

Annual Report



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HAWAII COMMUNITY REINVESTMENT CORPORATION
HAWAII INVESTORS FOR AFFORDABLE HOUSING, INC.

MISSION STATEMENT

The Hawaii Community Reinvestment Corporation (HCRC) is a non-profit financial service corporation that was created by Hawaii financial institutions and serves as a conduit through which those institutions can develop and apply innovative financial programs to create and preserve affordable housing and shelter. Through the establishment and operation of a credit and equity financing consortium HCRC offers a flexible source of funding for these projects, provides technical assistance, training and education, and works with governmental jurisdictions and agencies to achieve maximum leverage of public and private dollars.

PARTICIPATING LENDERS

<u>Lenders</u>	<u>Year of Participation</u>
American Savings Bank, FSB	1991
Bank of Hawaii	1991
Bank of the Orient	2002
Central Pacific Bank	1991
City Bank	1991
Finance Factors Limited	1991
First Hawaiian Bank	1991
Hawaii National Bank	1991
HomeStreet Bank	2001

MEMBERSHIPS

Association of Reinvestment Consortia for Housing (ARCH)
National Association of State and Local Equity Funds (NASLEF)
Hawaii Developers' Council

LEGAL ADVISORS

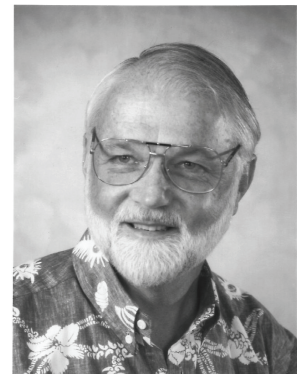
Kutak Rock LLP
Oshima Chun Fong & Chung

AUDITOR

Reznick Group, P.C.



Alton T. Kuioka
Chairman of the Board



Donald L. Tarleton
President

LETTER FROM THE CHAIRMAN AND THE PRESIDENT

Dear Colleagues:

Hawaii Community Reinvestment Corporation has completed its fourteenth year of providing financial resources and technical assistance to providers of affordable rental housing in Hawaii. During 2004 HCRC underwent a reorganization designed to emphasize its commitment to the community it serves and continue to make available financial resources from the banking community that gave rise to its existence. A part of the reorganization plan is to merge the activities of its subsidiary, Hawaii Investors for Affordable Housing, Inc. into HCRC making a more efficient overall operation. A private letter ruling request is pending with the Internal Revenue Service to provide assurance that such a merger will not affect HCRC's 501(c)(3) status, and the merger will occur upon receipt of a favorable response.

HCRC has made over \$147 million available to 53 affordable rental projects containing 2,667 residential units. This achievement was made possible by funding through the participating lenders and investors listed elsewhere in this report. By combining resources from the private and public sectors, projects assisted by HCRC are truly partnered ventures. With its loan program, tax credit investment program, technical assistance and seminars, HCRC is uniquely situated to be a major factor in the production of new affordable rentals and preservation of the existing inventory.

The quality of HCRC's loan portfolio and tax credit equity investments remains high with no defaults or tax credit deficiencies. Operating performance of the company during 2004 was quite positive and future prospects remain excellent. HCRC is well positioned to continue bringing financial resources to developers and owners well into the future.

The acute shortage of affordable rental housing in Hawaii may be attributed to a variety of factors, not least of which is a thriving economy. The magnitude of the problem is such that it will be challenging for it to be resolved within the foreseeable future. Thus, it is critical that all participants in this arena, both public and private, work cooperatively together by combining talents and resources. It is our goal that HCRC will continue to be an important factor in providing solutions.

Sincerely,

Alton T. Kuioka
Chairman

Donald L. Tarleton
President

HAWAII COMMUNITY REINVESTMENT CORPORATION

OFFICERS AND DIRECTORS



Alton T. Kuioka
Chairman of the Board
Vice Chair
Bank of Hawaii



Donald L. Tarleton
President
HCRC



Stacy L. Sur
Vice President—Investments
President
HIAHI



David Kamimura
Treasurer
Senior Vice President
Finance Factors, Ltd.



Keith I. Ishida
Secretary
Planner
City & County of Honolulu



Marvin Awaya
Executive Director
Pacific Housing
Assistance Corporation



Dan Davidson
Vice President
Aina Nui Corporation



Robert Harrison
Senior Vice President
First Hawaiian Bank



Craig K. Hirai
Partner
Bowen Hunsaker Hirai



Ronald S. Hirashima
CPA



Roy K. Katsuda
Executive Director
Hale Mahaolu



Dorothy Shigemura



Edwin S. Taira
Office of Housing and
Community Development
County of Hawaii



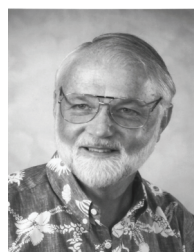
Darren K. Ueki
Finance Branch Manager
Housing and Community
Development Corp. of Hawaii

HAWAII INVESTORS FOR AFFORDABLE HOUSING

OFFICERS AND DIRECTORS



Alton T. Kuioka
Director



Donald L. Tarleton
Director



Stacy L. Sur
President
HIAHI

MORTGAGE LOAN PROGRAM

HCRC offers permanent mortgage loans at below market interest rates on affordable rental housing projects. Through its participating lenders and secondary market activities it has adequate funding on competitive terms to meet most needs in the State.

Staff is experienced in combining the various resources available from both public and private sources to help subsidize affordable housing. Projects can be financed with debt coverage as low as 1.15 to 1.

With a mission of using financing programs to create and preserve affordable housing and shelter, HCRC makes forward commitments for permanent loans on new developments as well as loans to refinance existing projects and for acquisition and rehabilitation.

HCRC mortgages may be combined with equity gap financing and grants. Staff is eager to work with developers, existing owners and potential project purchasers in creating individual financial plans and in helping seek additional resources to make affordable rental projects become attractive investment properties.

INCOME LEVELS SERVED Loan and Investment Programs

Income Range*	Units	Percent
30% and below	27	1.0%
50% and below	1124	42.1%
60% and below	663	24.9%
80% and below	642	24.1%
115% and below	5	0.2%
Market	206	7.7%
	2667	100%

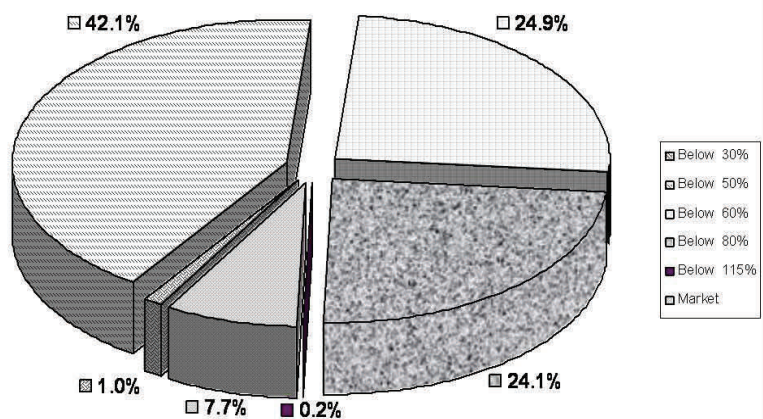
*Stated as a percent of area median income as determined by the U.S. Department of Housing and Urban Development.

2004 Median Income by County (for a four-person household)

Honolulu:	\$65,700
Hawaii:	\$51,000
Maui:	\$60,700
Kauai:	\$56,300

Source: U.S. Dept. of Housing and Urban Development

% of Units by Income Levels Served





Cambra Apartments

Multi-family rental

16 1-bedroom / 16 2-bedroom unit apartment located in Wahiawa, Oahu



Keola Hoomalu Elderly Housing

Elderly rental

35 1-bedroom unit complex located in Waianae, Oahu



Stacy L. Sur
President

TAX CREDIT EQUITY FUND

In 2004 HIAHI was busy at both the fund and the project level. At mid-year, HIAHI opened to its investors the largest tax credit investment fund to date. Hawaii Equity Fund IV is a \$100 million investment fund with the mission of creating more affordable housing units throughout the state.

At the project level, HIAHI completed its investment in the Artesian Vista, a 55-unit 100% affordable rental development in urban Honolulu. Due to strong demand, an experienced owner, and an excellent manager, this project was fully leased within 30 days.

In addition, HIAHI made substantial investments in two (2) other projects: Wilder Vista, a 54 unit multi-family rental development in Honolulu; and Kalepa Village Partners, a 40 unit multi-family rental development. These projects are slated for completion in late 2004 to early 2005.

HAWAII AFFORDABLE HOUSING FUND I

\$19,700,000

424 Affordable Rental Units

American Savings Bank, FSB
Bank of Hawaii
Central Pacific Bank
City Bank
Finance Factors Limited
First Hawaiian Bank

HAWAII AFFORDABLE HOUSING FUND II

\$20,000,000

170 Affordable Rental Units

American Savings Bank, FSB
Bank of Hawaii
Central Pacific Bank
City Bank
Finance Factors Limited
First Hawaiian Bank

HAWAII AFFORDABLE HOUSING FUND III

\$12,500,000

109 Affordable Rental Units

American Savings Bank, FSB
Central Pacific Bank
City Bank
Finance Factors Limited
First Hawaiian Bank

HAWAII AFFORDABLE HOUSING FUND IV CLASS A

\$15,000,000

134 Affordable Rental Units

American Savings Bank, FSB
Bank of Hawaii
Central Pacific Bank
City Bank
Finance Factors Limited
First Hawaiian Bank

HAWAII AFFORDABLE HOUSING FUND IV CLASS B

\$35,900,000

246 Affordable Rental Units

Bank of Hawaii
Central Pacific Bank
City Bank
Finance Factors Limited
First Hawaiian Bank
Hawaii National Bank

TECHNICAL ASSISTANCE

HIAHI conducts training sessions throughout the year. Past seminars have included topics such as the compliance monitoring of tax credit projects, legal and accounting issues for tax credit owners, basic financial tools for developers, and tax credit investment “101.” In most cases, national experts are brought in to speak to interested developers and owners.

Some of our past speakers include:



Michael K. Kotin, principal at **Kay-Kay Realty Corp.**, a Scottsdale, Arizona based consulting and management firm providing Housing Credit training and Low Income Housing Tax Credit Compliance services.

Joe Guggenheim, author of “Tax Credits for Low Income Housing” and a nationally recognized consultant on low income housing developments and use of tax credits.

Renee G. Scruggs, principal at **Reznick Group, P.C.**, a national accounting, tax, and business advisory firm specializing in providing services to firms involved in real estate.

Wallace L. Scruggs, president of **Housing Trust of America, LLC**, a consulting and development company specializing in multi-family development, construction, finance and management in targeted markets throughout the country.

Gregg Yeutter, partner at **Kutak Rock LLP**, a national law firm with extensive practices including housing, tax-exempt financing and Low Income Housing Tax Credits.

CONSULTING SERVICES

HIAHI provides consulting services to both for-profit and non-profit developers seeking financing for affordable housing projects on a limited basis. In 2004, HIAHI assisted a local non-profit housing provider in their application to the state for low-income housing tax credits.

Our staff is prepared to assist developers and owners with structuring project financial plans as well as explore possible funding options.

AFFORDABLE RENTAL PROJECTS ASSISTED

Through its mortgage loan program and tax credit equity funds, Hawaii Community Reinvestment Corporation and Hawaii Investors for Affordable Housing, Inc. are funding new projects as well as helping preserve existing projects on five islands so properties continue to remain affordable.

Mortgage Loan Programs

PROJECT	LOAN AMOUNT	SIZE	LOCATION
Hilo Hale Ohana	\$2,600,000	96	Hilo, Hawaii
Palm Villas	7,100,000	112	Ewa, Oahu
Kaopa Park Place	3,650,000	40	Kailua, Oahu
Maunawai Place	450,000	9	Moiliili, Oahu
Maile Terrace	800,000	24	Hilo, Hawaii
Makakilo Cluster Park	3,600,000	40	Makakilo, Oahu
Upper Kula Homes	520,000	7	Kula, Maui
Kalola Apartments	250,000	7	Kailua-Kona, Hawaii
Lakeview Circle	260,000	4	Wahiawa, Oahu
Lincoln Courtside	1,200,000	36	Hilo, Hawaii
KeKumu at Waikoloa	1,350,000	48	Waikoloa, Hawaii
Uwapo Apartments	715,000	18	Kihei, Maui
Weinberg Hale	2,750,000	59	Moiliili, Oahu
Keola Hoomalu	1,745,000	35	Waianae, Oahu
Weinberg Court	2,000,000	62	Lahaina, Maui
Lani Huli	2,200,000	81	Kailua, Oahu
Emerson Villa	3,190,000	40	Punchbowl, Oahu
Cambra Apartments	2,240,000	32	Wahiawa, Oahu
Coronado	7,500,000	100	Ewa, Oahu
Wilikina Park	500,000	64	Wahiawa, Oahu
Alii Kai Apartments	875,000	28	Hilo, Hawaii
Dynasty Apartments	2,460,000	57	Waikiki, Oahu
Hale Olu	485,000	18	Hilo, Hawaii
Hale Nanea Apartments	1,300,000	30	Kalihi, Oahu
Kamahalo Apartments	950,000	24	Punchbowl, Oahu
Cunningham Building	750,000	45	Hilo, Hawaii
Kekaha Elderly	1,631,000	37	Kekaha, Kauai
Pikake Apartments	600,000	42	Hilo, Hawaii
Kekaulike Courtyards	1,005,000	76	Chinatown, Oahu
Central Area Properties	1,121,750	30	Waikiki/Kalihi, Oahu
Creekside Apartments	487,500	12	Kalihi, Oahu
Farrington/Piliuka	712,500	16	Waianae, Oahu
Elua	5,000,000	180	Kahalui, Maui
Front Street Apartments	4,576,000	142	Lahaina, Maui
Elua	600,000	-	Lahaina, Maui
River Pauahi	1,775,000	49	Chinatown, Oahu
Kamana Elderly	2,175,000	62	Hilo, Hawaii
Cambra Apartments	1,900,000	32	Wahiawa, Oahu
Keola Hoomalu	1,500,000	35	Waianae, Oahu
Total Mortgages	\$74,523,750	1,829	

Tax Credit Equity Program

PROJECT	TAX CREDIT INVESTMENT*	SIZE	LOCATION
Nani Maunaloa	\$2,849,050	61	Maunaloa, Molokai
Maunaloa Vistas	1,407,381	12	Maunaloa, Molokai
Hale Makana o'Waiale	4,301,122	200	Wailuku, Maui
Hualalai Elderly	1,203,320	30	Kailua-Kona, Hawaii
Senior Residence at Kaneohe	1,894,204	30	Kaneohe, Oahu
Total Tax Credits	\$11,655,077	333	

Combined Mortgage Loan and Tax Credit Equity Program

PROJECT	LOAN AMOUNT	TAX CREDIT INVESTMENT*	SIZE	LOCATION
Birch Street Apartments	\$2,180,000	\$4,346,290	53	Makiki, Oahu
Wisteria Vista Apartments	1,910,000	7,052,666	91	Makiki, Oahu
Kalakaua Vista	2,006,618	6,640,311	81	McCully, Oahu
Hualalai Elderly Phase II	682,000	3,264,258	36	Kailua-Kona, Hawaii
Artesian Vista	1,050,000	6,114,440	54	Makiki, Oahu
Wilder Vista	1,740,000	6,209,779	55	Makiki, Oahu
Kalepa Village	1,200,000	3,867,707	40	Hanamaulu, Kauai
Total Mortgages/Tax Credits	\$10,768,618	\$37,495,451	410	

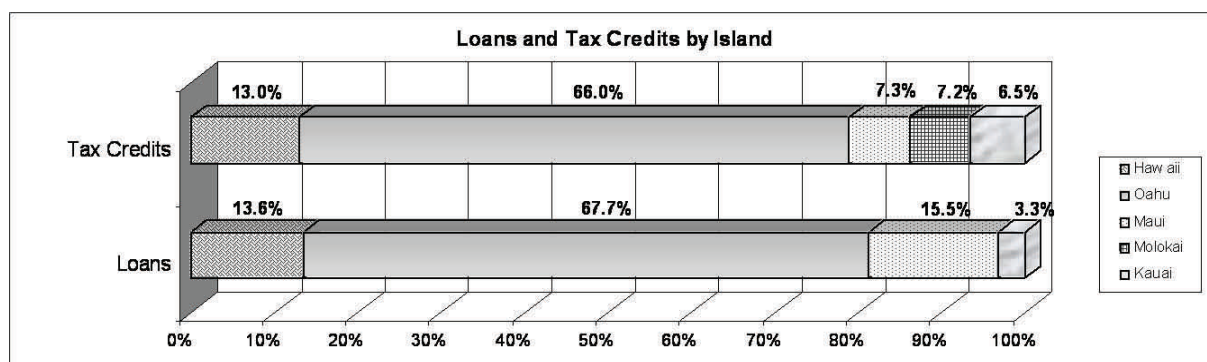
Commitments Outstanding as of December 31, 2004

PROJECT	LOAN AMOUNT	TAX CREDIT INVESTMENT*	SIZE	LOCATION
Kinau Street Apts	\$1,500,000	\$6,763,045	63	Lower Makiki, Oahu
Kamuela Senior Housing		3,195,730	32	Kamuela, Hawaii
Total Outstanding	\$1,500,000	\$9,958,775	95	

* Net of Acquisition Fees and Working Capital Reserves. Amounts reflect investment and commitments by Hawaii Affordable Trust Funds I, II, III and IV

Total

Loan Amount	\$86,792,368
Tax Credit Investments	\$59,109,303
Total Units Produced	2,667



CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**HAWAII COMMUNITY REINVESTMENT CORPORATION
AND SUBSIDIARIES**

DECEMBER 31, 2004 AND 2003

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hawaii Community Reinvestment Corporation

We have audited the accompanying consolidated statements of financial position of Hawaii Community Reinvestment Corporation and Subsidiaries (the "Corporation") as of December 31, 2004 and 2003, and the related consolidated statements of activities and cash flows for the years then ended. The consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hawaii Community Reinvestment Corporation and Subsidiaries as of December 31, 2004 and 2003, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Bethesda, Maryland
May 18, 2005

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31,

	ASSETS	
	2004	2003
Cash and cash equivalents	\$ 764,105	\$ 452,330
Investments	700,563	500,000
Restricted cash - premiums	5,120	62,258
Total cash and investments	1,469,788	1,014,588
Interest receivable	64,913	48,959
Mortgage loans receivable held for sale	12,578,435	10,998,633
Less deferred loan fees	(83,158)	(76,313)
Net loans	12,495,277	10,922,320
Improvements, furniture and equipment (net)	14,156	20,322
Advances to funds	280,184	78,576
Investment in operating partnerships	6,170	6,558
Other assets	13,624	10,897
	<u>\$ 14,344,112</u>	<u>\$ 12,102,220</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accrued incentive fee payable	\$ -	\$ 8,888
Other accrued liabilities	58,360	31,961
Income taxes payable	34,973	-
Deferred revenue	11,250	47,625
Deposits	9,290	34,131
Loans payable - member institutions	12,524,470	10,810,961
Interest payable - member institutions	55,295	40,885
Unearned premiums	5,119	62,258
	12,698,757	11,036,709
Commitment	-	-
Net assets - unrestricted	1,645,355	1,065,511
	<u>\$ 14,344,112</u>	<u>\$ 12,102,220</u>

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years ended December 31,

	2004	2003
Change in net assets		
Interest and fee income		
Interest income on loans	\$ 774,081	\$ 581,709
Loan origination fees	95,666	46,042
Other interest income	15,063	18,349
	<u>884,810</u>	<u>646,100</u>
Total interest and fee income		
	884,810	646,100
Interest expense	<u>669,032</u>	<u>506,195</u>
Net interest and fee income	<u>215,778</u>	<u>139,905</u>
Other income		
Loan application fees	3,000	2,000
Premiums on loans sold	45,689	67,106
Acquisition fees	867,028	-
Gain on sale of equity investments	-	205,526
Other	95,175	116,951
	<u>1,010,892</u>	<u>391,583</u>
Other expenses		
Compensation and employee benefits	348,753	334,226
Office rent and occupancy	59,351	56,956
Depreciation	7,039	7,352
Professional fees	92,049	113,264
Loss on equity investments	388	12,663
Loan servicing fee	30,556	22,486
Income taxes	34,973	-
Other	73,717	94,737
	<u>646,826</u>	<u>641,684</u>
Change in net assets	579,844	(110,196)
Net assets - unrestricted, beginning balance	<u>1,065,511</u>	<u>1,175,707</u>
Net assets - unrestricted, ending balance	<u>\$ 1,645,355</u>	<u>\$ 1,065,511</u>

See notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31,

	2004	2003
Cash flows from operating activities		
Change in net assets	\$ 579,844	\$ (110,196)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation	7,039	7,352
Loss on equity investments	388	12,663
Gain on sale of equity investments	-	(82,076)
Decrease (increase) in assets		
Interest receivable	(15,954)	16,282
Other receivables	-	5,635
Other assets	(2,727)	788
Increase (decrease) in liabilities		
Deferred loan fees	6,845	23,033
Accrued incentive fee payable	(8,888)	(178)
Other accrued liabilities	26,399	(255)
Income taxes payable	34,973	-
Interest payable - member institutions	14,410	(4,495)
Deferred revenue	(36,375)	10,125
Deposits	(24,841)	11,880
Unearned premiums	(57,139)	(65,405)
Net cash provided by (used in) operating activities	523,974	(174,847)
Cash flows from investing activities		
(Deposits to) withdrawals from restricted cash	57,138	65,490
(Increase) decrease in investments, net	(200,563)	451,118
Purchase of fixed assets	(873)	(12,455)
Repayments from (advances to) funds	(201,608)	(77,926)
Proceeds from sale of mortgage loans	-	680,017
Collections on mortgage loans	5,810,198	511,152
Mortgage loans made	(7,390,000)	(3,950,000)
Net cash provided by (used in) investing activities	(1,925,708)	(2,332,604)
Cash flows from financing activities		
Payoff of loans payable relating to loan sales - member institutions	-	(679,606)
Proceeds from loans payable - member institutions	7,390,000	3,950,000
Payments on loans payable - member institutions	(5,676,491)	(611,323)
Net cash provided by (used in) financing activities	1,713,509	2,659,071
Net increase (decrease) in cash and cash equivalents	311,775	151,620
Cash and cash equivalents at beginning of year	452,330	300,710
Cash and cash equivalents at end of year	\$ 764,105	\$ 452,330
Supplemental disclosure of cash flow information		
Cash paid during the year for interest	\$ 654,622	\$ 510,690

See notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hawaii Community Reinvestment Corporation (HCRC), a nonprofit corporation, was formed in July 1990 for the primary purpose of providing financing and technical assistance to facilitate the development of affordable housing in the State of Hawaii. HCRC also provides training and consultation on affordable housing for developers, lenders and local governments. Nine financial institutions have agreed to participate in an equity percentage interest in the mortgage loans originated by HCRC.

HCRC, through its wholly-owned subsidiaries, Hawaii Investors for Affordable Housing, Inc. (HIAHI) and Hawaii Investors' Administrative Partner, Inc. (HIAPI), organized Hawaii Affordable Housing Fund II LLC (HAHFII), Hawaii Affordable Housing Fund III LLC (HAHFIII) and Hawaii Equity Fund IV LLC (HEFIV) (the "Funds"), which assist operating partnerships in the production, rehabilitation and preservation of affordable housing in Hawaii. HCRC works with nonprofit and for-profit developers to create affordable housing using the Low-Income Housing Tax Credit Program as defined by Internal Revenue Code Section 42(c). HIAHI maintains a nonmember manager interest in the Funds while outside investors (collectively, the "Members") maintain limited member interests. HIAHI withdrew as the managing member of one of the Funds and sold its interest in another Fund in 2003. HIAPI maintained a general partnership or special limited partnership interest in some of the operating partnerships. HIAPI withdrew its interests in certain operating partnerships during 2003 and transferred its remaining interests to HIAHI during 2004. On July 21, 2004, HIAPI was dissolved.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of HCRC and its wholly-owned subsidiaries (the "Corporation"). Interentity transactions and balances have been eliminated in consolidation.

The Corporation conforms with Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. All the net assets of the Corporation are unrestricted. Furthermore, information is required to segregate program service expenses from management and general expenses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

The Corporation also conforms with SFAS No. 116, "Accounting for Contributions Received and Contributions Made." In conformity with SFAS No. 116, contributions received, if any, are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Depreciation

Property and equipment is carried at cost. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives by use of accelerated methods for financial reporting purposes. As of December 31, 2004 and 2003, accumulated depreciation was \$173,633 and \$166,594, respectively.

Functional Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis. Accordingly, certain costs have been allocated among the program and management and general services benefited.

	<u>2004</u>	<u>2003</u>
Program services		
Lending	\$ 669,032	\$ 506,195
Investment	589,696	563,997
Management and general	<u>57,130</u>	<u>77,687</u>
	<u>\$ 1,315,858</u>	<u>\$ 1,147,879</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

The Corporation classifies certificate of deposits with original maturity dates of 90 days or more to be investments. The Corporation holds certificates of deposit at December 31, 2004 and 2003 with maturity dates ranging from January 13, 2005 to January 14, 2006 which earn interest ranging from .95% to 2.57%, and January 13, 2004 to January 19, 2004, which earn interest ranging from .75% to 3.31%, respectively.

Cash and Cash Equivalents

The Corporation considers all highly-liquid investments with original maturities of less than 90 days to be cash equivalents.

Income Taxes

HCRC is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. HIAHI and HIAPI use the asset and liability method to account for deferred income taxes. At December 31, 2004 and 2003, HIAHI had net operating loss carryforwards of \$0 and \$23,787, respectively, for federal income tax purposes. At December 31, 2004 and 2003 HIAPI had net operating loss carryforwards of \$0 and \$9,445, respectively, for federal income tax purposes. During the year ended December 31, 2004, HIAHI incurred \$34,973 of income taxes, which are included in income taxes payable. No income tax provision or benefit has been reflected in the accompanying consolidated financial statements for the year ended December 31, 2003.

Deferred Loan Fees

Loan origination fees, net of certain direct loan origination costs, are deferred and amortized over the contractual lives of the loans using the effective interest method. Deferred revenue reflected on the statements of financial position relates to loan origination fees on loans under contract. Once the loans close, these amounts are reclassified to deferred loan fees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE A - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Loan Premiums

Deferred loan premiums are amortized over the fixed interest period applicable to each loan sold on a straight-line basis.

Mortgage Loans Held for Sale

Mortgage loans held for sale are carried at the lower of cost or fair value, which is estimated based on current market prices for similar loans. The method used to determine this amount is the individual loan method. Interest income on mortgage loans is recognized using the interest method.

NOTE B - MORTGAGE LOANS RECEIVABLE AND LOANS PAYABLE

Funding

Funding for mortgage loans originated by HCRC is provided by borrowings from financial institutions and is limited to an aggregate balance of \$50,000,000. The repayment terms of its borrowings from these institutions generally are the same as the repayment terms of the mortgage loans HCRC originates. An agent, which is one of the participating institutions, collects loan participation from the members and disburses loan proceeds to the borrowers. Loan payments are made by the borrowers directly to the agent, which pays down the borrowings from the financial institutions and passes through a nominal interest rate spread to HCRC to cover operating expenses. Loan receivable and loan payable balances are decreasing at different repayment terms due to the spread between the interest rates on the loans due from the borrowers and the interest rates on the corresponding amounts payable to the financial institutions. The loans payable bear interest rates ranging from 3.875% to 7.63% and mature from October 1, 2008 through October 1, 2017.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE B - MORTGAGE LOANS RECEIVABLE AND LOANS PAYABLE (Continued)

Funding (Continued)

All mortgage loans receivable are pledged to the agent as security for HCRC's loans payable. Mortgage loans receivable are secured by residential real estate located in the State of Hawaii. Due to the terms of the Credit and Security Agreement between HCRC and the financial institutions, loan losses are borne by the institutions; therefore, no allowance for loan losses is provided.

Annual principal payments on the loans payable for the next five years are as follows:

Year ended December 31, 2005	\$	264,303
2006		279,785
2007		296,186
2008		880,797
2009		491,693

Classification of Loans

Due to the ceiling amount placed on its borrowing facility, HCRC must sell loans from time to time. During the years ended December 31, 2004 and 2003, management sold \$0 and \$680,017 of loans to participating financial institutions for a gain of \$0 and \$2,368, respectively. The gain is included in loan origination fees in the statements of activities.

NOTE C - INVESTMENT IN OPERATING PARTNERSHIPS

At December 31, 2004 and 2003, HIAPI was up to 1% general partner or special limited partner in three and eight operating partnerships, respectively. During 2004, HIAPI was dissolved and its interest in the three operating partnerships was transferred to HIAHI. The Corporation accounts for its investment in the operating partnerships using the equity method of accounting. Under the equity method, the initial investment is recorded at cost and increased or decreased by the Corporation's share of income or losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE C - INVESTMENT IN OPERATING PARTNERSHIPS (Continued)

The summarized combined balance sheets of the operating partnerships at December 31, 2004 and 2003 and the summarized combined statements of operations for the years then ended are as follows:

COMBINED BALANCE SHEETS

ASSETS

	2004	2003
INVESTMENT IN REAL ESTATE		
Land	\$ 3,084,311	\$ 3,084,311
Buildings and improvements	22,697,834	22,714,875
Furnishings and equipment	70,019	45,000
	<u>25,852,164</u>	<u>25,844,186</u>
Accumulated depreciation	<u>(2,246,825)</u>	<u>(1,683,473)</u>
	<u>23,605,339</u>	<u>24,160,713</u>
OTHER ASSETS		
Cash	453,925	462,275
Accounts receivable	29,365	704
Restricted cash	1,301,953	1,163,560
Deferred costs, net	57,705	59,823
Other assets	60,572	44,989
	<u>1,903,520</u>	<u>1,731,351</u>
	<u>\$ 25,508,859</u>	<u>\$ 25,892,064</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE C - INVESTMENT IN OPERATING PARTNERSHIPS (Continued)

COMBINED BALANCE SHEETS (Continued)

LIABILITIES AND PARTNERS' EQUITY (DEFICIT)

	<u>2004</u>	<u>2003</u>
LIABILITIES APPLICABLE TO REAL ESTATE		
Mortgages payable	\$ 12,188,415	\$ 12,270,572
OTHER LIABILITIES		
Management fee payable	76,194	11,857
Accounts payable	63,428	50,019
Other liabilities	93,412	103,232
Accrued interest	243,822	210,525
Tenant security deposits	<u>108,568</u>	<u>109,900</u>
	12,773,839	12,756,105
PARTNERS' EQUITY (DEFICIT)	<u>12,735,020</u>	<u>13,135,959</u>
	<u>\$ 25,508,859</u>	<u>\$ 25,892,064</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE C - INVESTMENT IN OPERATING PARTNERSHIPS (Continued)

COMBINED STATEMENTS OF OPERATIONS

	2004	2003
Revenue		
Rents	\$ 1,308,192	\$ 1,298,588
Other	82,071	88,648
	<u>1,390,263</u>	<u>1,387,236</u>
Expenses		
Administrative	219,532	379,017
Repairs and maintenance	85,368	97,405
Utilities	155,932	151,363
Taxes and insurance	35,338	66,562
Interest on mortgages payable	464,013	481,711
Depreciation and amortization	565,470	590,645
Other expenses	252,759	-
	<u>1,778,412</u>	<u>1,766,703</u>
NET LOSS	\$ (388,149)	\$ (379,467)

NOTE D - INVESTMENT IN AFFILIATED ENTITIES

At December 31, 2004, HIAHI is a nonmember manager in three operating entities (the "Funds"). During 2003, HIAHI sold their entire interest in a Fund and as of December 31, 2003 has no investment in any Funds.

NOTE E - LEASE COMMITMENT

HCRC entered into an operating lease for office space which expired on September 30, 2001. On June 5, 2001, HCRC extended the lease for an additional five years. In addition to specified rents, the lease requires payment of the tenant's share of operating costs. During 2004 and 2003, the Corporation incurred \$29,676 and \$28,478, respectively, of rent expense. The amount is included in office rent and occupancy expense in the consolidated statements of activities. Minimum future lease payments are as follows:

2005	\$ 32,058
2006	<u>27,624</u>
	<u>\$ 59,682</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE F - RESTRICTED CASH

HCRC is required to hold cash reserves for the premiums received from the sale of various mortgage loans. The reserves are to be held until the premiums are earned by HCRC. All restricted cash is held in a regular savings account.

NOTE G - RELATED PARTY TRANSACTIONS

Acquisition Fees

HIAHI entered into an agreement with an affiliated entity under which it is entitled to earn an acquisition fee of up to 5% of the aggregate capital commitment of the investor members of the Funds in which it is the nonmember manager. The fee is for identification of suitable investments and work related to the negotiation and acquisition of partnership interests in various Operating Partnerships in which the Funds invest. During 2004 and 2003, fees of \$867,028 and \$0 were earned, respectively, and as of December 31, 2004 and 2003, \$278,899 and \$0, respectively, is included in advances to funds.

Advances to Funds

During the year ended December 31, 2003, HIAHI advanced funds of \$77,926 to an entity for legal costs incurred. As of December 31, 2004 and 2003, \$1,285 and \$78,576, respectively, remains payable and is included in advances to funds. The advances are noninterest bearing and due on demand.

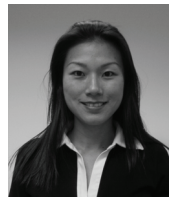
NOTE H - CONCENTRATION OF CREDIT RISK

The Corporation maintains its operating account balances in seven banks. The balances are insured by the Federal Deposit Insurance Corporation up to a maximum of \$100,000 at each bank. As of December 31, 2004, the total cash balances of the Corporation exceed the FDIC insurance limit and the uninsured portion is \$813,263.

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