Hawaii Public Housing Authority

Financial Statements
June 30, 2010
Together with Independent Auditor's Report

Submitted by

THE AUDITOR
STATE OF HAWAII

KMHLLP

A Hawaii Limited Liability Partnership

March 25, 2011

Ms. Denise Wise
Executive Director
Hawaii Public Housing Authority
State of Hawaii

Dear Ms. Wise:

This is our report on the financial audit of the Hawaii Public Housing Authority (Authority) as of and for the fiscal year ended June 30, 2010. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, Government Auditing Standards, *Audits of States, Local Governments, and Non-Profit Organizations.*

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Authority's basic financial statements as of and for the fiscal year ended June 30, 2010, and to comply with the requirements of OMB Circular A-133. The objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the Authority's basic financial statements.

2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the Authority is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.

3. To determine whether the Authority has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.

4. To determine whether the Authority has complied with the laws and regulations that may have a material effect on the basic financial statements and on its major federal financial assistance programs.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the Authority as of and for the fiscal year ended June 30, 2010.

ORGANIZATION OF THE REPORT

This report is presented in five parts as follows:

- Part I – The basic financial statements and related notes of the Authority as of and for the fiscal year ended June 30, 2010, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and compliance.
- Part III – Our report on compliance with requirements applicable to each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs and management responses
- Part V – The summary schedule of prior audit findings.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the Authority.

Sincerely,

Wilcox Choy
Partner

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PART I

FINANCIAL SECTION

Independent Auditor's Report

The Auditor
State of Hawaii

Board of Directors
Hawaii Public Housing Authority:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hawaii Public Housing Authority (Authority), as of and for the year ended June 30, 2010. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 opinions.

It is the State's policy that the measurement of the actuarial valuation and the annual required contribution (ARC) are made for the State as a whole and are not separately computed for the individual state departments and agencies. The State allocates the ARC to the various departments and agencies based upon a systematic methodology. However, as of the date of our report, such a valuation and allocation of the ARC was not completed by the State and we were unable to satisfy ourselves about the Authority's recorded share of the ARC for the year by means of other auditing procedures. Additionally, the required disclosure and required supplementary information on the State's post-retirement health care and life insurance benefit plans were not available as of the date of our report.

As discussed in note 1, the financial statements of the Authority are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate other fund information of the State of Hawaii that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2010, 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.

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In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to substantiate the annual required contribution as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2010, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2011, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 8 to 18 and Budgetary Comparison Schedules on pages 66 to 68 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on Management's Discussion and Analysis or on the Budgetary Comparison Schedules.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is 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.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 25, 2011

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2010

The Management Discussion and Analysis (MD&A) provides the highlights of the Hawaii Public Housing Authority's (HPHA) financial performance for the fiscal year ended June 30, 2010. The HPHA's MD&A is designed to: focus on significant financial issues; review the HPHA's financial activity; highlight changes in the HPHA's financial position (its ability to address the next and subsequent year challenges); and identify individual fund issues or concerns. Since the MD&A is designed to focus on the financial activities of the HPHA for the last fiscal year ended June 30, 2010, readers should review this in conjunction with the financial statements that follow.

INTRODUCTION

The Hawaii Public Housing Authority (HPHA) is administratively attached to the State's Department of Human Services. The HPHA's Board of Directors consists of eleven members, of whom nine are public members appointed by the Governor. Public members are appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai. One public member must be an advocate for low-income or homeless persons. One public member must be a person with a disability or an advocate for persons with disabilities. As required by federal statutes, at least one public member shall be a person who is directly assisted by the authority under the federal low-rent public housing or federal section 8 tenant-based housing assistance payments program while serving on the board. The Director of the Department of Human Services and the Governor's designee are ex-officio voting members. All HPHA board actions are taken by the affirmative vote of at least six members.

During the audited period of July 1, 2009 to June 30, 2010, the HPHA administered the following major programs:

- Federal and State public housing programs
  The HPHA administered over 5,300 federal public housing units in Hawaii with funds received from the United States Department of Housing and Urban Development (HUD), and 860 state public housing units developed with State funds.

- Federal and State rent subsidy programs
  The HPHA administered two federally funded rental assistance programs -Section 8 Housing Choice Voucher Program, Veterans Affairs Supportive Housing Program and the State funded rental assistance program, subsidizing monthly rental payments to qualified households. HPHA also has a Special Allocation Program which administers a project based program under a contract with the federal government through a subcontract, Contract Management Services (a subsidiary of the Bremerton, Washington Housing Authority).

- Homeless programs
  The HPHA also administered Homeless programs utilizing Federal grants and state appropriations allotments. (Effective July 1, 2010, the Homeless programs were transferred to the Department of Human Services.)

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the assets of the HPHA exceeded its liabilities by $391,296,287 (net assets). Of this amount, $307,660,409 is invested in capital assets, net of related debt. (*Detailed on Government-Wide Statement of Net Assets, page 20*)

- The HPHA's government wide net assets increased by $27,308,961. This is primarily due to $16.4 million from the Capital Project fund and $13.4 million from the Federal Low Rent Program. (*Detailed on Government-wide Statement of Activities, page 21*)

- Business-type activities recognized income before state allotted appropriations, other income, capital contributions and transfers of $170,553, compared with prior year's loss before transfers of $(5,840,177). This represents a positive change of $6,010,730. The change was primarily due to the improved operating results of the Federal Low Rent Program (FLRP). Current year income before capital contributions and transfers amounted to $4,695,218 compared with prior year loss before transfers of $(3,153,535). The increase in operating and capital subsidies from the U.S. Department of Housing and Urban Development (HUD) from $35,593,322 to $39,289,053 an increase of $3,695,731 or 10% from prior year, a decrease in overall operating expenses from $56,135,742 to $51,564,428 and a State allotted appropriation of $610,000 all contributed to the improved results. (*Detailed on Proprietary Funds, Statement of Revenues, Expenses, and Changes in Fund Net Assets, page 30*)

- Governmental funds reported a combined ending fund balance of $55,051,036, an increase of $15,263,978 in comparison from prior year ending balance. The increase includes a net change in fund balance of $16,417,083 for the Capital Projects fund. (*Detailed on Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balance, page 24*)

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the HPHA's basic financial statements. The HPHA's basic financial statements comprise three components:

1) Government-wide financial statements;
2) Governmental fund financial statements; and
3) Proprietary fund financial statements.

This report also contains other supplemental information in addition to the basic financial statements themselves.

Government-wide Financial Statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the HPHA's finances in a manner similar to a private-sector business. The first two government-wide financial statements – *Statement of Net Assets* and the *Statement of Activities* provide both long-term and short-term information about the HPHA's overall financial status.

The *Statement of Net Assets* presents information on all of the HPHA's assets less liabilities, resulting in net assets. The statement displays the financial position of the HPHA. Over time, increases and decreases in net assets help determine whether the HPHA's financial position is improving or deteriorating.

The *Statement of Activities* shows how the HPHA's net assets changed as a result of the year's activities. The statement uses the accrual basis of accounting, similar to the accounting used by private-sector businesses. All of the revenues and expenses are reported regardless of the timing of when cash is received or paid. The statement identifies the extent each expenditure function draws from general and federal revenues of the HPHA or is financed through charges for services and intergovernmental aid (primarily federal programs and state appropriations).

The government-wide financial statements of the HPHA are divided into three categories:

- **Governmental activities**. The activities in this section are primarily supported by State appropriations or by HUD contributions, and focus on money flow into and out of those funds and the balances left at year-end. The governmental funds statements – the *Balance Sheet* and the *Statement of Revenues and Expenditures and Changes in Fund Balances* – are reported using modified accrual accounting (an accounting method measuring cash and all other financial assets readily convertible to cash). The governmental fund statements provide a detailed short-term view to help determine whether there are more or fewer financial resources to finance the HPHA's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided to explain the relationship (or differences) between them.

- **Business-type activities**. Business type activities (also referred to as "proprietary funds") are financed and operated in a manner similar to private business enterprises, where funding to recover costs of providing goods and services to the general public is derived through user charges. Business-type activities are reported using an accrual basis of accounting and the economic resources measurement focus.

- **Fiduciary funds**. Fiduciary funds account for assets held by the HPHA in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the HPHA cannot use these assets for its operations. Fiduciary funds of the HPHA, consisting of agency funds and private-purpose trust funds, are reported in the Statement of Fiduciary Net Assets using an accrual basis of accounting. Agency funds held by the HPHA involve only the receipt, temporary investment, and remittance of resources to individuals, private organizations, or other governments in a purely custodial capacity.

Detailed information on HPHA's most significant funds is represented in the fund financial statements, but the fund statements are not a representation of the HPHA as a whole.

Fund Financial Statements: The HPHA uses fund accounting to ensure and demonstrate fiscal accountability. A fund is defined as a grouping of related accounts used to keep track of specific sources of funding and spending for particular purposes (sometimes referred to as a "self-balancing" set of accounts). This means a fund's assets will equal the total of its liabilities and its fund balance (or net assets), similar to the way financial statements are presented.

The financial activities of the HPHA are recorded in individual funds, each deemed to be a separate accounting entity. Funds are then either reported as a major or non-major fund. The criteria for determining "major" or "non-major" funds is based on Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements - Management's Discussion and Analysis for State and Local Governments. Major funds are reported separately, while non-major funds are combined as a whole and separated as a column in the fund financial statements. Details for the non-major funds are found in the combining section of the financial statements.

Notes to the Financial Statements: Notes to the financial statements provide additional information essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

HAWAII PUBLIC HOUSING AUTHORITY
Condensed Statement of Net Assets
June 30, 2010 & June 30, 2009
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	$ 60,131	$ 43,815	$ 38,239	$ 28,130	$ 98,370	$ 71,945
Capital assets	25,851	27,814	281,933	275,285	307,784	303,099
Other assets	-	-	8,181	8,367	8,181	8,367
Total assets	$ 85,982	$ 71,629	$ 328,353	$ 311,782	$ 414,335	$ 383,411
Current and other liabilities	$ 5,080	$ 4,028	$ 11,723	$ 9,971	$ 16,803	$ 13,999
Long-term liabilities	149	212	6,086	5,213	6,235	5,425
Total liabilities	5,229	4,240	17,809	15,184	23,038	19,424
Net assets:						
Invested in capital assets, net of related debt	25,851	27,814	281,810	274,868	307,661	302,682
Restricted	-	-	7,160	7,345	7,160	7,345
Unrestricted	54,902	39,575	21,574	14,385	76,476	53,960
Total net assets	80,752	67,389	310,544	296,598	391,297	363,987
Total liabilities & net assets	$ 85,983	$ 71,629	$ 328,353	$ 311,782	$ 414,335	$ 383,411

Statement of Net Assets

Net assets may serve over time as a useful indicator of the HPHA's financial position. At the close of the fiscal year, the HPHA's assets exceeded its liabilities by $391,296,287. As noted earlier, $307,660,409 of net assets is invested in capital assets, net of related debt.

Of the HPHA's total assets, $307,660,409 (or 74%) represents capital assets, net of related debt, Cash and Due from the State of Hawaii (as presented in the detailed *Government-Wide Statement of Net Assets, page 19*) in the amount of $88,549,479 and comprises 21% of total assets. Amounts that are "Due from the state of Hawaii" represent available State allotted appropriations as of the end of the fiscal year and are primarily designated for capital improvement projects. Net assets for the previous fiscal year had a similar composition with the majority of total net assets represented by capital assets, net of related debt.

Accounts payable and accrued current expenses of $14,861,266 (as detailed in the *Government-Wide Statement of Net Assets*, page 20) comprise 88% of the HPHA's total current liabilities.

The HPHA estimates that its long term liabilities changed from prior year primarily due to the increase in the other post retirement employee benefits liability. (*Detailed in the Notes to the Financial Statements, #9*.) The HPHA's obligations related to other post retirement employee benefits are based on unaudited projections provided by the State's Department of Accounting and General Services. At the time of filing, the State Department was unable to provide audited figures. Any substantive change which requires disclosure will be provided when the HPHA reissues its financial statements with the audited figures for other post retirement employee benefits.

HAWAII PUBLIC HOUSING AUTHORITY
Condensed Government-Wide Statement of Activities
Years Ended June 30, 2010 and 2009
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues:						
Charges for services	$ -	$ -	$ 21,990	$ 24,101	$ 21,990	$ 24,101
Operating grants and contributions	48,349	46,284	21,793	20,308	70,142	66,592
Capital grants and contributions	-	-	17,496	15,285	17,496	15,285
Other income	-	-	1,163	-	1,163	-
General Revenues:						
State allotted appropriations, net of lapsed funds	48,852	21,446	-	-	48,852	21,446
Other (loss) income	(75)	426	-	-	(75)	426
Total revenues	97,126	68,156	62,442	59,694	159,568	127,850
Expenses						
Governmental Activities						
Homeless services and assistance program	22,916	18,991	-	-	22,916	18,991
Rental housing assistance program	57,236	48,922	-	-	57,236	48,922
Business-type activities						
Rental assistance program	-	-	51,564	56,136	51,564	56,136
Housing development program	-	-	8,384	8,319	8,384	8,319
Other	-	-	1,160	1,079	1,160	1,079
Total governmental-wide expenses	80,152	67,913	61,108	65,534	141,260	133,447
Excess of revenues over expenses	16,974	243	1,334	(5,840)	18,308	(5,597)
Capital contributions	-	-	9,119	-	9,119	
Transfers	(3,610)	(20,660)	3,493	13,981	(117)	(6,679)
Changes in net assets	13,364	(20,417)	13,946	8,141	27,310	(12,276)
Total net assets, beginning of year	67,389	87,806	296,598	288,457	363,987	376,263
Total net assets, end of year	$ 80,753	$67,389	$ 310,544	$ 296,598	$ 391,297	$ 363,987

Statement of Activities

Operating grants and contributions increased $3,549,190 in the current year from $66,592,784 to $70,141,974. Capital grants and contributions also increased by $2,211,425 in the current year from $15,284,905 to $17,496,330. Included in those increase are the HUD operating and capital subsidies which increased from $35,593,322 to $39,289,053 an increase of $3,695,731 or 10% from prior year.

Those amounts contributed to the business-type activities operating income of $170,553 for the year, as detailed in the *Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets, page 30*. Consequently, business-type activities recognized net income, before capital contributions and transfers, of $1,334,061 for the year.

Government activities net assets increased by $13,363,314. The detailed charts on *Government-Wide Statement of Activities*, *page 21* note that this change is primarily due to $24,323,000 of State allotted appropriations, net of lapsed funds. When capital projects related to business type activities are completed with governmental funds, they are transferred to a business-type activity.

FINANCIAL ANALYSIS OF THE HPHA'S FUNDS

Governmental funds

The focus of the HPHA's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the HPHA's financing requirements. In particular, unreserved fund balances may serve as a useful measure of the HPHA's net resource available for spending at the end of the fiscal year. (Detailed on *Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balance, page 24*.)

- At the end of the fiscal year, combined fund balances amounted to $55,051,036, of which $45,307,763 is reserved for capital projects, an increase of $15,263,978 in comparison with the prior year's combined fund balance.

- The key factors in this increase was the Capital Projects fund State allotted appropriation of $24,323,000, offset by $7,788,278 in capital outlays and general fund operating transfers of $3,440,957 to pay for rental housing service shortfalls under certain proprietary funds during the current year.

- The General fund allotted appropriation increased by $3,083,402 from $21,445,740 to $24,529,142 primarily for Homeless services. Consistent with the increased in funding, expenditures for Homeless services also increased $1,112,310 to $17,891,737 and capital outlays increased by over $2.0 million to $2,473,800.

- Housing assistance payments under the Section 8 Housing Choice Voucher Program increased $1,104,674 from the prior year to $19,604,914. Consequently, the net decrease in the fund balance before transfers was $876,075. The deficiency in revenues was primarily due to a decline in participant's average income and a corresponding increase in voucher assistance payments by the HPHA.

Proprietary funds

The HPHA's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

- The combined net assets restricted by legislation and contractual agreement amounted to $7,160,353 are related to restricted deposits and funded reserves. (Detailed on *Proprietary Funds, Statement of Net Assets, page 27*.)

- With the implementation of HUD's Asset Management and Project Based Budgeting, the HPHA established the Central Office Cost Center (COCC) fund to account for costs related to the general oversight of its housing projects and other indirect and administrative costs of the Authority. The COCC fund charges fees to the HPHA's various housing projects for administrative services and general oversight.

  There was an overall decrease in "Fee-for-service" for the COCC of $3,650,841 to $7,660,433 (or 33%). The majority of the decrease is related to the following fees: 1) Capital fund management fee decreased by $1.8 million; 2) Assets management fee of $600,000 was not charged in the current year; 3) Hearings fee decreased by $400,000.

  The COCC also saw personnel services decrease $2,064,846 which was in part due to furloughs and staff reductions.

- Under the Federal Low Rent Program, net income before capital contributions and transfers amounted to $4,695,218 (as Detailed on *Proprietary Funds, Statement of Revenue, Expenses, and Changes in Net Assets, page 30*) compared with prior year net loss before transfers of $(3,153,535). The total net variance was approximately $7.8 million and due to the following: 1) Rental revenues decreased by approximately $1.2 million to $15,927,923; which is consistent with the decrease in the tenant's average income levels; 2) Overall operating expenses decreased by approximately $4.0 to $51,564,428. The majority of the decrease is related to a $2,414,622 (26%) decrease in COCC charges (administrative expenditures) during the current year. 3) Increase in HUD operating subsidy and capital grants of $3,695,731 from the prior year to $39,289,053. The majority of this increase is due to funds provided under the American Reinvestment and Recovery Act. 4) State allotted appropriations of $610,000 for settlement of the Kuhio Park Terrace lawsuit.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The HPHA's investment in capital assets for its governmental and business-type activities for the fiscal year ended June 30, 2010 is $307,660,409 (net of related debt). This investment in capital assets includes land, buildings and improvements, equipment, furniture, and fixtures. (Detailed in *Notes to the Financial Statements, #5, page 51*.)

HPHA Capital Assets
Years ended June 30, 2010 and June 30, 2009
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	$ 2,373	$ 2,373	$ 22,966	$ 22,966	$ 25,339	$ 25,339
Buildings and improvements	48,095	46,487	523,172	523,135	571,267	569,622
Equipment	1,198	1,198	9,767	10,001	10,965	11,199
Construction in progress	350	2,290	27,035	6,685	27,385	8,975
Total	52,016	52,348	582,940	562,787	634,956	615,135
Accumulated Depreciation	(26,165)	(24,534)	(301,007)	(287,502)	(327,172)	(312,036)
Total Capital Assets, Net	$ 25,851	$ 27,814	$ 281,933	$ 275,285	$ 307,784	$ 303,099

Major capital asset events during the current fiscal year included the following:

Major Projects Outstanding FY2010 (work-in-progress) at the end of the year

- AMP 31 Kalihi Valley Homes Site and Dwelling Improvement Phase IVA at $4,634,049
- AMP 37 Lokahi HazMat Abatement and Interior Renovation at $3,264,080
- AMP 30 Puuwai Momi, Electrical System Repairs at $2,134,851
- AMP 43 Hale Hookipa, Nani Olu, Reroofing at $2,252,504
- AMP 43 Kaimalino and Kealakehe Reroofing at $1,915,750
- AMP 39 Kahekili Terrace Physical Improvements at $5,079,289
- AMP 50 Palolo Valley Homes Physical Improvements at $2,634,720
- AMP 43 Kealakehe – LLC Conversion at $764,558
- AMP 49 Kupuna Home Design STP Improve at $255,143
- AMP 32 Mayor Wright Homes, Design at $1,559,125
- AMP 37 Major Modernization at Lanikila Homes at $5,174,911
- AMP 34 Makua Alii Structural and Spall Repairs 1st Phase at $1,940,130

Major projects completed with Governmental Funds and transferred to Fixed Assets

- Nakolea Homeless Shelter Renovations at $1,608,321

Major projects completed with Proprietary Funds and transferred to Fixed Assets

- AMP 40 Installation of a fire alarm system at Kuhio Park Terrace at $1,578,918

Debt Activity

As of June 30, 2010, HPHA had $294,605 of Mortgage and Notes Payable debt outstanding related to two loans for the Banyan Street Manor development. (Detailed in *Notes to the Financial Statements, #6.*) During the fiscal year ended June 30, 2010, approximately $122,177 was paid as part of the planned amortization of the existing loans. No additional debt was assumed during the fiscal year ended June 30, 2010.

As of June 30, 2010, $7,160,353 of cash was considered restricted. This was comprised of the following:

Replacement reserves and escrow accounts – Banyan Street Manor	$ 1,339,498
Replacement reserves and escrow accounts – HHA Wilikina Apartments	5,820,855
Total Restricted Cash as June 30, 2010	$ 7,160,353

ECONOMIC FACTORS AND NEXT YEAR BUDGETS AND RATES

HUD increased operating funding for public housing for fiscal year 2010 by increasing the operating subsidy proration (actual funding) rate to full funding. Due to HUD's inability to provide appropriations for a full fiscal year, the HPHA projects its budget forward using current subsidy amounts and produces revised budgets once the actual appropriations are provided.

During the prior fiscal year, the HPHA's was awarded funds under the American Recovery and Reinvestment Act in the amounts of $16,245,443 for the Capital Fund Program and $2,166,888 for the Homelessness Prevention and Rapid Re-housing Program. The allocations under the ARRA grant were one time allotments which will be reduced next year's nonoperating revenues for business type activities (i.e., Federal Low Rent Program).

The HPHA was named as a defendant in a lawsuit over living conditions at Kuhio Park Terrace calling for capital improvements such as elevators, trash chutes, fire alarms, and sewers, as well as an increase in handicapped accessible units. The HPHA is working to address the issues involved with existing funds, and continues to seek additional funding. The HPHA successfully reached a settlement with the plaintiffs in an amount of $610,000, which was funded through a State allocation to the Department of the Attorney General.

During the prior fiscal year, the HPHA Board approved the selection of The Michaels Development Company for the mixed finance redevelopment project at the Kuhio Park Terrace and Kuhio Homes. As part of the partnership, the HPHA will sell the physical assets (e.g., building and improvements) to The Michaels Development Company and enter into a long term ground lease.

During the current fiscal year, the HPHA transferred its Homeless Programs (a government funded program) to the Department of Human Services. The transfer will allow for better coordination of homeless services and will affect net assets and activities for both government activities and proprietary funds (central office management fees). A memorandum of agreement to transfer the program was executed effective March 1, 2010. The HPHA, however, continues to hold title to the State owned shelter facilities and is working to transfer those assets to the Department of Land and Natural Resources.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the HPHA's finances for all those with an interest in the HPHA's finances. If you have any questions about this report or need additional financial information, contact the Office of the Executive Director, Hawaii Public Housing Authority 1002 North School Street, Honolulu, HI 96817.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET ASSETS

June 30, 2010

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash	$ 4,825,639	$ 30,518,010	$ 35,343,649
Due from State of Hawaii	53,205,830	-	53,205,830
Receivables:			
Accrued interest	-	153,653	153,653
Tenant receivables, less allowance for doubtful receivables of $4,229,732	-	468,715	468,715
Other	149,100	10,882	159,982
	149,100	633,250	782,350
Internal balances	(81,468)	81,468	-
Due from other state agencies	-	944,254	944,254
Due from HUD	326,458	5,148,833	5,475,291
Inventories	-	884,417	884,417
Prepaid expenses and other assets	1,706,046	5,500	1,711,546
Deposits held in trust	-	23,148	23,148
Total current assets	60,131,605	38,238,880	98,370,485
Note Receivable	-	426,100	426,100
Accrued Interest	-	594,307	594,307
Restricted Deposits and Funded Reserves	-	7,160,353	7,160,353
Capital Assets, less accumulated depreciation	25,850,787	281,932,900	307,783,687
Total assets	$ 85,982,392	$ 328,352,540	$ 414,334,932

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET ASSETS (continued)

June 30, 2010

LIABILITIES AND NET ASSETS	Governmental Activities	Business-type Activities	Total
Current Liabilities:			
Accounts payable	$ 4,460,455	$ 7,197,251	$ 11,657,706
Accrued expenses	619,904	2,583,656	3,203,560
Due to other state agencies	-	4,962	4,962
Due to State of Hawaii	-	571,402	571,402
Due to HUD	210	15,818	16,028
Security deposits	-	927,236	927,236
Deferred income	-	298,943	298,943
Mortgage payable	-	123,278	123,278
Total current liabilities	5,080,569	11,722,546	16,803,115
Accrued Expenses	149,315	5,914,888	6,064,203
Note Payable	-	171,327	171,327
Commitments and Contingencies			
Net Assets:			
Invested in capital assets, net of related debt	25,850,787	281,809,622	307,660,409
Restricted by legislation and contractual agreements	-	7,160,353	7,160,353
Unrestricted	54,901,721	21,573,804	76,475,525
Total net assets	80,752,508	310,543,779	391,296,287
Total liabilities and net assets	$ 85,982,392	$ 328,352,540	$ 414,334,932

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

		Program Revenues			Net (expense) revenue and changes in net assets		
	Expenses	Charges for services and other revenues	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Functions/Programs:							
Governmental activities:							
Homeless service and assistance program	$ 22,916,046	$ -	$ 2,105,613	$ -	$ (20,810,433)	$ -	$ (20,810,433)
Rental housing and assistance program	57,236,363	-	46,243,638	-	(10,992,725)	-	(10,992,725)
Total governmental activities	80,152,409	-	48,349,251	-	(31,803,158)	-	(31,803,158)
Business-type activities:							
Rental assistance program	51,564,428	16,360,593	21,792,723	17,496,330	-	4,085,218	4,085,218
Rental housing program	8,383,873	4,055,026	-	-	-	(4,328,847)	(4,328,847)
Others	1,159,720	1,573,902	-	-	-	414,182	414,182
Total business-type activities	61,108,021	21,989,521	21,792,723	17,496,330	-	170,553	170,553
Total government-wide	$ 141,260,430	$ 21,989,521	$ 70,141,974	$ 17,496,330	(31,803,158)	170,553	(31,632,605)
State Allotted Appropriations, net of lapsed funds of $1,120,026					48,852,142	610,000	49,462,142
Other Non-Program (Expense) Revenue					(75,192)	553,508	478,316
Capital Contributions					-	9,118,747	9,118,747
Net Transfers					(3,492,839)	3,492,839	-
Intergovernmental Transfer					(117,639)	-	(117,639)
Total general revenues and transfers					45,166,472	13,775,094	58,941,566
Change in net assets					13,363,314	13,945,647	27,308,961
Net Assets at July 1, 2009					67,389,194	296,598,132	363,987,326
Net Assets at June 30, 2010					$ 80,752,508	$ 310,543,779	$ 391,296,287

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2010

ASSETS	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Current Assets:						
Cash	$ -	$ -	$ 4,137,202	$ 688,223	$ 214	$ 4,825,639
Due from State of Hawaii	5,543,422	47,662,408	-	-	-	53,205,830
Other receivables	117,398	-	31,702	-	-	149,100
Due from other funds	6,130	-	317,522	739,689	-	1,063,341
Due from HUD	-	-	-	296,886	29,572	326,458
Prepaid expenses and other assets	63,525	-	1,642,521	-	-	1,706,046
Total assets	$ 5,730,475	$ 47,662,408	$ 6,128,947	$ 1,724,798	$ 29,786	$ 61,276,414
LIABILITIES AND FUND BALANCES						
Current Liabilities:						
Accounts payable	$ 2,105,788	$ 2,354,645	$ -	$ 18	$ 4	$ 4,460,455
Accrued expenses	39,336	-	307,661	272,907	-	619,904
Due to other funds	340,578	-	587,801	186,858	29,572	1,144,809
Due to HUD	-	-	-	-	210	210
Total liabilities	2,485,702	2,354,645	895,462	459,783	29,786	6,225,378
Fund Balances - Unrestricted						
Reserved	3,244,773	45,307,763	-	-	-	48,552,536
Unreserved	-	-	5,233,485	1,265,015	-	6,498,500
Total fund balances	3,244,773	45,307,763	5,233,485	1,265,015	-	55,051,036
Total liabilities and fund balances	$ 5,730,475	$ 47,662,408	$ 6,128,947	$ 1,724,798	$ 29,786	$ 61,276,414

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2010

Total fund balance - governmental funds		$ 55,051,036
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	25,850,787	
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds	(149,315)	25,701,472
Net assets of governmental activities		$ 80,752,508

The accompanying notes are an integral part of this statement.

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

Year ended June 30, 2010

	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Revenues:						
Intergovernmental – HUD annual contributions and others	$ -	$ -	$ 20,691,067	$ 25,235,780	$ 2,305,599	$ 48,232,446
State allotted appropriations, net of lapsed funds of $1,120,026	24,529,142	24,323,000	-	-	-	48,852,142
Other	79,288	-	39,776	160	-	119,224
Total revenues	24,608,430	24,323,000	20,730,843	25,235,940	2,305,599	97,203,812
Expenditures:						
Housing assistance payments	848,606	-	19,604,914	23,548,385	-	44,001,905
Homeless services	17,891,737	-	-	-	-	17,891,737
Personnel services	451,634	-	1,135,673	-	-	1,587,307
Administration	83,243	-	832,877	1,178,749	2,240,099	4,334,968
Professional services	85,545	-	65,852	42,541	-	193,938
Security	-	-	605	-	-	605
Repairs and maintenance	3,836	-	912	-	-	4,748
Insurance	6,376	-	14,463	-	-	20,839
Capital outlays	2,473,800	7,788,278	-	-	-	10,262,078
Other	79,609	-	28,097	-	-	107,706
Total expenditures	21,924,386	7,788,278	21,683,393	24,769,675	2,240,099	78,405,831
Excess (deficiency) of revenues over (under) expenditures	2,684,044	16,534,722	(952,550)	466,265	65,500	18,797,981
Nonoperating Expenditure - Interest Income	-	-	76,475	-	-	76,475
Intergovernmental Transfer	-	(117,639)	-	-	-	(117,639)
Other Financing (Uses) Sources - Transfers (Out) In	(3,440,957)	-	65,500	(51,882)	(65,500)	(3,492,839)
Net change in fund balances	(756,913)	16,417,083	(810,575)	414,383	-	15,263,978
Fund Balances at July 1, 2009	4,001,686	28,890,680	6,044,060	850,632	-	39,787,058
Fund Balances at June 30, 2010	$ 3,244,773	$ 45,307,763	$ 5,233,485	$ 1,265,015	$ -	$ 55,051,036

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2010

Net change in fund balances - total governmental funds		$ 15,263,978
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 governmental activities assets is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense and write-offs of those governmental activities assets amounted to approximately $1,631,000 and $332,000, respectively.	(1,963,553)	
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	62,889	(1,900,664)
Change in net assets of governmental activities		$ 13,363,314

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

June 30, 2010

ASSETS	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Assets:							
Cash	$ 16,967,065	$ 531,372	$ 1,405,902	$ 6,113,600	$ 4,250,155	$ 29,268,094	$ 1,249,916
Receivables:							
Accrued interest	-	-	55,272	-	62,231	117,503	36,150
Tenant receivables, less allowance for doubtful accounts of $4,229,732	341,594	27,676	-	-	99,445	468,715	-
Other	-	-	648	2,135	8,099	10,882	-
	341,594	27,676	55,920	2,135	169,775	597,100	36,150
Due from other funds	225,084	664,426	688,598	5,568,596	178,230	7,324,934	116,513
Due from other state agencies	-	-	-	86,281	857,973	944,254	-
Due from HUD	5,148,833	-	-	-	-	5,148,833	-
Inventories	741,628	22,444	90,717	29,628	-	884,417	-
Prepaid expenses and other assets	-	-	-	5,500	-	5,500	-
Deposits held in trust	-	-	-	-	23,148	23,148	-
Total current assets	23,424,204	1,245,918	2,241,137	11,805,740	5,479,281	44,196,280	1,402,579
Note Receivable	-	426,100	-	-	-	426,100	-
Accrued Interest	-	594,307	-	-	-	594,307	-
Restricted Deposits and Funded Reserves	-	-	-	-	7,160,353	7,160,353	-
Capital Assets, less accumulated depreciation	208,456,030	16,469,778	39,202,228	83,805	17,706,266	281,918,107	14,793
Total assets	$ 231,880,234	$ 18,736,103	$ 41,443,365	$ 11,889,545	$ 30,345,900	$ 334,295,147	$ 1,417,372

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (continued)

June 30, 2010

LIABILITIES AND NET ASSETS	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Liabilities:							
Accounts payable	$ 5,907,934	$ 76,096	$ 127,086	$ 7,600	$ 1,078,535	$ 7,197,251	$ -
Accrued expenses	1,241,318	50,154	11,067	631,018	650,099	2,583,656	-
Due to other funds	2,845,199	352,507	217,957	-	3,882,416	7,298,079	61,900
Due to other state agencies	-	-	-	-	4,962	4,962	-
Due to State of Hawaii	-	-	-	-	571,402	571,402	-
Due to HUD	-	-	-	-	15,818	15,818	-
Security deposits	680,007	34,667	145,777	-	66,785	927,236	-
Deferred income	272,035	22,121	-	-	4,787	298,943	-
Mortgage payable	-	-	-	-	123,278	123,278	-
Total current liabilities	10,946,493	535,545	501,887	638,618	6,398,082	19,020,625	61,900
Accrued Expenses	761,241	53,202	-	5,100,445	-	5,914,888	-
Note Payable	-	-	-	-	171,327	171,327	-
Commitments and Contingencies							
Net Assets:							
Invested in capital assets, net of related debt	208,456,030	16,469,778	39,202,228	83,805	17,582,988	281,794,829	14,793
Restricted by legislation and contractual agreements	-	-	-	-	7,160,353	7,160,353	-
Unrestricted	11,716,470	1,677,578	1,739,250	6,066,677	(966,850)	20,233,125	1,340,679
Total net assets	220,172,500	18,147,356	40,941,478	6,150,482	23,776,491	309,188,307	1,355,472
Total liabilities and net assets	$ 231,880,234	$ 18,736,103	$ 41,443,365	$ 11,889,545	$ 30,345,900	$ 334,295,147	$ 1,417,372

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

June 30, 2010

Total net assets of enterprise funds	$	309,188,307
Amounts reported for business-type activities in the statement of net assets are different because internal service fund assets and liabilities are included with business-type activities		1,355,472
Net assets of business-type activities	$	310,543,779

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2010

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Eliminating Entries	Total Enterprise Funds	Internal Service Funds
Operating Revenues:								
Rental	$ 15,927,923	$ 926,025	$ 1,954,781	$ -	$ 1,329,948	$ -	$ 20,138,677	$ 53,229
Fee-for-service	-	-	-	7,660,433	-	(7,660,433)	-	-
Other	328,888	78,614	91,265	11,966	51,343	-	562,076	-
Total operating revenues	16,256,811	1,004,639	2,046,046	7,672,399	1,381,291	(7,660,433)	20,700,753	53,229
Operating Expenses:								
Project	6,361,490	-	-	-	-	-	6,361,490	-
Personnel services	8,663,274	675,719	-	5,647,618	-	-	14,986,611	-
Depreciation	10,770,985	521,275	1,394,967	2,464	954,756	-	13,644,447	37,757
Administration	7,698,028	274,483	1,102,481	538,176	1,058,680	(7,660,433)	3,011,415	52,414
Provision for losses	455,193	-	-	-	102,758	-	557,951	-
Professional services	415,043	30,367	18,402	232,221	16,086	-	712,119	7,418
Security	1,517,056	-	977	9,367	-	-	1,527,400	-
Insurance	635,604	30,273	116,418	24,433	-	-	806,728	-
Repairs and maintenance	3,992,231	178,034	456,054	159,826	334,267	-	5,120,412	-
Utilities	11,055,524	716,545	1,014,279	79,744	446,838	-	13,312,930	-
Capital expenditures	-	-	-	7,260	-	-	7,260	2,344
Total operating expenses	51,564,428	2,426,696	4,103,578	6,701,109	2,913,385	(7,660,433)	60,048,763	99,933
Operating (loss) income carried forward	(35,307,617)	(1,422,057)	(2,057,532)	971,290	(1,532,094)	-	(39,348,010)	(46,704)

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2010

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Eliminating Entries	Total Enterprise Funds	Internal Service Funds
Operating (loss) income brought forward	(35,307,617)	(1,422,057)	(2,057,532)	971,290	(1,532,094)	-	(39,348,010)	(46,704)
Nonoperating Revenues (Expenses):								
Interest income	104,033	24,879	63,646	37,327	2,510	-	232,395	44,148
HUD operating subsidy and others	39,289,053	-	-	-	-	-	39,289,053	-
State alloted appropriation	610,000	-	-	-	-	-	610,000	-
Other (expenses) revenues	(251)	(78)	-	-	553,508	-	553,179	-
Net nonoperating revenues	40,002,835	24,801	63,646	37,327	556,018	-	40,684,627	44,148
Income (loss) before transfers	4,695,218	(1,397,256)	(1,993,886)	1,008,617	(976,076)	-	1,336,617	(2,556)
Capital Contributions	7,063,205	1,681,031	374,511	-	-	-	9,118,747	-
Net Operating Transfers	1,619,007	637,096	649,934	586,802	-	-	3,492,839	-
Change in net assets	13,377,430	920,871	(969,441)	1,595,419	(976,076)	-	13,948,203	(2,556)
Net Assets at July 1, 2009	206,795,070	17,226,485	41,910,919	4,555,063	24,752,567	-	295,240,104	1,358,028
Net Assets at June 30, 2010	$ 220,172,500	$ 18,147,356	$ 40,941,478	$ 6,150,482	$ 23,776,491	$ -	$ 309,188,307	$ 1,355,472

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

RECONCILIATION OF THE CHANGE IN NET ASSETS
OF PROPRIETARY FUNDS
TO THE STATEMENT OF ACTIVITIES

Year ended June 30, 2010

Change in net assets - total enterprise funds	$	13,948,203
Change in net assets - internal service fund		(2,556)
Change in net assets of business-type activities	$	13,945,647

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

Year ended June 30, 2010

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:							
Cash received from renters	$ 15,519,144	$ 945,682	$ 1,977,508	$ -	$ 1,276,824	$ 19,719,158	$ -
Cash payments to employees	(9,014,015)	(659,643)	(55,823)	-	-	(9,729,481)	-
Cash payments to suppliers	(32,099,412)	(1,222,333)	(2,689,980)	(1,055,037)	(2,541,919)	(39,608,681)	-
Cash receipts from (payments to) other funds	1,862,099	511,422	(376,326)	7,123,490	(1,275,229)	7,845,456	26,583
Other cash receipts (payments)	521,202	78,794	73,612	10,149	232,091	915,848	(26,583)
Net cash (used in) provided by operating activities	(23,210,982)	(346,078)	(1,071,009)	6,078,602	(2,308,233)	(20,857,700)	-
Cash Flows from Noncapital Financing Activities:							
HUD operating subsidy and others received	27,942,346	-	-	-	-	27,942,346	-
Cash payments to other state agencies	-	-	-	-	(145,467)	(145,467)	-
Operating transfers in	217,766	559,837	512,511	-	-	1,290,114	-
Other	-	-	-	-	553,508	553,508	
Net cash provided by noncapital financing activities	28,160,112	559,837	512,511	-	408,041	29,640,501	-
Cash Flows from Capital and Related Financing Activities:							
HUD capital subsidy received	11,450,335	-	-	-	-	11,450,335	-
Principal payments on mortgage loans	-	-	-	-	(122,177)	(122,177)	-
Interest payments	-	-	-	-	(9,849)	(9,849)	-
Payments for acquisition of property and equipment	(11,450,335)	-	-	-	(40,061)	(11,490,396)	-
Other	-	-	-	-	60,790	60,790	-
Net cash used in capital and related financing activities	-	-	-	-	(111,297)	(111,297)	-
Subtotal carried forward	4,949,130	213,759	(558,498)	6,078,602	(2,011,489)	8,671,504	-

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year ended June 30, 2010

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Subtotal brought forward	4,949,130	213,759	(558,498)	6,078,602	(2,011,489)	8,671,504	-
Cash Flows from Investing Activities:							
Receipts of interest	35,711	927	68,530	18,219	12,359	135,746	45,706
Net increase in restricted deposits and funded reserves	-	-	-	-	185,158	185,158	-
Net cash provided by investing activities	35,711	927	68,530	18,219	197,517	320,904	45,706
Net increase (decrease) in cash	4,984,841	214,686	(489,968)	6,096,821	(1,813,972)	8,992,408	45,706
Cash at July 1, 2009	11,982,224	316,686	1,895,870	16,779	6,064,127	20,275,686	1,204,210
Cash at June 30, 2010	$ 16,967,065	$ 531,372	$ 1,405,902	$ 6,113,600	$ 4,250,155	$ 29,268,094	$ 1,249,916

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year ended June 30, 2010

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center 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	$ (35,307,617)	$ (1,422,057)	$ (2,057,532)	$ 971,290	$ (1,532,094)	$ (39,348,010)	$ (46,704)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities							
Depreciation	10,770,985	521,275	1,394,967	2,464	954,756	13,644,447	37,757
Provision for losses	455,193	-	-	-	102,758	557,951	-
Changes in assets and liabilities:							
Tenant receivables	(399,898)	17,432	3,576	-	(43,121)	(422,011)	-
Other receivables	192,314	-	(648)	(1,817)	84,955	274,804	-
Due from other funds	1,862,099	462,633	(344,714)	4,318,531	94,360	6,392,909	3,312
Due from other state agency	-	-	-	(86,281)	-	(86,281)	-
Due from HUD	-	-	-	-	111,870	111,870	-
Inventories	(26,515)	(6,152)	(23,536)	4,111	-	(52,092)	-
Prepaid expenses and other assets	-	-	-	(5,500)	63,503	58,003	-
Deposits held in trust	-	-	-	-	3,316	3,316	-
Accounts payable	2,875,561	13,521	(13,942)	(2,621)	(710,519)	2,162,000	-
Other accrued expenses	374,350	16,256	286	878,425	(59,473)	1,209,844	-
Due to other funds	(3,998,573)	48,789	(31,612)	-	(1,369,589)	(5,350,985)	5,635
Due to HUD	-	-	-	-	3,159	3,159	-
Security deposits	8,204	(877)	2,146	-	5,828	15,301	-
Deferred income	(17,085)	3,102	-	-	(17,942)	(31,925)	-
Net cash (used in) provided by operating activities	$ (23,210,982)	$ (346,078)	$ (1,071,009)	$ 6,078,602	$ (2,308,233)	$ (20,857,700)	$ -

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2010

	Private Purpose Trust
ASSETS	
Cash	$ 423,069
Total assets	$ 423,069
LIABILITIES AND NET ASSETS	
Liability - Accounts Payable	$ -
Net Assets - Held in Trust	423,069
Total liabilities and net assets	$ 423,069

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2010

	Private Purpose Trust
Addition - Intergovernmental Revenue	$ 500,000
Deductions - Capital Outlays	78,586
Change in net assets	421,414
Net Assets at July 1, 2009	1,655
Net Assets at June 30, 2010	$ 423,069

The accompanying notes are an integral part of this statement.

1. Organization and Significant Accounting Policies

a. General

Act 196, SLH 2005, as amended by Act 180, SLH 2006, created the Hawaii Public Housing Authority (the Authority).

The Authority's mission is to provide safe, decent and sanitary dwelling for low and moderate income residents of Hawaii and to operate its housing program in accordance with federal and state of Hawaii laws and regulations.

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

The financial statements of the Authority 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 Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2010, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Authority's financial activities.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net assets and the statement of activities, report information of all of the non-fiduciary activities of the Authority. 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.

1. Organization and Significant Accounting Policies (continued)

b. 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 Authority employs 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 Authority's policy to use restricted resources first then unrestricted resources as they are needed.

The fund financial statements are provided for governmental funds, proprietary funds and fiduciary fund. Major individual governmental 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 Authority's fiduciary fund is 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.

c. Measurement Focus and Basis of Accounting

i. Government-Wide Financial Statements

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

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

ii. 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 Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. In applying the susceptible to accrual concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when applicable requirements, including timing requirements are met.

Principal revenue sources considered susceptible to accrual include federal grants and rental income. 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 Authority.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation and other post-retirement benefits, which are recorded as expenditures when utilized or paid. The amount of indebtedness related to accumulated vacation and other post-retirement benefits at June 30, 2010 has been reported in the government-wide financial statements.

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

iii. Proprietary Funds and Fiduciary Fund

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

Each proprietary fund has the option under 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 Authority has elected to not apply FASB statements after the applicable date.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Authority's enterprise funds is rental income. Federal grants are reported as nonoperating income.

d. Fund Accounting

The financial activities of the Authority are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Authority 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.

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

i. Governmental Funds

General Fund – The general fund is the general operating fund of the Authority. 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 and the Homeless Programs. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. These funds include Section 8 Housing Choice Voucher Program, Contract Administration, Shelter Plus Care, Housing Opportunities for Persons with AIDS (HOPWA) Program, Emergency Shelter Grant Program, Residential Opportunities Self-Sufficient Programs (ROSS), Supportive Housing Program, Office of Juvenile Justice and Delinquency Program and Economic Development Initiative Special Project Grant Boys and Girls Club of Hawaii (Boys and Girls Club).

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).

The Authority reports the following major governmental funds:

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

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

ii. Proprietary Funds

Enterprise Funds – These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to customers, or where sound financial management dictates that periodic determinations of results of operations are appropriate.

The enterprise funds include the Federal Low Rent Fund, Housing Revolving Fund, Housing for Elders Revolving Fund and other funds. The other funds include the Banyan Street Manor Project, Wilikina Apartments Project, Kekumu at Waikoloa Project, Disbursing Fund and Kuhio Park Terrace (KPT) Resource Center.

Internal Service Funds – These funds account for those activities, which provide goods or services primarily to the Authority, 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 Authority 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.

Housing Revolving Fund accounts for various state multifamily housing projects located throughout the State of Hawaii.

Housing for Elders Revolving Fund accounts for various state elderly housing projects located throughout the State of Hawaii.

Central Office Cost Center Fund was established to account for costs related to the general oversight of its housing projects and other indirect and administrative costs of the Authority. The fund charges fees to the Authority's various housing projects for such services. In addition to the fee income to operate the public housing programs, the Authority also earns fees from its other federal and state programs. The fee income earned by the fund is considered to be de-federalized.

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

iii. Fiduciary Fund

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

e. HUD Subsidized Programs

The Federal Low-Rent Program Fund operates under HUD's Annual Contribution Contract and consists of the operations of low-rent housing properties. The purpose of the program is to provide decent and affordable housing to low-income families at reduced rents. The properties are owned, maintained and managed by the Authority. The properties are acquired, developed and modernized under HUD's comprehensive grant programs. Funding for the properties is provided by federal operating subsidies and tenant rentals (determined as a percentage of family income, adjusted for family composition).

The Section 8 Programs consists of the Housing Choice Voucher Program Fund and the Section 8 Contract Administration Fund. The Housing Choice Voucher Program Fund provides rental housing assistance subsidies to qualified participants. The purpose of the program is to assist low-income families, the elderly and the disabled to afford decent, safe and sanitary housing in the private market. Federal housing assistance is provided on behalf of the family or individuals and is paid directly to the landlord directly by the Authority. The family or individual is responsible for finding a suitable housing unit in which the landlord agrees to rent under the program. The Section 8 Contract Administration Fund administers non-Authority owned housing units used for low-income housing. HUD provides a contracted dollar amount to the Authority, which is used to provide rental payment assistance to landlords.

f. 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 Authority 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

1. Organization and Significant Accounting Policies (continued)

f. Capital Assets (continued)

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 Authority 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

g. Cash and Cash Equivalents

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

h. Inventories

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

i. 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.

1. Organization and Significant Accounting Policies (continued)

j. HUD Annual Contributions

The Authority receives annual contributions and subsidies from HUD for operating the Authority's housing assistance payment programs and the development and operation of low-income housing projects. The Authority 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.

k. Vacation

Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately $692,000.

The change in accumulated unpaid vacation during the year is approximately as follows:

Balance at July 1, 2009	Additions	Reductions	Balance at June 30, 2010
$2,221,000	$1,106,000	$1,155,000	$2,172,000

As of June 30, 2010, approximately $219,000 and $1,953,000 of the unpaid vacation balance was for government-wide activities and business-type activities, respectively, and is included in accrued expenses in the accompanying balance sheets.

l. Allocated Costs

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

1. Organization and Significant Accounting Policies (continued)

m. 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.

n. 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.

o. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Significant estimates and assumptions include the valuation for accounts receivable and the liability of other post employee benefits. Actual results could differ from those estimates.

p. Recently Adopted Accounting Pronouncements

In 2009, the Authority adopted GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The Statement incorporates the hierarchy of GAAP for state and local governments into GASB's authoritative literature. The sources of accounting principles that are generally accepted are categorized in descending order of authority as follows: (1) officially established accounting principles – GASB Statements and Interpretations, (2) GASB Technical Bulletins, (3) AICPA Practice Bulletins, and (4) Implementations Guides. This Statement was effective upon its issuance. The adoption of GASB Statement No. 55 did not have an impact on the Authority's financial position or results of operations.

1. Organization and Significant Accounting Policies (continued)

p. Recently Adopted Accounting Pronouncements (continued)

In 2009, the Authority adopted GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.* This Statement incorporates into GASB the following three accounting and reporting guidelines currently existing in the American Institute of Certified Public Accounts' Statement on Auditing Standards – related party transactions, going concern considerations and subsequent events. The adoption of GASB Statement No. 56 did not have an impact on the Authority's financial position or results of operations.

In 2010, the Authority adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates into GASB certain accounting and reporting guidelines currently existing in the Financial Accounting Standards Board's Statements and Interpretations, the Accounting Principles Board Opinions and the American Institute of Certified Public Accountants' Committee on Accounting Procedure's Accounting Research Bulletins. The adoption of GASB Statement No. 62 did not have an impact on the Authority's financial position or results of operations.

q. Recently Issued Accounting Pronouncements

In 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement establishes standards of accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specially defined classifications and clarifies definitions for governmental fund types. This Statement is effective for financial statement periods beginning after June 15, 2010. Management is currently assessing the impact of GASB Statement No. 54 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

In 2010, the GASB issued Statement No. 59, *Financial Instrument Omnibus*. This Statement provides accounting and financial reporting guidance related to certain financial instruments and external investment pools by providing more complete information, improving consistency of measurements, and providing clarifications of existing standards. This Statement is effective for financial statement periods beginning after June 15, 2010. Management is currently assessing the impact of GASB Statement No. 59 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

2. Budgeting and Budgetary Control

The budget of the Authority is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which financial policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the accompanying required supplementary information – budgetary comparison schedule are estimates as compiled by the Authority 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.

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 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.

2. Budgeting and Budgetary Control (continued)

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, 2010 is set forth in the required supplementary information.

3. Cash

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

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

At June 30, 2010, total cash reported in the statement of net assets is $35,366,797, which consisted of the following:

	Governmental	Business-Type	Total
State pool and petty cash	$ -	$ 6,542,291	$ 6,542,291
Cash in bank (book balance)	4,825,639	23,975,719	28,801,358
	4,825,639	30,518,010	35,343,649
Deposits held in trust	-	23,148	23,148
Total Cash	$ 4,825,639	$ 30,541,158	$ 35,366,797

3. Cash (continued)

During 2010, the Authority recorded a valuation gain of approximately $269,000 for its State pool cash balances included in interest income. The valuation adjustment relates primarily to the State of Hawaii auction rate securities.

Bank balance of cash in bank was approximately $30,092,000, of which $789,000 was covered by federal depositary insurance and $29,303,000 by collateral held by the pledging financial institution's trust department or agent in the name of the Authority.

4. Note Receivable

The note receivable consists of a $426,100 uncollateralized promissory note receivable, bearing interest at 9%, from a developer who had leased certain building improvements under a sublease agreement with the Authority. The entire payment of principal and unpaid interest was due and payable on January 1, 2009, unless the Authority acquired such building improvements constructed by the developer for a sum equal to the amount owed under this note. During 2009, the Authority had agreed with the developer to acquire such building improvements. However, as of June 30, 2010, the legal title transfer has not been executed. Consequently, the financial statements reflect a note receivable balance of $426,100 and the related accrued interest receivable balance of approximately $594,000.

5. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	July 1, 2009	Increases	Decreases	June 30, 2010
Governmental Activities				
Capital assets, not being depreciated:				
Land	$ 2,373,410	$ -	$ -	$ 2,373,410
Construction in progress	2,290,870	-	(1,940,521)	350,349
Total capital assets not being depreciated	4,664,280	-	(1,940,521)	2,723,759
Capital assets, being depreciated:				
Building and improvements	46,486,556	1,608,321	-	48,094,877
Equipment	1,197,769	-	-	1,197,769
Total capital assets being depreciated	47,684,325	1,608,321	-	49,292,646
Less accumulated depreciation for:				
Building and improvements	23,401,086	1,617,156	-	25,018,242
Equipment	1,133,179	14,197	-	1,147,376
Total accumulated depreciation	24,534,265	1,631,353	-	26,165,618
Governmental activities, net	$ 27,814,340	$ (23,032)	$ (1,940,521)	$ 25,850,787

	July 1, 2009	Increases	Decreases	June 30, 2010
Business-Type Activities				
Capital assets, not being depreciated:				
Land	$ 22,966,200	$ -	$ -	$ 22,966,200
Construction in progress	6,684,021	20,351,323	-	27,035,344
Total capital assets not being depreciated	29,650,221	20,351,323	-	50,001,544
Capital assets being depreciated:				
Building and improvements	523,135,387	36,149	-	523,171,536
Equipment	10,000,988	-	(234,284)	9,766,704
Total capital assets being depreciated	533,136,375	36,149	(234,284)	532,938,240
Less accumulated depreciation for:				
Building and improvements	277,980,886	13,372,267	-	291,353,153
Equipment	9,521,013	309,937	(177,219)	9,653,731
Total accumulated depreciation	287,501,899	13,682,204	(177,219)	301,006,884
Business-type activities capital assets, net	$ 275,284,697	$ 6,705,268	$ (57,065)	$281,932,900

5. Capital Assets (continued)

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

Governmental Activities:	
Homeless Service and Assistance Program	$ 1,322,167
Rental Housing and Assistance Program	309,186
Total depreciation expense – governmental activities	1,631,353
Business-Type Activities:	
Federal Low Rent Program	10,770,985
Housing Revolving Fund	521,275
Housing for Elders Revolving Fund	1,394,967
Central Office Cost Center Fund	2,464
Others	992,513
Total depreciation expense – business-type activities	13,682,204
Total depreciation expense	$ 15,313,557

At June 30, 2010, capital assets for the proprietary funds consisted of the following:

	Enterprise Funds							
	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds	Total
Land	$ 13,093,629	$ 2,252,881	$ 6,104,817	$ -	$ 1,514,873	$ 22,966,200	$ -	$ 22,966,200
Buildings and improvements	419,451,696	22,311,062	55,275,568	42,857	26,090,353	523,171,536	-	523,171,536
Equipment, furniture and fixtures	6,800,599	252,521	208,356	65,557	703,087	8,030,120	1,736,584	9,766,704
Construction in progress	24,614,918	1,969,572	450,854	-	-	27,035,344	-	27,035,344
Less accumulated depreciation	255,504,812	10,316,258	22,837,367	24,609	10,602,047	299,285,093	1,721,791	301,006,884
Net property and equipment	$ 208,456,030	$ 16,469,778	$ 39,202,228	$ 83,805	$ 17,706,266	$ 281,918,107	$ 14,793	$ 281,932,900

6. Mortgage and Note 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 Authority, Inc. (GSCI) became the new servicing agent and mortgagee. The mortgage loan bears interest at 7.5 percent and is collateralized by the rental property. At June 30, 2010, the mortgage payable balance was $123,278. Principal and interest are payable in monthly installments of $11,370, maturing January 1, 2018. It is expected that the loan will be paid off by June 2011.

The note payable amounting to $171,327 is an 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 (approximately 1.0 percent for the year ended June 30, 2010), is due within 45 days of full payment of the 7.5 percent GSCI mortgage note collateralized by HUD which matures on January 1, 2018.

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

	Balance at July 1, 2009	Addition	Reductions	Balance at June 30, 2010	Less Current Portion	Long-Term Portion
Mortgage payable	$ 245,455	$ -	$ 122,177	$ 123,278	$ 123,278	$ -
Note payable	171,327	-	-	171,327	-	171,327
Total	$ 416,782	$ -	$ 122,177	$ 294,605	$ 123,278	$ 171,327

The approximate debt service requirement of the mortgage and note payables through 2011 and thereafter to maturity are as follows:

	Principal	Interest	Total
Year ending June 30,			
2011	$ 123,278	$ 5,000	$ 128,278
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016-2018	171,327	-	171,327
	$ 294,605	$ 5,000	$ 299,605

7. Commitments and Contingencies

a. Lease Commitments

The Authority leases land under noncancellable operating lease expiring at 2028. 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.

b. Sale of Banyan Street Manor and Wilikina Apartment Projects

Banyan Street Manor Project

On January 28, 2010, the Authority entered into an agreement to sell the Banyan Street Manor property, including all buildings, structures and improvements on the land for $8,500,000. The prospective buyer shall deposit into escrow $100,000 with the balance of the purchase price being paid by a combination of investment proceeds from the sale of federal and state low-income housing tax credits, mortgage financing from the State of Hawaii issuance of low-income housing tax-exempt bonds, and such other government-assisted financing as determined by the buyer. The closing of this sale shall be forty five (45) calendar days following the later of the following dates (as defined in the agreement): (1) the Feasibility Date; (2) HUD Approval Date or the City Approval Date. As of March 25, 2011, the agreement has not yet been consummated.

Wilikina Apartment Project

On February 22, 2010, the Authority entered into an agreement to sell the Wilikina Apartment property, including all buildings, and all fixtures and equipment used in connection with the operation or occupancy of the building for $10,000,000. The prospective buyer intends to finance the acquisition using a combination of four percent (4%) low-income housing tax credits allowable for qualified affordable housing projects under Section 42 of the Internal Revenue Code, as allocated by the State of Hawaii, Hawaii Housing Finance and Development Corporation (HHFDC) and tax-exempt private activity bonds allocated by HHFDC. In accordance with the provision of this agreement, the Closing Date shall take place on a mutually selected date on or before sixty (60) days after all of the following have occurred: (1) HUD has approved the transfer of the Housing Assistance Payment Contract to the buyer; (2) HHFDC has issued the bonds; (3) HUD has approved the New Rent Schedule; and (4) HUD has approved the 221(d)(4) mortgage insurance. As of March 25, 2011, the agreement has not yet been consummated.

7. Commitments and Contingencies (continued)

c. Construction Contracts

At June 30, 2010, the Federal Low Rent Program fund and the Capital Projects fund had outstanding construction contract commitments to expend approximately $15,925,000 and $18,343,000, respectively, for the construction and renovation of housing projects.

d. Torts

The Authority 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 Authority's financial position except for the OHA and Kuhio Park Terrace lawsuits described below. Losses, if any, are either covered by insurance or will be a liability against the State of Hawaii.

e. Workers' Compensation Policy

The State is self-insured for workers' compensation. Accordingly, the Authority is liable for workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims include the effects of specific incremental claim adjustment expenses, salvage and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. The workers' compensation reserve amounted to approximately $313,000 at June 30, 2010.

f. Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave at June 30, 2010 amounted to approximately $4,591,000.

7. Commitments and Contingencies (continued)

g. 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.

h. Litigation

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 Authority are situated on parcels of land, which are to be held by the State as a public trust under Section 5.

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

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

In 1990, in response to Yamasaki, the Legislature adopted Act 304, Session Laws of Hawaii 1990, which (i) defined "public land trust" and "revenue," (ii) reiterated that 20 percent of the now defined "revenue" derived from the "public land trust" was to be expended by OHA for the betterment of native Hawaiians, and (iii) established a process for OHA and the Director of Finance of the State jointly to determine the amount of monies which the State would pay OHA to retroactively settle all of OHA's claims for the period June 16, 1980 through June 30, 1991. Since fiscal year 1992 and until the first quarter of fiscal year 2002, the State, through its departments and agencies paid 20 percent of "revenues" to OHA on a quarterly basis.

7. Commitments and Contingencies (continued)

h. Litigation (continued)

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

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

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

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

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

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

7. Commitments and Contingencies (continued)

h. Litigation (continued)

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

trust, and of the proceeds and income, which the lands generate. The Act also fixes the amount of proceeds and income OHA will receive during the two-year period at $15.1 million per year, and requires the completion, continued maintenance, and use of a comprehensive inventory of the public trust lands.

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

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

Lewers Faletogo et al. v. HPHA & Realty Laua, et al., Civil No. 08-1-2608-12

On December 18, 2008, the residents of Kuhio Park Terrace filed a lawsuit against the Authority alleging various conditions at the project violated housing requirements. The plaintiffs seek injunctive and declaratory relief, retrospective and prospective rent abatement, special and compensatory damages, treble damages, attorney’s fees and costs, and additional relief. The case is currently in the preliminary stages and as such, the ultimate outcome of the litigation and its effect on the Authority, if any, cannot be determined. Accordingly, no estimate of loss has been made in the accompanying statement of net assets of the Authority.

7. Commitments and Contingencies (continued)

h. Litigation (continued)

Hazel McMillion et al. v. HPHA & Realty Laua, et al., Civil No. 08-00578 JMS/LEK

On December 18, 2008, the disabled residents of Kuhio Park Terrace and Kuhio Homes filed a law suit against the Authority alleging housing conditions violated federal disability laws. The plaintiffs seek injunctive and declaratory relief, damages, attorney's fees and costs, and additional relief.

As of June 30, 2009, the Authority's Federal Low-Rent Program accrued an estimated loss of approximately $600,000. During the fiscal year 2010, both of the above cases (Civil No. 08-1-2608-12 and 08-00578) have been settled in which approximately $610,000 was paid from the State of Hawaii General Fund appropriations.

8. Retirement Plan

a. 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 ERS.

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.

8. Retirement Plan (continued)

a. Plan Description (continued)

On July 1, 2006, a new hybrid contributory plan became effective pursuant to Act 179, SLH of 2004. Members in the hybrid plan are eligible for retirement at age 62 with 5 years of credited services or age 55 and 30 years of credit service. Members will receive a benefit multiplier of 2% for each year of credited service in the hybrid plan. The benefit payment options are similar to the current contributory plan. Almost 58,000 current members, all members of the noncontributory plan and certain members of the contributory plan are eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006 are required to join the new hybrid plan.

b. Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8 percent of their salary. Police officers, firefighters, investigators of the department of the prosecuting attorney and the attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2 percent of their salary. The actuarial cost or funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The Authority's contributions requirements as of June 30, 2010, 2009 and 2008 were approximately $1,603,000, $1,728,000, and $1,589,000 respectively.

9. Other Post Retirement Employee Benefits

The Authority contributes to the Employers Union Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003, pursuant to Act 88, SLH of 2001. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are as follows:

For employees hired before July 1, 1996, the Authority pays the entire base monthly contribution for employees retiring with 10 years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect family plan to cover dependents.

9. Other Post Retirement Employee Benefits (continued)

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with at less than 10 years of service, the Authority makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the Authority pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the Authority pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the Authority pays 100% of the base monthly contribution. Retirees in this category can elect family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the Authority makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the Authority pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service the Authority pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the Authority pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

<u>Annual OPEB Cost and Net OPEB Obligation</u>

It is the State's policy that measurement of the actuarial valuation and the annual required contribution (ARC) for postretirement healthcare and life are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Authority. The state allocates the ARC to the various departments and agencies based upon a systematic methodology. However, as of March 25, 2011, such a valuation and allocation of the ARC was not completed by the State. The Authority estimated its share of the ARC for the year ended June 30, 2010 to approximate $1,820,000. Contributions are financed on a pay-as-you-go basis and the Authority's contributions for the years June 30, 2010, 2009 and 2008 were approximately, $703,000, $1,021,000 and $990,000, respectively.

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2010:

Balance at June 30, 2009	$ 3,467,126
Additions	1,819,937
Deletions	(703,329)
Balance at June 30, 2010	$ 4,583,734

9. Other Post Retirement Employee Benefits (continued)

As of June 30, 2010, the postretirement liability balance of the approximately $4,854,000 was included in long-term accrued expenses under business-type activities.

The State's Comprehensive Annual Financial Report includes the required footnote disclosure and required supplementary information on the State's OPEB benefit plans.

10. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2010 is as follows:

Due from	General Fund	Housing Choice Voucher	Section 8 Contract Admin	Federal Low Rent Program	Housing Revolving Fund	Housing For Elders Revolving Fund	Central Office Cost Center Fund	Internal Services Fund	Non-major Enterprise
General Fund	$ -	$ -	$ -	$ -	$ -	$ -	$ 317,301	$ -	$ 23,277
Housing Choice Voucher	-	-	-	-	-	-	587,801	-	-
Section 8 Contract Admin	-	-	-	-	-	-	126,601	-	60,257
Federal Low-Rent Program	-	82,339	-	-	-	-	2,762,860	-	-
Housing Revolving Fund	-	-	-	-	-	-	352,507	-	-
Housing for Elders Revolving Fund	3,407	-	-	-	-	-	214,550	-	-
Internal Services	-	-	-	-	-	-	-	-	-
Nonmajor – Enterprise	2,723	235,183	739,689	225,084	664,426	688,598	1,206,976	54,613	65,124
Nonmajor – Government	-	-	-	-	-	-	-	-	29,572
Total	$6,130	$ 317,522	$ 739,689	$225,084	$ 664,426	$ 688,598	$ 5,568,596	$ 54,613	$ 178,230

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

11. Operating Transfers

The composition of net operating transfer balances reflected in the financial statements as of June 30, 2010 is as follows:

Transfer From	Housing Choice Voucher	Federal Low Rent Program	Housing Revolving Fund	Housing For Elders Revolving Fund	Central Office Cost Center Fund
General Fund	$ -	$ 1,567,125	$ 637,096	$ 861,690	$ 375,046
Section 8 Contract Admin	-	51,882	-	-	-
Housing Elders Revolving Fund	-	-	-	-	211,756
Nonmajor – Government	65,500	-	-	-	-
Total	$ 65,500	$ 1,619,007	$ 637,096	$ 861,690	$ 586,802

The following describes the operating transfers noted above:

General Fund: The General Fund expended approximately $3,441,000 from the current year annual State of Hawaii appropriations to pay for rental housing service shortfalls under certain enterprise funds.

Section 8 Contract Administration: The Section 8 Contract Administration fund expended approximately $52,000 to pay for rental housing service shortfalls under the Federal Low Rent Program fund.

Housing for Elders Revolving Fund: The Housing for Elders Revolving Fund expended approximately $212,000 from its administrative fee to pay for administrative shortfalls under the Central Office Cost Center fund.

Nonmajor – Government: Approximately $66,000 was transferred from the Resident Opportunities and Self-Sufficiency fund to the Housing Choice Voucher Program to pay for family self-sufficiency program services as permitted by the U.S. Department of Housing and Urban Development.

12. Capital Contributions

During the 2010, the Capital Projects Fund and General Fund expended $7,785,000 and $1,334,000, respectively, from the current year annual State of Hawaii appropriations to pay for capital outlays that were contributed to enterprise funds. The composition of capital contribution balances reflected in the financial statements as of June 30, 2010 is as follows:

Contributed From	Federal Low Rent Program	Housing Revolving Fund	Housing For Elders Revolving Fund
Capital Projects Fund	$ 5,729,673	$1,681,031	$ 374,511
General Fund	1,333,532	-	-
Total	$ 7,063,205	$1,681,031	$ 374,511

13. Subsequent Events

During the 2009 legislative session, S.B. bill No. 910 was enacted and requires the transfer of the functions and duties of the homeless programs branch of the Authority to the Department of Human Services effective July 1, 2010. Consequently, the state homeless program which is reported under the General Fund, along with the following special revenue funds: Shelter Plus Care fund; HOPWA Program fund; Emergency Shelter Grant Program fund and the Supportive Housing Program fund, were transferred to the Department of Human Services subsequent to year end. The impact of the transfer to the Authority's net assets is approximately $21,000,000.

Required Supplementary Information
Other Than Management Discussion and Analysis

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2010

	General Fund		
	Original Budget	Final Budget	Budgetary Actual
Revenues -			
State allotted appropriations	$ 19,620,763	$ 19,620,763	$ 24,529,142
Expenditures:			
Homeless service and assistance program	14,107,491	14,107,491	19,582,610
Rental housing and assistance program	5,513,272	5,513,272	5,702,616
DEFICIENCY OF REVENUES UNDER EXPENDITURES	$ -	$ -	$ (756,084)

	Housing Choice Voucher Program		
	Original Budget	Final Budget	Budgetary Actual
Revenues -			
HUD contributions	$ 20,502,126	$ 20,548,689	$ 20,691,067
Expenditures -			
Rental housing and assistance program	20,502,126	20,548,689	21,556,829
DEFICIENCY OF REVENUES UNDER EXPENDITURES	$ -	$ -	$ (865,762)

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS (continued)

Year ended June 30, 2010

	Section 8 Contract Administration		
	Original Budget	Final Budget	Budgetary Actual
Revenues			
HUD contributions	$ 22,660,093	$ 25,235,808	$ 25,235,780
Expenditures			
Rental housing and assistance program	22,660,093	25,235,808	24,775,006
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ 460,774

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
BUDGET-TO-GAAP RECONCILIATION

Year ended June 30, 2010

	General Fund	Housing Choice Voucher Program	Section 8 Contract Administration
Excess (deficiency) of revenues over (under) expenditures and other sources and uses - actual on budgetary basis	$ (756,084)	$ (865,762)	$ 460,774
Reserve for encumbrance at year end*	5,622,005	-	-
Expenditures for liquidation of prior year's encumbrances	(18,700)	-	-
Reversion of prior year's allotments	(1,120,026)	-	-
Accrual adjustments, operating transfers and other	(4,484,108)	55,187	(46,391)
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES AND OTHER USES - US GAAP BASIS	$ (756,913)	$ (810,575)	$ 414,383

* Amount reflects the encumbrance balance included in continuing appropriation.

See accompanying independent auditor's report.

Supplementary Information

Hawaii Public Housing Authority

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

June 30, 2010

ASSETS	Shelter Plus Care	HOPWA Program	Emergency Shelter Grant Program	ROSS	Supportive Housing Program	Boys and Girls Club	Total
Current Assets:							
Cash	$ 56	$ 30	$ 36	$ 34	$ 54	$ 4	$ 214
Due from HUD	-	3,335	5,856	8,304	4,123	7,954	29,572
Total assets	$ 56	$ 3,365	$ 5,892	$ 8,338	$ 4,177	$ 7,958	$ 29,786
LIABILITIES AND FUND BALANCES							
Current Liabilities:							
Accounts payable	$ -	$ -	$ -	$ -	$ -	$ 4	$ 4
Due to other funds	-	3,335	5,856	8,304	4,123	7,954	29,572
Due to HUD	56	30	36	34	54	-	210
Total current liabilities	56	3,365	5,892	8,338	4,177	7,958	29,786
Fund Balances - Unreserved	-	-	-	-	-	-	-
Total liabilities and fund balances	$ 56	$ 3,365	$ 5,892	$ 8,338	$ 4,177	$ 7,958	$ 29,786

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2010

	Shelter Plus Care	HOPWA Program	Emergency Shelter Grant Program	ROSS	Supportive Housing Program	Boys and Girls Club	Total
Revenues - Intergovernmental – HUD annual contributions	$ 1,183,553	$ 162,000	$ 760,060	$ 68,357	$ 129,598	$ 2,031	$ 2,305,599
Expenditures - Administration	1,183,553	162,000	760,060	2,857	129,598	2,031	2,240,099
Excess of revenues over expenditures	-	-	-	65,500	-	-	65,500
Other Financing Uses - Transfers Out	-	-	-	(65,500)	-	-	(65,500)
Net change in fund balance	-	-	-	-	-	-	-
Fund Balances at July 1, 2009	-	-	-	-	-	-	-
Fund Balances at June 30, 2010	$ -	$ -	$ -	$ -	$ -	$ -	$ -

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET ASSETS – NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2010

ASSETS	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Current Assets:						
Cash	$ 16,257	$ 500,805	$ 2,382	$ 3,620,631	$ 110,080	$ 4,250,155
Receivables:						
Accrued interest	-	-	-	62,231	-	62,231
Tenant receivables, less allowance for doubtful accounts	1,428	67,808	4,062	-	26,147	99,445
Other	2,509	5,590	-	-	-	8,099
	3,937	73,398	4,062	62,231	26,147	169,775
Due from other funds	-	-	-	177,529	701	178,230
Due from other state agencies	-	-	-	857,973	-	857,973
Deposits held in trust	-	-	23,148	-	-	23,148
Total current assets	20,194	574,203	29,592	4,718,364	136,928	5,479,281
Restricted Deposits and Funded Reserves	1,339,498	5,820,855	-	-	-	7,160,353
Capital Assets, less accumulated depreciaiton	3,167,463	4,118,763	-	-	10,420,040	17,706,266
Total assets	$ 4,527,155	$ 10,513,821	$ 29,592	$ 4,718,364	$ 10,556,968	$ 30,345,900

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

June 30, 2010

LIABILITIES AND NET ASSETS	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Current Liabilities:						
Accounts payable	$ 6,301	$ 18,471	$ 3,400	$ 1,050,363	$ -	$ 1,078,535
Accrued expenses - other	-	10,608	582,568	-	56,923	650,099
Due to other funds	615,154	45,174	128,375	3,093,713	-	3,882,416
Due to other state agencies	-	-	-	4,962	-	4,962
Due to State of Hawaii	-	-	-	571,402	-	571,402
Due to HUD	3,159	12,659	-	-	-	15,818
Security deposits	12,542	21,176	21,958	-	11,109	66,785
Deferred income	1,205	3,582	-	-	-	4,787
Mortgage payable	123,278	-	-	-	-	123,278
Total current liabilities	761,639	111,670	736,301	4,720,440	68,032	6,398,082
Note Payable	171,327	-	-	-	-	171,327
Net Assets:						
Invested in capital assets, net of related debt	3,044,185	4,118,763	-	-	10,420,040	17,582,988
Restricted by legislation and contractual agreements	1,339,498	5,820,855	-	-	-	7,160,353
Unrestricted	(789,494)	462,533	(706,709)	(2,076)	68,896	(966,850)
Total net assets	3,594,189	10,402,151	(706,709)	(2,076)	10,488,936	23,776,491
Total liabilities and net assets	$ 4,527,155	$ 10,513,821	$ 29,592	$ 4,718,364	$ 10,556,968	$ 30,345,900

See accompanying independent auditor's report.

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2010

	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Operating Revenues:						
Rental	$ 385,873	$ 194,121	$ 282,079	$ -	$ 467,875	$ 1,329,948
Other	11,729	35,444	4,170	-	-	51,343
Total operating revenues	397,602	229,565	286,249	-	467,875	1,381,291
Operating Expenses:						
Depreciation	150,000	308,564	-	-	496,192	954,756
Administration	306,762	358,756	148,301	-	244,861	1,058,680
Provision for losses	-	-	-	-	102,758	102,758
Professional services	-	-	11,977	-	4,109	16,086
Repairs and maintenance	91,703	128,905	65,336	-	48,323	334,267
Utilities	60,165	112,526	110,604	-	163,543	446,838
Total operating expenses	608,630	908,751	336,218	-	1,059,786	2,913,385
Operating loss	(211,028)	(679,186)	(49,969)	-	(591,911)	(1,532,094)
Nonoperating (Expense) Revenue:						
Interest (Expense) Income	(9,849)	12,326	-	-	33	2,510
Other Revenues	-	553,508	-	-	-	553,508
Net nonoperating (expense) revenue	(9,849)	565,834	-	-	33	556,018
Loss before transfers	(220,877)	(113,352)	(49,969)	-	(591,878)	(976,076)
Net Operating Transfers	-	-	-	-	-	-
Change in net assets	$ (220,877)	$ (113,352)	$ (49,969)	$ -	$ (591,878)	$ (976,076)

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2010

	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Net Assets at July 1, 2009	$ 3,815,066	$ 10,515,503	$ (656,740)	$ (2,076)	$ 11,080,814	$ 24,752,567
Change in Net Assets	(220,877)	(113,352)	(49,969)	-	(591,878)	(976,076)
Net Assets at June 30, 2010	$ 3,594,189	$ 10,402,151	$ (706,709)	$ (2,076)	$ 10,488,936	$ 23,776,491

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2010

	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Cash Flows from Operating Activities:						
Cash received from renters	$ 388,600	$ 181,434	$ 280,889	$ -	$ 425,901	$ 1,276,824
Cash payments to suppliers	(711,803)	(601,855)	(336,253)	(455,751)	(436,257)	(2,541,919)
Cash receipts (payments) from/to other funds	206,535	(12,465)	(12,531)	(1,453,259)	(3,509)	(1,275,229)
Other	80,607	147,314	4,170	-	-	232,091
Net cash used in operating activities	(36,061)	(285,572)	(63,725)	(1,909,010)	(13,865)	(2,308,233)
Cash Flows from Noncapital Financing Activity -						
Cash Payments to Other State Agencies	-	-	-	(145,467)	-	(145,467)
Other	-	553,508	-	-	-	553,508
Net cash provided by (used in) noncapital financing activities	-	553,508	-	(145,467)	-	408,041
Cash Flows from Capital and Related Financing Activities:						
Payments for acquisition of property and equipment	(40,061)	-	-	-	-	(40,061)
Principal payments on mortgage loans	(122,177)	-	-	-	-	(122,177)
Interest payments	(9,849)	-	-	-	-	(9,849)
Other	-	60,790	-	-	-	60,790
Net cash (used in) provided by capital and related financing activities	(172,087)	60,790	-	-	-	(111,297)
Cash Flows from Investing Activities:						
Receipts of interest	-	12,326	-	-	33	12,359
Net decrease (increase) in restricted deposits and funded reserves	197,334	(12,176)	-	-	-	185,158
Net cash provided by investing activities	197,334	150	-	-	33	197,517
Net (decrease) increase in cash	(10,814)	328,876	(63,725)	(2,054,477)	(13,832)	(1,813,972)
Cash at July 1, 2009	27,071	171,929	66,107	5,675,108	123,912	6,064,127
Cash at June 30, 2010	$ 16,257	$ 500,805	$ 2,382	$ 3,620,631	$ 110,080	$ 4,250,155

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2010

	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Cash Flows from Operating Activities:						
Reconciliation of operating loss to net cash used in operating activities:						
Operating loss	$ (211,028)	$ (679,186)	$ (49,969)	$ -	$ (591,911)	$ (1,532,094)
Adjustments to reconcile operating loss to net cash used in operating activities:						
Depreciation	150,000	308,564	-	-	496,192	954,756
Provision for losses	-	-	-	-	102,758	102,758
Changes in assets and liabilities:						
Tenant receivables	(1,147)	-	-	-	(41,974)	(43,121)
Other receivables	64,514	-	-	20,441	-	84,955
Due from other funds	-	-	(12,531)	106,891	-	94,360
Due from HUD	-	111,870	-	-	-	111,870
Prepaid expenses and other assets	63,503	-	-	-	-	63,503
Deposits held in trust	-	-	3,316	-	-	3,316
Accounts payable	(211,897)	-	(22,430)	(476,192)	-	(710,519)
Other accrued expenses	(104,779)	(1,668)	22,395	-	24,579	(59,473)
Due to other funds	206,535	(12,465)	-	(1,560,150)	(3,509)	(1,369,589)
Due to HUD	3,159	-	-	-	-	3,159
Security deposits	3,874	6,460	(4,506)	-	-	5,828
Deferred income	1,205	(19,147)	-	-	-	(17,942)
Net cash used in operating activities	$ (36,061)	$ (285,572)	$ (63,725)	$ (1,909,010)	$ (13,865)	$ (2,308,233)

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET ASSETS – INTERNAL SERVICE FUNDS

June 30, 2010

ASSETS	Equipment Rental	Vehicle Rental	Total
Current Assets:			
Cash	$ 797,810	$ 452,106	$ 1,249,916
Accrued interest receivable	22,874	13,276	36,150
Due from other funds	-	116,513	116,513
Total current assets	820,684	581,895	1,402,579
Capital Assets, less accumulated depreciation	6,987	7,806	14,793
Total assets	$ 827,671	$ 589,701	$ 1,417,372
LIABILITIES AND NET ASSETS			
Current Liability - Due to Other Funds	$ 61,900	$ -	$ 61,900
Net Assets:			
Invested in capital assets	6,987	7,806	14,793
Unrestricted	758,784	581,895	1,340,679
Total net assets	765,771	589,701	1,355,472
Total liabilities and net assets	$ 827,671	$ 589,701	$ 1,417,372

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2010

	Equipment Rental	Vehicle Rental	Total
Operating Revenue - Rental	$ 17,231	$ 35,998	$ 53,229
Operating Expenses:			
Administration	16,821	35,593	52,414
Professional services	3,701	3,717	7,418
Depreciation	2,680	35,077	37,757
Capital expenditures	2,344	-	2,344
Total operating expenses	25,546	74,387	99,933
Operating loss	(8,315)	(38,389)	(46,704)
Nonoperating Revenue -			
Interest Income	26,332	17,816	44,148
Change in net assets	18,017	(20,573)	(2,556)
Net Assets at July 1, 2009	747,754	610,274	1,358,028
Net Assets at June 30, 2010	$ 765,771	$ 589,701	$ 1,355,472

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS

Year Ended June 30, 2010

	Equipment Rental	Vehicle Rental	Total
Cash Flows from Operating Activities:			
Cash receipts from other funds	$ 22,866	$ 3,717	$ 26,583
Other cash payments	(22,866)	(3,717)	(26,583)
Net cash used in operating activities	-	-	-
Cash Flows From Investing Activity -			
Receipts of Interest	29,146	16,560	45,706
Net cash provided by investing activities	29,146	16,560	45,706
Net increase in cash	29,146	16,560	45,706
Cash at July 1, 2009	768,664	435,546	1,204,210
Cash at June 30, 2010	$ 797,810	$ 452,106	$ 1,249,916
Cash Flows from Operating Activities:			
Reconciliation of operating loss to			
net cash used in operating activities			
Operating loss	$ (8,315)	$ (38,389)	$ (46,704)
Adjustments to reconcile operating loss			
to net cash used in operating activities			
Depreciation	2,680	35,077	37,757
Changes in assets and liabilities:			
Due from other funds	-	3,312	3,312
Due to other funds	5,635	-	5,635
Net cash used in operating activities	$ -	$ -	$ -

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH

June 30, 2010

The Authority's cash consists of the following as of June 30, 2010:

Equity in State Treasury investment pool - Gov't Wide	$	6,542,291
Cash in banks		28,801,358
Deposits held in trust		23,148
		35,366,797
Equity in State Treasury investment pool - Fiduciary Funds		423,069
	$	35,789,866

Total cash is in agreement with the State Comptroller's central accounting records as of June 30, 2010, as reconciled below:

	Appropriation symbol		June 30, 2010
Cash in State Treasury			
Special Funds	S-04-337-K	$	18,309
	S-05-337-K		20,774
	S-07-337-K		76,886
	S-08-337-K		10,434
	S-09-337-K		111,502
	S-10-337-K		1,030,007
	S-05-308-K		70
	S-07-308-K		1,359
	S-08-308-K		45,568
	S-09-308-K		81,266
	S-10-308-K		342,054
	S-08-304-K		89,005
	S-06-332-K		3,200
	S-07-332-K		23,027
	S-08-332-K		6,530
	S-09-332-K		3,105,678
	S-10-332-K		783,917
	S-10-336-K		813,175
	S-10-335-K		460,810
Trust Funds	T-06-927-K		588
	T-07-920-K		1,061
	T-09-935-K		421,414
	T-10-913-K		33,163
Total cash held in State Treasury as reported by State Comptrollers accounting records carried forward			7,479,797

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH (continued)

June 30, 2010

	Appropriation symbol	June 30, 2010
Subtotal brought forward		7,479,797
Reconciling items:		
Summary Warrant Vouchers not recorded by DAGS		(381,144)
State Treasury Investment Pool Write-down		(133,293)
		(514,437)
Cash held outside State Treasury:		
Cash in bank		28,801,358
Deposits held in trust		23,148
		28,824,506
Cash on statement of net assets		$ 35,789,866

See accompanying independent auditor's report.

Hawaii Public Housing Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2010

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development:		
Section 8 Project-Based Cluster --		
Section 8 Housing Assistance Payments - Special Allocations	14.195	$ 24,775,006
Emergency Shelter Grants Program:	14.231	
Annual Grant		160,125
ARRA Grant		599,935
Supportive Housing Program	14.181	129,598
Shelter Plus Care	14.238	1,183,553
Housing Opportunities for Persons with AIDS Program	14.241	162,000
Public and Indian Housing	14.850	21,792,723
Section 8 Housing Choice Vouchers Program	14.871	21,556,828
Public Housing Capital Fund	14.872	
Annual Grant		13,832,324
ARRA Grant		3,664,006
Resident Opportunity & Self Sufficiency	14.870	68,357
Community Development Block Grants/Economic Development Initiative	14.246	2,031
Total federal expenditures		$ 87,926,486

The accompanying note is an integral part of this schedule.

Hawaii Public Housing Authority

Note to the Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Hawaii Public Housing Authority (the Authority) and is presented on the accrual basis of accounting and in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Because the Schedule presents only a selected portion of the Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Authority.

PART II

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

Board of Directors
Hawaii Public Housing Authority

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hawaii Public Housing Authority as of and for the year ended June 30, 2010, and have issued our report thereon dated March 25, 2011. The report on Hawaii Public Housing Authority was qualified because certain supporting information regarding the other post-retirement health care and life insurance benefit plans were not available as of the date of our audit report. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hawaii Public Housing Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hawaii Public Housing Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hawaii Public Housing Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, items 2010-01 through 2010-03, to be material weaknesses.

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We also noted other matters involving the internal control over financial reporting, which we have subsequently reported to management of the Hawaii Public Housing Authority, in a separate letter.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hawaii Public Housing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and response as items 2010-04, 2010-07 through 2010-10, 2010-12 and 2010-13.

We subsequently noted certain matters that we reported to management of the Hawaii Public Housing Authority in a separate letter.

Hawaii Public Housing Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questions Costs. We did not audit the Hawaii Public Housing Authority's response and, accordingly, we express no opinion on it.

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 25, 2011

PART III

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Board of Directors
Hawaii Public Housing Authority

Compliance

We have audited the compliance of the Hawaii Public Housing Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Hawaii Public Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hawaii Public Housing Authority's management. Our responsibility is to express an opinion on the Hawaii Public Housing Authority's compliance based on our audit.

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

As described in item 2010-04 in the accompanying *Schedule of Findings and Questioned Costs*, the Hawaii Public Housing Authority did not comply with requirements regarding special tests and provisions that are applicable to its Section 8 Housing Choice Voucher program. Compliance with such requirements is necessary, in our opinion, for the Hawaii Public Housing Authority to comply with requirements applicable to that program.

As described in items 2010-07, 2010-08, 2010-09 and 2010-10 in the accompanying *Schedule of Findings and Questioned Costs*, the Hawaii Public Housing Authority did not comply with requirements regarding

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the Davis Bacon Act, reporting, equipment and real property and activities allowed or unallowed, respectively, that are applicable to its Public Housing Capital Fund program. Compliance with such requirements is necessary, in our opinion, for the Hawaii Public Housing Authority to comply with requirements applicable to that program.

As described in items 2010-12 and 2010-13 in the accompanying *Schedule of Findings and Questioned Costs*, the Hawaii Public Housing Authority did not comply with requirements regarding special tests and provisions and activities allowed or unallowed that are applicable to its Public and Indian Housing program. Compliance with such requirements is necessary, in our opinion, for the Hawaii Public Housing Authority to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, the Hawaii Public Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-04, 2010-07, 2010-09 through 2010-11, and 2010-13 through 2010-16 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2010-05 and 2010-06 to be significant deficiencies.

The Hawaii Public Housing Authority's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Hawaii Public Housing Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 25, 2011

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs
Year Ended June 30, 2010

Section I – Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Qualified.

Internal control over financial reporting:

• Material weakness(es) identified?	√ Yes	__None reported
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	__ Yes	√ None reported
Noncompliance material to financial statements noted?	√Yes	__ No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	√ Yes	__ No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	√ Yes	__ None reported

Type of auditor's report issued on compliance for major programs: Qualified.

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program
14.871	Section 8 Housing Choice Vouchers Program
14.872	Public Housing Capital Fund
14.850	Public and Indian Housing
14.195	Section 8 Housing Assistance Payments Program

Dollar threshold used to distinguish between type A and type B programs:	$2,637,795 (3% of federal award expended)	
Auditee qualified as low-risk auditee?	___ Yes	√ No

Section II – Financial Statement Findings

Finding No.: 2010-01 Financial Management Competencies – Material Weakness

***Criteria*:** For effective internal control, a company needs sufficient accounting and financial reporting expertise to ensure development of reliable financial statements. Internal control is affected by people and is not merely policy manuals, procedures and forms.

Condition & cause: During 2010, with the continued lack of appropriate management leadership in the Fiscal Management Office (FMO) and the lack of understanding of accounting principles and financial reporting standards at the senior level has again significantly impacted HPHA's ability to perform its core accounting functions and compliance with both internal and external policies and procedures. Many of the issues and conditions noted in the current year were originated from prior years.

With no Fiscal Officer for the majority of the year and vacancy of its Chief Financial Officer, the agency's ability to provide timely and reliable financial reporting has been severely compromised. Consequently, numerous routine accounting functions and control activities were not being performed on a timely basis. This lack of dedicated oversight responsibilities and overall management of its accounting and financial reporting function during the 2010 fiscal year have limited the effectiveness of HPHA's ability to record and report accurate and timely financial information. Some of these conditions noted include the following:

- Lack of appropriate review and approvals, resulting in numerous correcting journal entries
- Incorrect implementation of "project-based" accounting
- Reconciled monthly general ledgers not prepared on a timely basis
- Monthly reconciliations of all account balances not performed
- Accruals incorrectly recorded or not recorded at all
- Certain revenue and expense items recorded on a cash basis
- Journal entries recorded incorrectly
- Expenses not allocated on a timely basis
- Depreciation expense not recorded on a timely basis
- Transfer of assets not properly accounted for between funds

Context: Accounting personnel continue to be challenged by the understanding and use of the "emPHAsys" computer system, the application of generally accepted governmental accounting standards, various State of Hawaii generated reports from the Department of Accounting and General Services and Housing Urban Development's (HUD) reporting requirements. Without proper supervision and oversight, these shortcomings are magnified.

Section II – Financial Statement Findings (continued)

Finding No.: 2010-01 Financial Management Competencies – Material Weakness (continued)

The lack of proper training continues to be a significant shortcoming of the HPHA. The shortage of training, in combination with the lack of clearly documented policies and procedures and the presence of shortage of staffing, has limited the effectiveness of the HPHA's internal control environment and procedures. Additionally, HUD's reporting requirements, including but not limited to "project-based" accounting, the Real Estate Assessment Center (REAC) electronic submission filing requirements and asset-management accounting further accentuates the need for proper training and supervision.

***Questioned costs**:* None

***Effect**:* The internal control over financial reporting, which is designed to provide reasonable assurance to HPHA's management and board of directors regarding the preparation of timely and reliable financial reporting, will be compromised.

Failure to provide adequate oversight and supervision and the ineffectiveness or absence of key accounting and internal control functions can lead to misstatement of financial results and noncompliance.

Recommendation: Management needs to identify the knowledge, skills and abilities for key financial positions needed to effectively carry out the associated responsibilities. An assessment should be done to determine its competencies "shortfall".

HPHA will need to provide training to its employees involved in financial reporting processes. Additionally HPHA may also want to consider supplementing its in-house financial reporting competencies by establishing arrangements with outside specialists.

1. HPHA should perform an assessment to identify its critical accounting and financial reporting, federal compliance and budgeting processes. This will allow HPHA to focus its resources in addressing higher-priority risks. Upon identifying its key processes, evaluate current policies and procedures supporting these processes and effectuate any required corrective actions to ensure that key control activities are being performed timely.

Section II – Financial Statement Findings (continued)

Finding No.: 2010-01 Financial Management Competencies – Material Weakness (continued)

If it is determined that HPHA does not have the required skills and ability to perform such an assessment and evaluation, HPHA should consider hiring an outside specialist to assist with this process.

In addition, the HPHA should evaluate the need to hire on a temporary basis experienced personnel to provide the appropriate oversight and supervision over the accounting and reporting functions.

2. Upon the hiring of the Fiscal Officer, he/she should perform the following.

   - Gain an understanding of each program's objectives and type of major transaction. They should also perform interviews with the various branch chiefs, program managers, and the compliance officer.

   - Interview each accountant to determine their functions and what financial information is currently prepared and maintained.

   - Perform a gap analysis between the current conditions and desired conditions.

   - Prepare and implement recommendations.

   - Identify any missing key internal controls, including but not limited to the following:

     - Reviewing and approving of monthly bank reconciliations.
     - Performing month end reconciliations to detail supporting documents.
     - Reviewing and approving of month-end accruals.
     - Recording of routine transaction: expense allocation, monthly review of construction-in-progress (CIP) transfers, month end accruals.

   - Consider developing a month-end closing checklist to ensure that accurate financial information is prepared timely. The month-end checklist should be tailored to the specific requirements of each fund. For example: Federal low rent- checklist would include procedures specific to capital improvements.

Section II – Financial Statement Findings (continued)

Finding No.: 2010-01 Financial Management Competencies – Material Weakness (continued)

- Monitor control systems to ensure effectiveness, including the timely review and approvals by appropriate personnel.

- As a majority of the agency's funding are HUD subsidies, consider establishing and maintaining controls over operating and capital improvement budgets.

PHA Reply (Corrective Action Plan): Due to the furlough, reduction in force and the transfer of employees from other departments into FMO this has resulted in delays in implementing corrective actions as proposed. With the hiring of a Fiscal Officer in November 2010 there has been significant improvement in the reporting function and reconciliation process. With the proposed implementation of a financial reporting software upgrade at FMO will result in improved productivity and ease of use in providing necessary reports to management and the housing units. The fiscal Officer will continue to monitor internal controls to ensure timely reviews and approvals are adhered to and GAAP accounting is followed. HPHA will continue to work on developing a written corrective plan which will include a comprehensive monthly production checklist and the assignment of monitoring and review responsibilities assigned to appropriate senior and management personnel.

Contact Person: Clarence Allen

Target Completion Date: December 2011

Finding No.: 2010-02 Lack of Monitoring – Material Weakness

Criteria: Monitoring is a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations or a combination of the two. Ongoing monitoring occurs in the course of the operations and ensures that internal control continues to operate effectively. This process involves assessment by appropriate personnel of the design and operations of controls on a suitably timely basis, and the taking of necessary actions.

Condition, Cause and Context: Activities that serve to monitor the effectiveness of internal control in the ordinary course of operations are manifold. They include regular management and supervisory activities, comparisons, reconciliations and other routine actions. However, such functions were not currently being performed and deficiencies are not being communicated to senior management. Consequently, management is not able to take timely corrective actions to mitigate those risks.

Section II – Financial Statement Findings (continued)

Finding No.: 2010-02 Lack of Monitoring – Material Weakness (continued)

Effect: Monitoring ensures that internal control continues to operate effectively. Without proper monitoring, circumstances for which the internal control system originally was designed may change, causing it to be less able to warn of the risks brought by new conditions. Accordingly, management needs to determine whether the internal control system continues to be relevant and able to address new risks.

Recommendation: We recommend that an evaluation of controls that addresses the higher priority risks and those most critical to reducing a given risk should be evaluated more often. All internal control deficiencies that can affect HPHA's attaining its financial reporting objectives should be reported to those who can take necessary corrective actions and to communicate with others in the organization whose activities may be affected.

PHA Reply (Corrective Action Plan): With the production of timely monthly reports, management is able to review units' performance and take corrective action as needed. There are regular staff meetings with staff and senior management to meet reliable reporting. Month-end closing procedures are continually being enhanced to meet the required level of control.

Contact Person: Clarence Allen

Target Completion Date: July 2011

Finding No.: 2010-03 No General Ledger and Non-reconciliations of General Ledger Accounts-Material Weakness

Criteria: Sound internal control procedures and Federal regulations require that the books and records of account should be maintained on a regular monthly basis for all programs. Such records should be reconciled to supporting documents to ensure accurate and reliable reporting.

Condition, cause & context: Although the general ledger was in full use and financial transactions (checks, deposits, journal vouchers) were being recorded in the "emPHAsys" system and monthly financial statements were first produced for the November 2008 Board meeting, it was determined that

Section II – Financial Statement Findings (continued)

Finding No.: 2010-03 No General Ledger and Non-reconciliations of General Ledger Accounts-Material Weakness (continued)

certain key internal control activities, such as reconciliations of the general ledger accounts balances to the corresponding transaction or activity details, was not performed. Without these key month-end "closing" processes, the development of reliable financial statements is compromised. Financial statement preparation must involve processes to ensure that the information presented is accurate, complete and properly recorded.

The lack of a functioning general ledger system and related account reconciliations is a fundamental deficiency in the organization's internal control environment. The following is a list of issues noted during the audit as a result of the lack of the general ledger and respective account reconciliations:

- Lack of monthly financial statements
- Reconciliation of the detailed fixed assets and CIP to the general ledger was not performed during the year and the detailed listings of additions and deletions were not available until requested by the auditors. Consequently, projects listed within the CIP schedule that were completed was not appropriately transferred to the Capital Assets account and depreciated.
- Lack of information to perform budget to actual comparisons to determine if the HPHA has sufficient funds to adequately cover operations. Additionally, the lack of budgetary control could result in the HPHA operating with deficits
- Lack of information to perform monthly cost analysis by Management Unit (MU) level to identify the causes of any overruns

Questioned costs: None

Effect: Failure to adequately record all related financial activities on a timely basis can lead to misstatement of financial results and noncompliance**.**

Recommendation: Month-end "closing" procedures should be developed and adhered to. A month-end checklist should be developed detailing the required account reconciliations and the process to resolve reconciliation exceptions noted during this process.

Section II – Financial Statement Findings (continued)

Finding No.: 2010-03 No General Ledger and Non-reconciliations of General Ledger Accounts – Material Weakness (continued)

PHA Reply (Corrective Action Plan): Currently financial statements are being provided to management and housing units for monthly performance review. The upgrade in the software package will significantly improve the reporting processes. Budget comparisons are being done and the reconciliation of fixed assets and CIP to the general ledger will be implemented with the acquisition of a computerized fixed asset system. The implementation of the software upgrade is to begin in March 2011 and the completion by the end of July 2011.

Contact Person: Clarence Allen

Target Completion Date: July 2011

Section III – Federal Award Findings and Questioned Costs

Section 8 Housing Choice Vouchers Program (HCVP) CFDA No. 14.871

Finding No.: 2010-04 Special Tests and Provisions – Waiting List – Material Weakness

Criteria: 24 CFR sections 5.410, 982.54(d) and 982.201 through 982.207 require HPHA to establish policies for verification and documentation of information relevant to the acceptance or rejection of an applicant. In addition, 24 CFR section 982.204 requires HPHA to select participants from the waiting list in accordance with admission policies in the PHA administrative plan.

Condition, cause, and context: HPHA continues to have challenges with its controls over the waiting list policy; specifically no quality review was performed over the input of initial application information into the waiting list system. Also, we were informed by management that changes to the waiting list are not monitored.

Due to the limited number of housing vouchers, HPHA's policy for placing applicants into the project-based program is based upon preference criteria. Applicants on the waiting list who met these preference criteria, with the proper documentation and verification, were admitted to the program. However, during our audit, we noted no documentation for those applicants who were placed into the project-based program during the current year.

In addition, 24 CFR 982.01, requires that not less than 75% of families admitted to Public Housing Authority's (PHA) tenant-based voucher program during the PHA fiscal year from the PHA waiting list shall be extremely low-income families. Although management is mindful of such a requirement, there is currently no documentation monitoring such a requirement.

Effect*:* Noncompliance. Additionally, failure to adequately review and monitor the waiting list may result in future noncompliance with program requirements.

Questioned costs*:* None

Recommendation: We recommend that HPHA prepared the appropriate documentation that would indicate compliance with its policy. Additionally, HPHA should implement a quality review over input into the waiting list system and implement monitoring procedures to ensure that the "not less than 75%" requirement is met.

Section III – Federal Award Findings and Questioned Costs (continued)

Section 8 Housing Choice Vouchers Program (HCVP) CFDA No. 14.871 (continued)

Finding No.: 2010-04 Special Tests and Provisions – Waiting List – Material Weakness (continued)

PHA Reply (Corrective Action Plan): The implementation of the upgraded information system software the not less than 75% requirement has become automated; hence the requirement will be met. A quality assurance program is under development to meet change monitoring requirements on the waiting list. As the HPHA converts to the new system, there are noted discrepancies and we are working with the vendor to rectify these issues.

Contact Person: Mike Isobe

Target Completion Date: July 2011

Finding No.: 2010-05 Reporting – Significant Deficiency

Criteria: HUD 52681-B, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)* requires HPHA to submit this form electronically to HUD. HUD relies on the audit of key line items of the form to determine the reasonableness of the data submitted for the purposes of calculating funding under the program.

Condition, cause and context: During our audit, we noted that the amount of "units leased" reported on the monthly VMS reports received by HUD either did not agree with the supporting documentation or the supporting documentation was not available.

Additionally, although the Executive Director signs the document, a review of the information prepared and submitted is not independently performed. Based on our testing, immaterial differences were noted from the actual amount of "units leased" and amount reported.

Effect: Failure to meet reporting requirements may lead to noncompliance with program requirements.

Questioned costs: None

Section III – Federal Award Findings and Questioned Costs (continued)

Section 8 Housing Choice Vouchers Program (HCVP) CFDA No. 14.871 (continued)

Finding No.: 2010-05 Reporting – Significant Deficiency (continued)

Recommendation: We recommend that documentation supporting the preparation of the monthly VMS reports should be retained by management. To ensure that amounts are reported correctly, we also recommend that an independent review be performed to ensure that amounts being reported agree with supporting documents.

PHA Reply (Corrective Action Plan): Due to the implementation of Elite software upgrade at Section 8, the FMO accountant in charge of Section 8 was not trained on the VMS reports. It is expected that once the upgrade is complete then the procedure will be implemented.

Contact Person: Clarence Allen

Target Completion Date: November 2011

Finding No.: 2010-06 Special Tests and Provisions – Roll Forward of Equity Balances – Significant Deficiency

Criteria: PHAs are required to maintain complete and accurate accounts. The Annual Contributions Contract (ACC) requires PHAs to properly account for program activity. Proper accounting requires that (1) account balances are properly maintained (2) records and accounting transactions support a proper roll-forward of equity and (3) errors are corrected as detected.

Condition, cause and context: During our audit, we noted that funds received for Housing Assistance Payments and administrative fees were not properly accounted for. The funds received for each respective purpose was not properly allocated into their respective cash accounts. Monies were subsequently transferred to the proper account.

Effect: Failure to adequately reconcile account balances may result in noncompliance with program requirements.

Questioned costs: None

Section III – Federal Award Findings and Questioned Costs (continued)

Section 8 Housing Choice Vouchers Program (HCVP) CFDA No. 14.871 (continued)

Finding No.: 2010-06 Special Tests and Provisions – Rolling Forward Equity Balances – Significant Deficiency (continued)

Recommendation: We recommend HPHA perform a reconciliation of federal financial assistance received from HUD for Housing Assistance Payments and administrative fees on a regular basis to ensure proper equity balances.

PHA Reply (Corrective Action Plan): Beginning in November 2010 equity balances were reconciled and rolled forward on a monthly basis. HPHA is reconciling federal financial assistance received from HUD for Housing Assistance Payments and administrative fees on a regular basis to ensure proper equity balances.

Contact Person: Clarence Allen

Target Completion Date: November 2010.

Public Housing Capital Fund CFDA No. 14.872

Finding No.: 2010-07 Davis Bacon Act – Material Weakness

Criteria: Projects funded with Capital Funds that are developed in accordance with 24 CFR part 941 – Public Housing Development and/or modernized in accordance with 24 CFR part 968 – Public Housing Modernization that contain only public housing units and mixed-finance projects developed in accordance 24 CFR part 941 subpart F – Public/Private Partnerships for the Mixed-Finance Development of Public Housing are subject to the Davis-Bacon Act (42 U.S.C.1437j (a) and (b), 24 CFR section 941.208 and 24 CFR section 941.610 (a)(8)(vi)). All ARRA funded projects are subject to the Davis-Bacon Act (section 1606 of ARRA).

Condition, cause and context: During the current year HPHA had procured 8 contracts. In our discussions with management, we noted that certified weekly payroll summary reports, which validates compliance with Davis Bacon Act requirements, were either not received or misfiled for most contracts during the year.

Effect: Noncompliance

Section III – Federal Award Findings and Questioned Costs (continued)

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2010-07 Davis Bacon Act – Material Weakness (continued)

Questioned costs: None

Recommendation: We recommend that HPHA complies with the requirements of Davis Bacon Act by requiring its contractors and subcontractors to submit the required certified payroll reports and the reports are retained to document such compliance.

PHA Reply (Corrective Action Plan): The HPHA has clarified its procedures to obtain and retain certified payroll reports for all construction contracts as required under the Davis Bacon Act. Additionally, the Construction Management supervisors have been instructed to withhold payments for contractors who fail to submit payroll documents as required since contractors were informed of the Davis Bacon wage requirements during the pre-bid conferences and at regular OAC meetings.

Contact Person: Becky Choi

Target Completion Date: Implemented September 2010

Finding No.: 2010-08 Reporting

Criteria: For each public and Indian housing grant that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90).

Condition, cause and context: During our audit, we noted that Form HUD 60002 was not completed and submitted to HUD. Management indicated that the noncompliance was due to oversight.

***Effect**:* Noncompliance

Questioned costs: None

Recommendation: We recommend that HPHA complies with the reporting requirements of the program.

Section III – Federal Award Findings and Questioned Costs (continued)

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2010-08 Reporting (continued)

PHA Reply (Corrective Action Plan): The Branches that contract for services and/or construction using federal funds will continue to maintain responsibility for receiving and reviewing reports for the contractors. In addition, the HPHA will assign the Compliance Office the responsibility of monitoring compliance and the tracking of due dates for reporting requirements under 24 CFR 135.

HPHA has subsequently contracted a consultant to assist with the preparation and submission of the FDS schedule.

Contact Person: Kiriko Oishi

Target Completion Date: Full implementation July 2011

Finding No.: 2010-09 Equipment and Real Property - Material Weakness

Criteria: The requirements for maintaining equipment inventory and capital asset accounting are contained in the Federal Common Rule OMB A-102 and the Code of Federal Regulations. Also, the maintenance of appropriate accounting records and the conducting of physical inventory counts were annual requirements contained in the 7510, Low-Rent Housing Accounting Guidebook.

Condition, cause and context: HPHA continues to have challenges in maintaining appropriate accounting records of its equipment and construction in progress (CIP) balances. Amounts were not properly monitored and tracked during the fiscal year. A reconciliation of the detailed fixed assets and CIP to the general ledger was not performed during the year and the detailed listings of additions and deletions were not available until requested by the auditors. We also noted that the CIP schedule did not detail when projects were completed. Consequently, projects listed within the CIP schedule were completed and not transferred to the Capital Assets account. This resulted in a reclassification of CIP assets to property and equipment and an adjustment to record the corresponding depreciation expense.

Section III – Federal Award Findings and Questioned Costs (continued)

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2010-09 Equipment and Real Property - Material Weakness (continued)

Additionally, the HPHA does not maintain an automated detail capital asset register, instead manual excel worksheets and previous detail general ledger printouts are used.

Effect: Noncompliance. Additionally, the lack of appropriate monitoring and reporting may lead to misstatement of the CIP and equipment and real property balances and noncompliance with program requirements.

Questioned costs: None

Recommendation: We recommend that the HPHA maintain monthly detailed fixed assets and CIP records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting for these assets. Complete information on all assets provides excellent control for the safeguarding of these assets.

We also recommend that the status of CIP are monitored monthly to ensure that projects that are completed are properly transferred from CIP to fixed assets and depreciated accordingly.

PHA Reply (Corrective Action Plan): Upon completion of the software upgrade, HPHA will implement an automated fixed asset system and complete the reconciliation of the detailed fixed asset module to the general ledger. Once the fixed asset system is reconciled, a fixed asset inventory will be performed. A process will be implemented monthly to assist proper and timely capitalization of assets.

Contact Person: Clarence Allen

Target Completion Date: December 2011

Section III – Federal Award Findings and Questioned Costs (continued)

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2010-10 Activities Allowed and Unallowed-Material Weakness

Criteria: Before assigning key financial and operational positions, management needs to establish and agree on the knowledge, skills, and abilities needed to effectively carryout the associated responsibilities.

Condition, cause and context: At the option of the PHAs, they are allowed to recover their indirect costs related to the Public Housing Capital Fund (PHCF) through the use of a fee-for-service model in lieu of a cost allocation plan. HPHA adopted a fee-for-service model to charge the program during the prior fiscal year. However, we noted that the incorrect fee was being charged and that management was not fully knowledgeable with HUD's requirements related to indirect costing. The fees charged were subsequently corrected.

Effect: Noncompliance. Additionally, without adequate knowledge and skills needed to accomplish tasks that define the individual's job, the risks of misstatements is greatly magnified.

Questioned costs: None

Recommendation: We recommend that management review and familiarize themselves with the requirements of the Code of Federal Regulations, including HUD's project based accounting and asset management requirements.

PHA Reply (Corrective Action Plan): HPHA is in the process of updating the fee for service matrix to charge indirect costs to the asset management projects.

Contact Person: Clarence Allen

Target Completion Date: June 2011

Section III – Federal Award Findings and Questioned Costs (continued)

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2010-11 Reporting – Material Weakness

Criteria: Financial reporting requirements in 24 CFR section 902.33(a)(2) require the PHA to provide annual reports on a PHA-wide basis and electronically submit such annual reports in the format prescribed by HUD using the Financial Data Schedule (FDS).

Condition, cause, and context: HPHA continues to have challenges in identifying an individual who has been properly trained to complete and submit the FDS and other HUD reporting requirements. Although HPHA hires a consultant to assist in filing, the information provided to the consultant need to complete and accurate. For example, during the current year the FDS submission included incorrect allocations which required the schedules to be corrected and filing re-submitted.

Effect*:* The lack of required knowledge of program requirements, compounded by the lack of clearly documented policies and procedures related to HUD reporting requirements, limits the effectiveness of the HPHA internal control environment over HUD's reporting requirements and may result in future noncompliance with program requirements.

Recommendation: HPHA should designate certain employees to be responsible for the FDS and ensure that these individuals receive the proper training to understand how to complete and submit the FDS. Also, HPHA should develop a HUD reporting schedule that lists all HUD reporting requirements and designate certain individuals to be responsible to complete the report. Other individuals should also be made responsible for reviewing the HUD reports prior to submission.

PHA Reply (Corrective Action Plan): HPHA will utilize a consultant to assist with the FDS transmittal in March 2011 with the intention to train the FMO staff in completing the FDS in-house.

Contact Person: Clarence Allen

Target Completion Date: March 2011

Section III – Federal Award Findings and Questioned Costs (continued)

Public and Indian Housing Program CFDA No. 14.850

Finding No.: 2010-12 Special Tests and Provisions – Waiting List

Criteria: 24 CFR sections 960.202 through 960.206 require HPHA to establish policies for verification and documentation of information relevant to acceptance or rejection of an applicant. Due to the excess of applicants on the waiting list for low-income housing in comparison to the number of units available, the HPHA's policy for placing applicants into the program is based upon preference criteria. Applicants on the waiting list who met these preference criteria with proper documentation and verification were admitted to the program.

Condition, cause, and context: In our discussions with management, HPHA continues to have a "backlog" of applications that were not entered into the system on a timely basis. As such, several applicants were not included in quarterly re-sequencing. Presently, the "backlog" of applications noted during the fiscal year has yet to be resolved. Management also stated that applicants pulled from the waiting list are not monitored. There is no quality review to reassure that applicants are properly being pulled from the waiting list.

Effect*:* Noncompliance

Questioned costs: None

Recommendation: We recommend that HPHA complies with the reporting requirements of the program.

PHA Reply (Corrective Action Plan): This backlog has been caused in part by a shortage of clerical staff at HPHA combined with reduction in working hours due to furlough days; however, the HPHA has instituted a quality review program in which the departmental supervisor periodically checks applicant entries following clerical input in the Emphasys software system. In addition there are waitlist spreadsheets which are checked on a quarterly basis to ensure applicants are properly pulled from the waitlist.

Contact Person: Stephanie Fo

Target Completion Date: June 2011

Section III – Federal Award Findings and Questioned Costs (continued)

Public and Indian Housing Program CFDA No. 14.850 (continued)

Finding No.: 2010-13 Activities Allowed or Unallowed and Special Test and Provisions-Fees Charged for Centralized Cost - Material Weakness

Criteria: In accordance with asset management, fee-for-service costs are classified as either a front-line expense (an expense of the project) or a fee expense (an expense of the management company, i.e., the COCC) (See Table 7.2 in the Supplement to HUD Handbook 7475.1 for classifying costs.) (24 CFR section 990.280(d)).

Fee expenses include asset management fees and management fees charged to the AMPs by the COCC. HUD defines the reasonableness of these fees as follows:

> Asset Management Fee: HUD will generally consider an asset management fee charged to each project of $10 per unit month (PUM) as reasonable. Guidance on reasonableness standards for asset management fees is provided in Sections 7.4 and 7.6 in the Supplement to HUD Handbook 7475.1 (24 CFR section 990.280 (b)(5)(ii)).
>
> Management Fee: Management fees may include property management fees, program management fees, and bookkeeping fees. Fee reasonableness standards for the property management fee and bookkeeping fee are provided in Sections 7.4 and 7.5 in the Supplement to HUD Handbook 7475.1 (24 CFR section 990.280(B)(4)).

Conditions, cause, and context: In 2009, HPHA adopted the fee-for-service model in accordance with asset management. As a result of control weaknesses, several of the fee-for-service charges to the AMPs were incorrectly calculated during the year. Fees calculated and charged incorrectly during the year included the following:

1. Asset Management Fee – Occupied units were incorrectly used instead of total ACC units in calculation.

2. Management Fee – Total ACC units were incorrectly used instead of occupied units in the calculation and the incorrect phase in rate was applied in the current year.

The incorrect charges were applied to all AMPs throughout the current year; however the fees charged were subsequently corrected.

Section III – Federal Award Findings and Questioned Costs (continued)

Public and Indian Housing Program CFDA No. 14.850 (continued)

Finding No.: 2010-13 Activities Allowed or Unallowed and Special Test and Provisions-Fees Charged for Centralized Cost - Material Weakness (continued)

Effect*:* Noncompliance. Additionally, without adequate knowledge and skills needed to accomplish tasks that define the individual‘s job, the risks of misstatements is greatly magnified.

Questioned costs: None

Recommendation: We recommend that management review and familiarize themselves and their staff with HUD’s project based accounting and asset management requirements, and comply with the respective requirements.

PHA Reply (Corrective Action Plan): The plan is to review fee calculation monthly to ensure fees are charged to the AMPs on a reasonable basis and that the charges meet with HUD guidance. Nan McKay & Associates have provided FMO with computation schedules which will assist FMO in complying with the respective requirements.

Contact Person: Clarence Allen

Target Completion Date: June 2011

Finding No.: 2010-14 Special Tests and Provisions – Waiting List – Material Weakness

Criteria: 24 CFR sections 960.202 through 960.206 require HPHA to establish policies for verification and documentation of information relevant to acceptance or rejection of an applicant. Due to the excess of applicants on the waiting list for low-income housing in comparison to the number of units available, HPHA’s policy for placing applicants into the program is based upon preference criteria. Applicants on the waiting list who met these preference criteria with proper documentation and verification were admitted to the program.

Section III – Federal Award Findings and Questioned Costs (continued)

Public and Indian Housing Program CFDA No. 14.850 (continued)

Finding No.: 2010-14 Special Tests and Provisions – Waiting List – Material Weakness (continued)

Condition, cause, and context: During our review of HPHA's controls over the waiting list policy, we were informed by management that there is no quality review performed over the input of initial application information into the waiting list system. The lack of such a review led to findings such as applicants' applications mistakenly not being inputted or improperly being placed on the waiting list.

During our review of the waiting list, we noted that applicants were manually written into the waiting list because their applications were mistakenly overlooked or inputted incorrectly. These mistakes were not corrected until the applicant followed up on the application. We were informed by management that changes to the waiting list are also not being reviewed or monitored.

Effect*:* Failure to adequately review and monitor the waiting list may result in noncompliance with program requirements.

Questioned costs: None

Recommendation: We recommend that HPHA implement a quality control review over input into the waiting list system

PHA Reply (Corrective Action Plan): This situation arose in part by a shortage of clerical staff at HPHA combined with reduction in working hours due to furlough days; however, the HPHA has instituted a quality review program in which the departmental supervisor periodically checks applicant entries following clerical input in the Emphasys software system. In addition there are waitlist spreadsheets which are checked on a quarterly basis to confirm changes.

Contact Person: Stephanie Fo

Finding No.: 2010-15 Reporting – Material Weakness

Criteria: OMB A-133 Compliance Supplement requires HPHA to complete and file form HUD-52723, Operating Fund Calculation of Operating Subsidy (OMB No. 2577-0029). This form is prepared and submitted before the end of the PHA's fiscal year and is used by HUD to calculate funding for the next year.

Section III – Federal Award Findings and Questioned Costs (continued)

Public and Indian Housing Program CFDA No. 14.850 (continued)

Finding No.: 2010-15 Reporting – Material Weakness (continued)

Condition, cause, and context: Although for HUD-52723 was prepared and submitted by the Low Income Public Housing (LIPH) Manager prior to his departure in accordance with the program requirements, we noted that there was no independent review or approval of the information being provided. Control activities such as review and approval allow management to prevent and detect deficiencies that may impact its reporting and operational objectives. We also ascertained that no other personnel have the required knowledge of the program requirements to effectively perform such a review and approval.

***Effect**:* The lack of appropriate review and approvals increases the risk of noncompliance with program requirements.

Recommendation: With the departure of the LIPH Manager, HPHA should train 2 individuals in the preparation of form HUD-52723. This will allow for the performance of an independent review and approval of form HUD-52723. We would also recommend that such processes are documented in a policy and procedures manual to ensure appropriate knowledge transfer.

PHA Reply (Corrective Action Plan): The HPHA has since been able to fill vacant positions and the new employees are being cross trained in various functions to increase the staff depth of knowledge.

HPHA will train 3 staff members in form HUD-52723 preparation with one designated as the monthly keeper of the data which is used in the formulas for the calculation; and two cross trained to review for data correctness and then calculate the subsidy based on the confirmed criteria.

FMO will then independently review the calculations, and if there are variances or corrections required, FMO will discuss the issues collaboratively to assure maximum subsidy.

Contact Person: Stephanie Fo

Target Completion Date: July 2011

Section III – Federal Award Findings and Questioned Costs (continued)

Public and Indian Housing Program CFDA No. 14.850 (continued)

Finding No.: 2010-16 Eligibility – Tenant File Testing – Material Weakness

Criteria: 24 CFR section 5.601 and 24 CFR sections 960.253, 960.255 and 960.259 require HPHA to gather information on income, family size and housing conditions for both new and continuing participants on an annual basis. Based on the information gathered, HPHA housing specialist assess whether or not applicants are eligible to participate in the program based on Federal eligibility guidelines.

To ensure such guidelines are complied with, HPHA initially performs a 10% review of all annual re-exams and new placements. The monthly reviews are performed by the project managers and are submitted to the Property Management and Maintenance Service Branch (PMMSB). PMMSB conducts an error analysis, tracking the number and type of errors for each review. From the result of the analysis, program management performs a second follow up quality review.

Condition, cause, and context: During our review of HPHA's controls over eligibility, we were informed by program management that they did not perform the quality review of tenant files due to the lack of available personnel resource at the program management level.

During our testing of participant files, we noted the following:

1) For 8 out of 60 tenant files tested, we noted that certain forms to facilitate the internal control process over tenant files were not signed by housing specialists.
2) For 2 out of 60 tenant files tested, we noted that required forms were missing or were not properly executed.

Effect*:* Failure to properly monitor eligibility determination and failure to adequately determine eligibility can lead to noncompliance with program requirements and potential disallowed costs.

Questioned costs: None

Recommendation: We recommend that HPHA enforce proper implementation of its eligibility policy and procedures and establish a regular quality control review of tenant files by program management. This review and its results should be documented for monitoring at the HPHA management level. Such a quality control review could identify areas requiring more attention by management and ultimately reduce the number of errors.

Section III – Federal Award Findings and Questioned Costs (continued)

Public and Indian Housing Program CFDA No. 14.850 (continued)

Finding No.: 2010-16 Eligibility – Tenant File Testing-Material Weakness (continued)

PHA Reply (Corrective Action Plan): PMMSB is responsible for conducting quality control monitoring. The Branch Chief will implement quarterly meetings to discuss the findings, and schedule additional staff training. Additionally, the PMMSB staff will continue to have the monitors review 3 files per AMP each month. The reorganization plan for PMMSB includes 1.0 FTE to conduct file reviews, including an audit of 10% of every AMPs tenant files on a monthly basis.

Contact Person: Stephanie Fo

Target Completion Date: June 2011

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Section 8 Housing Choice Vouchers Program CFDA No. 14.871

Finding No.: 2009-05 Special Tests and Provisions - Waiting List

Condition, cause, and context: Due to the limited number of housing vouchers, HPHA's policy for placing applicants into the program is based upon preference criteria. Applicants on the waiting list who met these preference criteria, with the proper documentation and verification, were admitted to the program. However, during our audit, we noted that the waitlist was not maintained in accordance with the approved administrative plan. We were informed by management that due to a software application error HPHA was not able to re-sequence the waitlist by preferences. Consequently, not all applicants placed during the year were in compliance with the requirements listed above.

Subsequent to year end, management was able to resolve the software application error with its vendor and has re-sequenced the waitlist in accordance with the above requirements.

Status: Comment no longer applicable.

Finding No.: 2009-06 Special Tests and Provisions – Waiting List – Material Weakness

Condition, cause, and context: HPHA continues to have challenges with its controls over the waiting list policy; specifically no quality review was performed over the input of initial application information into the waiting list system. The lack of such a review led to findings such as applicants' applications mistakenly not being inputted or improperly being placed on the waiting list. During our review of the waiting list, it was noted that applicants were manually written into the waiting list because their applications were mistakenly overlooked or inputted incorrectly. These mistakes were not corrected until the applicant followed up on the application. Also, we were informed by management that changes to the waiting list are not monitored.

In addition, 24 CFR 982.01, requires that not less than 75% of families admitted to Public Housing Authority's (PHA) tenant-based voucher program during the PHA fiscal year from the PHA waiting list shall be extremely low-income families. Although management is mindful of such a requirement, there is currently no documentation monitoring such a requirement.

Section 8 Housing Choice Vouchers Program CFDA No. 14.871 (continued)

Finding No.: 2009-06 Special Tests and Provisions – Waiting List – Material Weakness (continued)

Recommendation: We recommend that HPHA implement a quality review over input into the waiting list system. Additionally, HPHA should implement monitoring procedures to ensure that the "not less than 75%" requirement is met.

Status: Comment still applicable. See finding **2010-04**.

Finding No.: 2009-07 Activities Allowed or Unallowed – Material Weakness

Condition, cause, and context: PHAs are allowed to recover their indirect costs related to the HCVP through the use of a fee-for-service model in lieu of a cost allocation plan. During the current year, HPHA adopted a fee-for-service model to charge the HCVP program. Upon further review, it became evident that management was not fully knowledgeable with HUD's requirements for using a fee-for-service model. The fees charged were subsequently adjusted.

Recommendation: We recommend that management review and familiarize themselves with the requirements of the Code of Federal Regulations, including HUD's project based accounting and asset management requirements. We would encourage management to continue with its completion of the policies and procedures manual.

Status: Comment no longer applicable.

Finding No.: 2009-08 Cash Management – Material Weakness

Condition, cause and context: During our audit, we noted that HPHA did not perform timely monthly bank reconciliations of its cash balances. The ability to monitor and report cash management activities is eminently enhanced with timely bank reconciliations. This will provide management with the mechanism to compare actual amounts received and disbursed in relation to the internal budget and reports received from HUD.

Status: Comment no longer applicable

Section 8 Housing Choice Vouchers Program CFDA No. 14.871 (continued)

<u>Finding No.: 2009-09 Reporting</u>

Condition, cause and context: During our audit, we noted that amount of "units leased" reported on the monthly VMS reports received by HUD either did not agree with the supporting documentation or the supporting documentation was not available.

Additionally, although the Executive Director signs the document, a review of the information prepared and submitted is not independently performed. Based on our testing, immaterial differences were noted from the actual amount of "units leased" and amount reported.

Recommendation: We recommend that documentation supporting the preparation of the monthly VMS reports should be retained by management. To ensure that amounts are reported correctly, we also recommend that an independent review be performed to ensure that amounts being reported agree with supporting documents.

Status: Comment still applicable. See finding **2010-05**.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2010

Public Housing Capital Fund CFDA No. 14.872

Finding No.: 2009-10 Davis-Bacon Act

Condition, cause and context: During the current year HPHA had procured 12 contracts. In our testing for compliance, we selected three contracts and noted that all three contract files were missing certified weekly payroll summary reports, which validates compliance with Davis Bacon Act requirements. Management was not able to confirm to us whether the certified payroll reports were not received or had been misfiled.

Recommendation: We recommend that HPHA complies with the requirements of Davis Bacon Act by requiring its contractors and subcontractors to submit the required certified payroll reports and the reports are retained to document such compliance.

Status: Comment still applicable. See finding **2010-07**.

Finding No.: 2009-11 Reporting

Condition, cause and context: During our audit, we noted that Form HUD 60002 was not completed and submitted to HUD. Management indicated that the non-compliance was due oversight.

HPHA did not comply with the FDS requirements. The lack of appropriate expertise, experience and training in the preparation of the FDS schedule is the primary cause of the non-compliance.

Recommendation: We recommend that HPHA complies with the reporting requirements of the program.

Status: Comment still applicable. See finding **2010-08**.

Finding No.: 2009-12 Activities Allowed or Unallowed – Material Weakness

Criteria: Before assigning key financial and operational positions, management needs to establish and agree on the knowledge, skills, and abilities needed to effectively carryout the associated responsibilities.

Condition, cause and context: Similar to the HCVP, at the option of the PHAs, they are allowed to recover their indirect costs related to the Public Housing Capital Fund (PHCF) through the use of a fee-for-service model in lieu of a cost allocation plan. During the current year, HPHA initially adopted a fee-for-service model to charge the program. However, it was determined subsequent to year end that the PHCF would not

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2009-12 Activities Allowed or Unallowed – Material Weakness (continued)

be charged for such indirect costs, and the fees charged were reversed. Subsequent to that determination, management decided to charge the fees for the fiscal year, and at June 30, 2009, management fees were charged to the PHCF by the COCC. Upon further review, it became evident that management was not fully knowledgeable with HUD's requirements related to indirect costing.

Recommendation: We recommend that management review and familiarize themselves with the requirements of the Code of Federal Regulations, including HUD's project based accounting and asset management requirements. We would encourage management to continue with its completion of the policies and procedures manual.

Status: Comment still applicable. See finding **2010-10**.

Finding No.: 2009-13 Equipment and Real Property - Material Weakness

Condition, cause and context: HPHA continues to have challenges in maintaining appropriate accounting records of its equipment and CIP balances. Amounts were not properly monitored and tracked during the fiscal year. A reconciliation of the detailed fixed assets and CIP to the general ledger was not performed during the year and the detailed listings of additions and deletions were not available until requested by the auditors. We also noted that the CIP schedule did not detail when projects were completed. Consequently, projects listed within the CIP schedule were completed and not transferred to the Capital Assets account. This resulted in a reclassification of CIP assets to Property and Equipment and an adjustment to record the corresponding depreciation expense.

Additionally, the HPHA does not maintain an automated detail capital asset register, instead manual excel worksheets and previous detail general ledger printouts are used.

Recommendation: We recommend that the HPHA maintain monthly detailed fixed assets and CIP records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting for these assets. Complete information on all assets provides excellent control for the safeguarding of these assets.

We also recommend that the status of CIP are monitored monthly to ensure that projects that are completed are properly transferred from CIP to fixed assets and depreciated accordingly.

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2009-13 Equipment and Real Property - Material Weakness (continued)

Status: Comment still applicable. See finding **2010-09**.

Finding No.: 2009-14 Reporting – Material Weakness

Condition, cause, and context: HPHA continues to have challenges in identifying an individual who has been properly trained to complete and submit the FDS and other HUD reporting requirements. For example, during the current year the FDS submission included incorrect allocations which required the schedules to be corrected and filing re-submitted. Although HPHA outsourced the completion of the FDS to a third-party, there was no HPHA employee who was able to verify the accuracy and propriety of the FDS filing. Also, as a result of not properly tracking HUD reporting requirements, HPHA has not submitted Form HUD 60002 for the past three years.

Recommendation: HPHA should designate certain employees to be responsible for the FDS and ensure that these individuals receive the proper training to understand how to complete and submit the FDS. Also, HPHA should develop a HUD reporting schedule that lists all HUD reporting requirements and designate certain individuals to be responsible to complete the report. Other individuals should also be made responsible for reviewing the HUD reports prior to submission.

Status: Comment still applicable. See findings **2010-08** and **2010-11**.

Finding No.: 2009-15 Special Tests and Provisions – Waiting List

Condition, cause, and context: In our discussions with management and in the performance of our audit, HPHA continues to have a “back log” of applications that were not entered into the system on a timely basis. As such, several applicants were not included in quarterly re-sequencing. Presently, the “back log” of applications noted during the fiscal year has yet to be resolved. Management also stated that applicants pulled from the waiting list are not monitored. There is no quality review to reassure that applicants are properly being pulled from the waiting list.

Recommendation: We recommend that HPHA complies with the reporting requirements of the program.

Status: Comment still applicable. See finding **2010-12**.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2010

Public and Indian Housing Program CFDA No. 14.850

Finding No.: 2009-16 Special Tests and Provisions – Tenant Participation Fund

Condition, cause and context: HPHA does not account for these funds separately from its other operating funds. Consequently, HPHA is not able to determine the amount of funds available for tenant participation activities. Additionally, in accordance with the Memorandum on Tenant Participation Fund Policies and Procedures, tenant associations must provide detailed budgets and other supporting documents for review and approval of disbursement of these funds. However, during our audit, management was not able to properly allocate the tenant participation fund to resident councils.

Recommendation: We recommend that HPHA complies with the reporting requirements of the program.

Status: Comment no longer applicable.

Finding No.: 2009-17 Allowable Cost and Cost Principles

Conditions, cause, and context: In 2009, HPHA adopted the fee-for-service model in accordance with asset management. As a result of the control weaknesses detailed in Finding No. 2009-09, several of the fee-for-service charges to the AMPs were incorrectly calculated during the year. Fees calculated and charged incorrectly during the year included the following:

1. Asset Management Fee – Occupied units were incorrectly used instead of total ACC units in calculation.
2. Management Fee – Total ACC units were incorrectly used instead of occupied units in the calculation and the incorrect phase in rate was applied in the current year.

The incorrect charges were applied to all AMPs throughout the current year; however the fees charged were subsequently adjusted.

Recommendation: We recommend that management review and familiarize themselves and their staff with HUD's project based accounting and asset management requirements, and comply with the respective requirements.

Status: Comment still applicable. See finding **2010-13**.

Public and Indian Housing Program CFDA No. 14.850 (continued)

Finding No.: 2009-18 Special Tests and Provisions – Beginning Balance Sheet Allocation

Condition, cause and context: As part of the implementation of project based accounting, HPHA allocated the 2009 beginning balances to the respective AMPs and COCC. In our testing for compliance, we noted that the Other Post Retirement Employee Benefit's (OPEB) liability was incorrectly allocated to the AMPs, the COCC and other funds. HUD's guidelines require management to record the entire OPEB liability under the COCC. An adjustment was subsequently posted to record the entire liability under the COCC.

Recommendation: We recommend that management review and familiarize themselves and their staff with HUD's project based accounting and asset management requirements, and comply with the respective requirements.

Status: Comment no longer applicable.

Finding No.: 2009-19 Special Tests and Provisions – Waiting List – Material Weakness

Condition, cause, and context: During our review of HPHA's controls over the waiting list policy, we were informed by management that there is no quality review performed over the input of initial application information into the waiting list system. The lack of such a review led to findings such as applicants' applications mistakenly not being inputted or improperly being placed on the waiting list. During our review of the waiting list, we noted that applicants were manually written into the waiting list because their applications were mistakenly overlooked or inputted incorrectly. These mistakes were not corrected until the applicant followed up on the application. We were informed by management that changes to the waiting list are also not being reviewed or monitored.

Recommendation: We recommend that HPHA implement a quality control review over input into the waiting list system

Status: Comment still applicable. See finding **2010-14**.

Public and Indian Housing Program CFDA No. 14.850 (continued)

Finding No.: 2009-20 Equipment and Real Property - Material Weakness

Condition, cause and context: HPHA continues to have challenges in maintaining appropriate accounting records of its equipment and CIP balances. Amounts were not properly monitored and tracked during the fiscal year. A reconciliation of the detailed fixed assets and CIP to the general ledger was not performed during the year and the detailed listings of additions and deletions were not available until requested by the auditors. We also noted that the CIP schedule did not detail when projects were completed. Consequently, projects listed within the CIP schedule were completed and not transferred to the Capital Assets account. This resulted in a reclassification of CIP assets to Property and Equipment and an adjustment to record the corresponding depreciation expense.

Additionally, HPHA does not maintain an automated detail capital asset register, instead manual excel worksheets and previous detail general ledger printouts are used.

Recommendation: We recommend that HPHA maintain monthly detailed fixed assets and CIP records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting for these assets. Complete information on all assets provides excellent control for the safeguarding of these assets.

Status: Comment no longer applicable as there were no capital expenditures under Public Indian Housing. However, see finding regarding equipment and real property at **2010-15**.

Finding No.: 2009-21 Reporting – Material Weakness

Condition, cause, and context: Although HUD form 52723 was prepared and submitted by the Low Income Public Housing (LIPH) Manager in accordance with the program requirements, we noted that there was no independent review or approval of the information being provided. Control activities such as review and approval allow management to prevent and detect deficiencies that may impact its reporting and operational objectives. We also ascertained that no other personnel have the required knowledge of the program requirements to effectively perform such a review and approval.

Recommendation: HPHA should train an individual in the preparation of HUD form 52723. This will allow for the LIPH Manager to perform the independent review and approval function. We would also recommend that such processes are documented in a policy and procedures manual to ensure appropriate knowledge transfer should the LIPH Manager not be available.

Public and Indian Housing Program CFDA No. 14.850 (continued)

Finding No.: 2009-21 Reporting – Material Weakness (continued)

Status: Comment still applicable. See finding **2010-15**.

Finding No.: 2009-22 Activities Allowable Costs & Special Tests and Provisions – Material Weakness

Condition, cause and context: PHAs are allowed to recover their indirect costs related to the projects under the Federal Low Rent Program through the use of a fee-for-service model in lieu of a cost allocation plan. During the current year, HPHA adopted a fee-for-service model to charge the projects under the Federal Low Rent Program. However, we noted that the incorrect fees were being charged. Upon further review, it became evident that management was not fully knowledgeable with HUD's requirements for using a fee-for-service model. The fees charged were subsequently adjusted.

Recommendation: We recommend that management review and familiarize themselves with the requirements of the Code of Federal Regulations, including HUD's project based accounting and asset management requirements. We would encourage management to continue with its completion of the policies and procedures manual.

Status: Comment still applicable. See finding **2010-13**.

Finding No.: 2009-23 Eligibility – Tenant File Testing

Condition, cause, and context: During our review of HPHA's controls over eligibility, we were informed by program management that they did not perform the follow up quality reviews for approximately half the projects due to the lack of available personnel resource at the program management level.

During our testing of participant files, we noted the following:

1) For 3 out of 60 tenant files tested, we noted that certain forms to facilitate the internal control process over tenant files were not signed by housing specialists.
2) For 2 out of 60 tenant files tested, we noted that required forms were missing or were not properly executed.
3) For 4 out of 60 tenant files tested, we noted that third party verification of income was missing.

Public and Indian Housing Program CFDA No. 14.850 (continued)

Finding No.: 2009-23 Eligibility – Tenant File Testing (continued)

Recommendation: We recommend that HPHA enforce proper implementation of its eligibility policy and procedures and establish a regular quality control review of tenant files by program management. This review and its results should be documented for monitoring at the HPHA management level. Such a quality control review could identify areas requiring more attention by management and ultimately reduce the number of errors.

Status: Comment still applicable. See finding **2010-16**.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2010

Shelter Plus Care CFDA No. 14.238

Finding No.: 2009-24 Reporting

Condition, cause and context: Although the Annual Progress Report (Report) was filed timely with HUD, the financial data reported did not agree with the supporting documents provided by the sub-recipient agency.

The Report is required to be reviewed and approved by the Homeless Branch Supervisor prior to submission. However, the error was not detected until the performance of the audit. The Report was subsequently corrected and resubmitted. While the control activity of review and approval exists, the control was not operating effectively.

Recommendation: We recommend that HPHA complies with the reporting requirements of the program. In addition, management needs to be diligent in its performance of its responsibilities.

Status: Comment no longer applicable as program was transferred to the Department of Human Services.

Finding No.: 2009-25 Subrecipient Monitoring

Condition, cause and context: Although invoices and request of payments are reviewed for compliance, since the inception of these awards, management has not performed any subrecipient site visits for any of the six projects. Consequently, the ability to monitor eligibility of participants, determine compliance with matching requirements and housing quality standards is severely limited.

Management indicated that due to the numerous changes to personnel, such visits were neglected.

Recommendation: We recommend that HPHA complies with the monitoring requirements of the program.

Status: Comment no longer applicable as program was transferred to the Department of Human Services.

Shelter Plus Care CFDA No. 14.238 (continued)

Finding No.: 2009-26 Subrecipient Monitoring -Material Weakness

Condition, cause and context: To ensure subrecipient's compliance with the matching requirements of the program, financial data that is summarized on the Report is used by HPHA to monitor matching compliance. However, during the current year, we noted that the information reported on the Report did not agree with supporting documents. Although the Report is required to be reviewed and approved by the Homeless Branch Supervisor, the error was not detected until the performance of the audit. Incorrect information may lead management to inappropriately conclude program's compliance. While the control activity of review and approval exists, the control was not operating effectively.

Recommendation: We recommend that management needs to be diligent in its performance of its responsibilities.

Status: Comment no longer applicable as program was transferred to the Department of Human Services.