482,539)	-	-	-	2,611	3,988	(5,291,975)
Cash flows from noncapital financing activities:												
Interest paid to the Department of Budget and Finance												
	(440)	-	(1,439)	(7,551)	-	-	-	-	-	-	-	(9,430)
Operating transfers out	(300,000)	(427,588)	(6,000,000)	(5,000,000)	-	-	(276,283)	-	-	(2,611)	(11,566)	(12,018,048)
Net cash used in noncapital financing activities	(300,440)	(427,588)	(6,001,439)	(5,007,551)	-	-	(276,283)	-	-	(2,611)	(11,566)	(12,027,478)
Cash flows from investing activities:												
Proceeds from maturities of investments												
	-	-	-	39,120	-	-	-	-	-	-	-	39,120
Receipts of interest	15,494	2,131	304,406	151,366	-	701,170	4,282	-	921	-	-	1,179,770
Net cash provided by investing activities	15,494	2,131	304,406	190,486	-	701,170	4,282	-	921	-	-	1,218,890
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(318,401)	(425,457)	(10,436,956)	(4,808,509)	(51,213)	218,631	(272,001)	-	921	-	(7,578)	(16,100,563)
Cash and cash equivalents at July 1, 2002	679,064	425,457	27,412,720	9,409,090	2,623,429	20,202,413	272,001	-	132,937	-	11,567	61,168,678
Cash and cash equivalents at June 30, 2003	\$ 360,663	\$ -	\$ 16,975,764	\$ 4,600,581	\$ 2,572,216	\$ 20,421,044	\$ -	\$ -	\$ 133,858	\$ -	\$ 3,989	\$ 45,068,115

State of Hawaii
Housing and Community Development Corporation of Hawaii

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

Year ended June 30, 2003

	Fee Simple Residential Revolving Fund	Hawaii Development Revolving Fund	Rental Assistance Fund	Housing Finance Revolving Fund	Disbursing Fund	Rental Housing Trust Fund	Housing Alteration Revolving Loan Fund	Federal Grant Program Fund	Grant-In-Aid Fund	Hamakua	Waialua	Total
Cash flows from operating activities:												
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:												
Operating (loss) income	\$ (190,148)	\$ -	\$ (567,189)	\$ (219,997)	\$ -	\$ 3,340,122	\$ -	\$ -	\$ -	\$ (17,046)	\$ (9,267)	\$ 2,336,475
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:												
Provision for losses	153,519	-	-	118,845	-	-	-	-	-	15,807	9,415	297,586
Changes in assets and liabilities:												
Mortgage loans receivables	-	-	884,083	31,349	-	(3,620,499)	-	-	-	2,611	3,990	(2,698,466)
Notes and loans receivables	-	-	(5,000,000)	-	-	-	-	-	-	-	-	(5,000,000)
Accrued interest receivable on mortgages, notes and loans	-	-	(107,921)	107,058	-	(195,156)	-	25,994	-	(949)	(827)	(171,801)
Other receivables	2,897	-	-	-	-	-	-	-	-	-	-	2,897
Due from other funds	(873)	-	-	(81,836)	(33,062)	-	-	-	-	-	-	(115,771)
Due from State of Hawaii	-	-	-	-	1,053	-	-	-	-	-	-	1,053
Inventories	-	-	-	-	6,100	-	-	-	-	-	-	6,100
Prepaid expenses and other assets	-	-	43,654	-	(537)	-	-	-	-	-	-	43,117
Deposits held in trust	(31)	-	-	-	-	-	-	-	-	-	-	(31)
Accounts payable	(600)	-	-	173	607	-	-	-	-	-	-	180
Other accrued expenses	1,830	-	7,358	9,116	(10,773)	-	-	-	-	-	-	7,531
Due to other funds	(80)	-	92	17,355	(14,601)	(7,006)	-	(25,994)	-	2,188	677	(27,369)
Security deposits	31	-	-	26,493	-	-	-	-	-	-	-	26,524
Net cash (used in) provided by operating activities	<u>\$ (33,455)</u>	<u>\$ -</u>	<u>\$ (4,739,923)</u>	<u>\$ 8,556</u>	<u>\$ (51,213)</u>	<u>\$ (482,539)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,611</u>	<u>\$ 3,988</u>	<u>\$ (5,291,975)</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF NET ASSETS – INTERNAL SERVICE FUNDS

June 30, 2003

	<u>Equipment rental</u>	<u>Vehicle rental</u>	<u>Total</u>
ASSETS			
Current assets			
Cash	\$ 876,546	\$ 485,355	\$ 1,361,901
Accrued interest receivable	1,577	2,467	4,044
	<u>878,123</u>	<u>487,822</u>	<u>1,365,945</u>
Total current assets			
Capital assets, less accumulated depreciation	<u>45,401</u>	<u>53,942</u>	<u>99,343</u>
	<u>\$ 923,524</u>	<u>\$ 541,764</u>	<u>\$ 1,465,288</u>
TOTAL ASSETS			
LIABILITIES AND NET ASSETS			
Net assets			
Invested in capital assets	\$ 45,401	\$ 53,942	\$ 99,343
Unrestricted	<u>878,123</u>	<u>487,822</u>	<u>1,365,945</u>
	<u>923,524</u>	<u>541,764</u>	<u>1,465,288</u>
Total net assets			
	<u>\$ 923,524</u>	<u>\$ 541,764</u>	<u>\$ 1,465,288</u>
TOTAL LIABILITIES AND NET ASSETS			

State of Hawaii
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, 2003

	Equipment rental	Vehicle rental	Total
Operating revenues			
Rental	\$ 147,791	\$ 19,005	\$ 166,796
Total operating revenues	147,791	19,005	166,796
Operating expenses			
Depreciation	58,626	17,053	75,679
Professional services	3,042	3,308	6,350
Capital expenditures	87,054	-	87,054
Total operating expenses	148,722	20,361	169,083
Operating loss	(931)	(1,356)	(2,287)
Nonoperating revenue			
Interest income - investments	24,112	13,936	38,048
Total nonoperating revenue	24,112	13,936	38,048
Change in net assets	23,181	12,580	35,761
Net assets at July 1, 2002	900,343	529,184	1,429,527
Net assets at June 30, 2003	\$ 923,524	\$ 541,764	\$ 1,465,288

State of Hawaii
Housing and Community Development Corporation of Hawaii

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS

Year ended June 30, 2003

	Equipment rental	Vehicle rental	Total
Cash flows from operating activities:			
Cash received from renters	\$ 147,791	\$ 19,005	\$ 166,796
Cash payments to suppliers	(90,096)	(3,308)	(93,404)
Cash receipts from other funds	14,315	-	14,315
Net cash provided by operating activities	72,010	15,697	87,707
Cash flows provided by investing activities:			
Receipts of interest	28,742	16,594	45,336
Net cash provided by investing activities	28,742	16,594	45,336
NET INCREASE IN CASH AND CASH EQUIVALENTS	100,752	32,291	133,043
Cash and cash equivalents at July 1, 2002	775,794	453,064	1,228,858
Cash and cash equivalents at June 30, 2003	\$ 876,546	\$ 485,355	\$ 1,361,901
Cash flows from operating activities:			
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (931)	\$ (1,356)	\$ (2,287)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	58,626	17,053	75,679
Changes in assets and liabilities:			
Due from other funds	14,315	-	14,315
Net cash provided by operating activities	\$ 72,010	\$ 15,697	\$ 87,707

State of Hawaii
Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

June 30, 2003

The Corporation's cash and short-term investments consists of the following as of June 30, 2003:

Equity in State Treasury investment pool	\$ 156,346,136
Cash in banks	16,990,608
Cash held by trustees	17,814,723
Certificates of deposits and money market funds	59,466,310
Deposits held in trust	97,830
Petty cash	3,850
	<u>3,850</u>
	<u>\$ 250,719,457</u>

Total cash and short-term investments are in agreement with the State Comptroller's central accounting records as of June 30, 2003, as reconciled below:

	Appropriation symbol	June 30, 2003
Cash in State Treasury		
General Fund	G-02-022-B	\$ 66,571
	G-02-310-B	7,653
	G-03-020-B	343,559
	G-03-022-B	270,238
	G-03-310-B	26,500
Bond Funds	B-00-404-B	27,503
	B-00-405-B	465,090
	B-00-406-B	32,004
	B-01-410-B	2,400,000
	B-01-411-B	224,749
	B-01-414-B	1,951
	B-01-415-B	65,722
	B-02-431-B	1,125,000
	B-02-432-B	35,000
	B-02-433-B	25,000
	B-02-434-B	222,750
	B-02-435-B	198,930
	B-02-436-B	2,400,000
	B-85-800-K	5,000
	B-85-801-K	30,414
	B-97-471-B	472
	B-97-479-B	28,179
	B-97-481-B	14,011
		<u>14,011</u>
Subtotal carried forward		<u>\$ 8,016,296</u>

State of Hawaii
Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS (continued)

June 30, 2003

	Appropriation symbol	June 30, 2003
Subtotal brought forward		\$ 8,016,296
Special Funds	S-00-318-B	12,445
	S-00-337-B	10,234
	S-01-318-B	2,792
	S-01-332-B	1,620
	S-01-337-B	3,981
	S-02-318-B	37,775
	S-02-332-B	6,715
	S-02-337-B	10,374
	S-02-800-B	10,449,830
	S-03-210-B	145,364
	S-03-311-B	56,431
	S-03-318-B	69,113
	S-03-320-B	79,184
	S-03-321-B	60,810
	S-03-325-B	3,988
	S-03-329-B	3,104
	S-03-332-B	2,625,783
	S-03-334-B	950,500
	S-03-335-B	485,355
	S-03-336-B	876,546
	S-03-337-B	1,280,433
	S-03-370-B	6,454,870
	S-03-374-B	357,561
	S-03-375-B	81,748,211
	S-03-376-B	4,568,267
	S-03-377-B	324,676
	S-03-378-B	16,974,613
	S-97-801-B	10,889
	S-97-803-B	26,991
	S-99-337-B	4,656
Subtotal carried forward		\$ 135,659,407

State of Hawaii
Housing and Community Development Corporation of Hawaii

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS (continued)

June 30, 2003

	Appropriation symbol	June 30, 2003
Subtotal brought forward		\$ 135,659,407
Trust Funds	T-03-913-B	3,412
	T-03-927-B	269,537
	T-03-930-B	20,421,044
Total cash held in State Treasury as reported by State Comptroller's accounting records carried forward		156,353,400
Reconciling items:		
Summary warrant vouchers not recorded on books		21,349
Journal vouchers not recorded by DAGS		407
Journal vouchers not recorded on books		(28,229)
Adjustments not recorded on books		1,470
Other		(2,261)
		(7,264)
Cash and short-term investments held outside State Treasury:		
Cash in bank		16,990,608
Cash held by trustees		17,814,723
Investments held by bank		5,046,616
Investments held by trustees		54,419,694
Deposits held in trust		97,830
Petty cash		3,850
		94,373,321
Cash and short-term investments on funds financial statements		\$ 250,719,457