

Hawaii Public Housing Authority

Financial Statements

June 30, 2012

Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 20, 2013

Mr. Hakim Ouansafi
Executive Director
Hawaii Public Housing Authority
State of Hawaii

Dear Mr. Ouansafi:

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, 2012. 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, 2012, 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, 2012.

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, 2012, 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,

A handwritten signature in black ink that reads "Wilcox Choy". The signature is written in a cursive, slightly slanted style.

Wilcox Choy
Partner

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PART I
FINANCIAL SECTION



A Hawaii Limited Liability Partnership

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, 2012. 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.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the 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, 2012, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2012, 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 December 17, 2012, 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, and other matters. 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 10 to 21 and Budgetary Comparison Schedules on pages 71 to 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. 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. The accompanying Financial Data Schedule and Schedule of Modernization Funds and Modernization Costs for Project HI-08-P001-501-06 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The

information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
December 17, 2012

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

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, 2012. 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, 2012, 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, 2011 to June 30, 2012, 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).

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the assets of the HPHA exceeded its liabilities by \$372,028,342 (net assets). Of this amount, \$296,503,732 is invested in capital assets. (As detailed on *Government-Wide Statement of Net Assets, page 23*)
- The HPHA's government wide net assets decreased by \$15,181,648. The decrease in net assets is the offsetting activities in government activities and business-type activities as follows:
 - a. Governmental activities decrease in net assets of \$21,076,609 is primarily due to the lapsed funds of \$10,873,763 and Capital Outlays of \$8,521,033 under the Capital Project Fund (as detailed on *Government-Wide Statement of Activities, pages 24 & 27*).
 - b. Business-type activities increase in net assets of approximately \$5,894,961 (as detailed on *Government-Wide Statement of Activities, page 24*) is primarily due to capital contribution transfers of \$8,521,033; net operating transfers of \$5,721,234 from Governmental Activities and loss before transfers of \$8,347,306 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 33*).

The capital contribution transfers are related to the Capital Project fund's current year capital outlay (\$8,521,033) (as detailed on *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, pages 27*) expended for the benefit of business-type activities funds.

Similar to the prior year, the net operating transfers are related to rental housing shortfalls paid for by the General Fund and Capital Project Funds (as detailed on *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, pages 27*).

The loss before transfers of \$8,347,306 is due to a decrease in HUD capital and operating subsidies from prior year of approximately \$13,810,858 and from the gain from sale of Wilikina Apartments Project of approximately \$2,003,456 million (as detailed on *Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 33*).

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

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.

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2012

- **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.

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

HAWAII PUBLIC HOUSING AUTHORITY Condensed Statement of Net Assets June 30, 2012 & June 30, 2011 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 26,829	\$ 49,643	\$ 66,441	\$ 53,788	\$ 93,270	\$ 103,431
Capital assets	4,784	5,435	291,720	293,172	296,504	298,607
Other assets	-	-	5,837	8,303	5,837	8,303
Total Assets	\$ 31,613	\$ 55,078	\$ 363,998	\$ 355,263	\$ 395,611	\$ 410,341
Current and other liabilities	\$ 2,773	\$ 5,135	\$ 10,051	\$ 9,301	\$ 12,824	\$ 14,436
Long-term liabilities	111	137	10,647	8,558	10,758	8,695
Total Liabilities	2,884	5,272	20,698	17,859	23,582	23,131
Net assets:						
Invested in capital assets, net of related debt	4,784	5,435	291,720	293,173	296,504	298,608
Restricted	4,952	3,984	-	5,829	4,952	9,813
Unrestricted	18,993	40,387	51,580	38,402	70,573	78,789
Total net assets	28,729	49,806	343,300	337,404	372,029	387,210
Total liabilities & net assets	\$ 31,613	\$ 55,078	\$ 363,998	\$ 355,263	\$ 395,611	\$ 410,341

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 \$372,028,342. \$296,503,732 of net assets is invested in capital assets, net of related debt. As discussed in the financial highlights, net assets decreased by \$15,181,648 during the fiscal period. (as detailed in the *Government-Wide Statement of Net Assets and Statement of Activities*, pages 23 and 24).

Of the HPHA's total assets, \$296,503,732 (or 75%) 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 22) in the amount of \$86,107,085 and comprises 22% 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 \$10,563,696 (as detailed in the *Government-Wide Statement of Net Assets*, page 23) comprise 82% of the HPHA's total current liabilities.

Hawaii Public Housing Authority

Management Discussion and Analysis
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Long term liabilities increased by \$2,063,088 from the prior year. This is primarily due to the net increase in other post retirement employee benefits liability of \$2,257,745 (as detailed in the *Notes to the Financial Statements, #9, page 65.*) The HPHA's obligations related to other post retirement employee benefits are based on reports provided by the State's Department of Accounting and General Services.

HAWAII PUBLIC HOUSING AUTHORITY Government-Wide Statement of Activities Years Ended June 30, 2012 and June 30, 2011 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for services	\$ -	\$ -	\$ 18,435	\$ 20,442	\$ 18,435	\$ 20,442
Operating grants and contributions	52,292	48,409	21,814	22,412	74,106	70,821
Capital grants and contributions	-	-	11,029	24,242	11,029	24,242
Other income	-	-	2,008	3,993	2,008	3,993
General Revenues:						
State allotted appropriations, net of lapsed funds	(5,415)	9,274	-	-	(5,415)	9,274
Total revenues	46,877	57,683	53,286	71,089	100,163	128,772
Expenses						
Governmental Activities						
Rental housing assistance program	61,881	61,856	-	-	61,881	61,856
Business-type activities						
Rental assistance program	-	-	49,078	50,870	49,078	50,870
Housing development program	-	-	8,635	8,637	8,635	8,637
Other	-	-	3,921	1,538	3,921	1,538
Total governmental-wide expenses	61,881	61,856	61,634	61,045	123,515	122,901
Excess of revenues over expenses	(15,004)	(4,173)	(8,348)	10,044	(23,352)	5,871
Capital contributions	-	-	8,521	12,716	8,521	12,716
Transfers	(6,071)	(26,718)	5,721	4,799	(350)	(21,919)
CHANGES IN NET ASSETS	(21,075)	(30,891)	5,894	27,559	(15,181)	(3,332)
Total net assets, beginning of year	49,806	80,697	337,404	309,845	387,210	390,542
Total net assets, end of year	\$ 28,731	\$49,806	\$ 343,298	\$ 337,404	\$ 372,029	\$ 387,210

Statement of Activities

Operating grants and contributions increased \$3,284,273 in the current year from \$70,821,478 to \$74,105,751. Capital grants and contributions decreased by \$13,212,485 in the current year from \$24,242,031 to \$11,029,546. Included in those decrease are the HUD operating and capital subsidies which decreased from \$46,654,508 to \$32,843,650 a decrease of \$13,810,858 or 29.6% from prior year.

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Management Discussion and Analysis

June 30, 2012

Those amounts contributed to the business-type activities operating loss of \$10,355,280 for the year (as detailed in the *Government – Wide Statement of Activities, Page 24*). Consequently, business-type activities recognized net loss, before capital contributions and transfers, of \$8,347,306 for the year.

Governmental activities net assets decreased by \$21,076,609. This decrease is primarily due to lapsed capital funds of \$10,873,763 and net transfers of \$5,721,234 to business-type activities (as detailed in *Government-Wide Statement of Activities, Page 24*).

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 27*.)

- At the end of the fiscal year, combined fund balances amounted to \$24,056,266, of which \$16,407,637 is reserved for capital projects, a decrease of \$20,451,382 in comparison with the prior year's combined fund balance (as detailed on *Governmental Funds, Balance Sheet, pages 25 and 27*).
- The general fund balance excess of revenues over expense at the end of the fiscal year was \$4,196,669. However, \$4,540,628 was transferred out of the General Fund to support the HPHA's business type activities (as detailed on *Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balances, page 27, and Note #11, page 68*).
- The key factors in this decrease were the net transfers out of \$5,721,234, and the lapsed funds of \$10,873,763 (as detailed on *Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balances, page 27, and Note #2, page 51*).
- The remaining change is related to the net change is Capital Projects Fund of approximately \$18,923,018 which consists of capital outlay of approximately \$8,534,957 net of current year appropriations of approximately \$485,702 (as detailed on *Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balances, page 27*).
- At the end of the fiscal year, the HPHA had an unexpended fund balance of \$16,407,637 for Capital Projects (as detailed on *Governmental Funds, Balance Sheet, page 25*).
- The Housing Choice Voucher Program subsidy for the current year showed an increase of \$3,915,743 from prior year primarily due to funding for tenant protection and Veterans Affairs Supportive Housing vouchers. Approximately \$442,573 (as detailed on *Governmental Funds, Balance Sheet, page 25*) of HUD contributions have been recorded as deferred income. HUD contributions are paid

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2012

based on budget of expected voucher payments. As such, HUD contributions in excess of housing assistance payments are reported as deferred income.

Proprietary funds

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

- 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.
- Overall loss before transfers amounted to approximately \$8,347,306 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 33*) compared with prior year income of \$10,044,845. The change is primarily due to a decrease in gain on sale of projects of \$2,004,007 from prior year net of decrease in HUD operating and capital subsidies of \$13,810,858.
- The COCC loss before transfers increased from \$487,291 to a loss of \$2,612,537 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 33*). This is primarily due to the overall decrease in "Fee-for-service" income of approximately \$579,185 to \$5,332,216 or 9.8%. The majority of the decrease is related to the decrease in capital fund management fee and a \$677,504 increase in Personnel Services related to increases in staffing and related OPEB expenses. The COCC also still reflects bad debt expense of approximately \$440,000 related to the amounts due from the Department of Human Services for management fee and interfund reimbursements owed by the former Homeless Programs.

During the fiscal year, the COCC received approximately \$10,386,003 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 33*) of operating transfers compared with prior year transfers of \$11,339,122. Of this amount, \$10,000,000 is from the sale of the Wilikina Apartments Project.

- Under the Federal Low Rent Program, net loss before transfers amounted to approximately \$2,245,110 compared to the prior year net income of \$11,380,100. The total net variance was \$13,625,210 due to overall HUD operating and capital subsidies decreasing to \$32,634,794 from prior year \$46,193,203 due to the infusion of Federal Capital Funds under the American Reinvestment and Recovery Act in the prior fiscal period. Operating expenses decreased by \$1,792,308 to \$49,077,696 from prior year (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 32*). The majority of the decreases is related to a \$579,185 decrease in COCC management fee charges (*see related decreased COCC revenues above*).
- Housing Revolving Fund and Housing for Elderly was consistent with prior year, the rental income received for the two funds are not sufficient to support each of the fund's operational expenditures.

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Management Discussion and Analysis

June 30, 2012

Consequently, Housing Revolving fund and Housing for Elderly losses before transfers amounted to \$1,883,564 and \$2,480,210, respectively (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 33*). The shortfall for the Housing Revolving Fund and Housing for Elders Revolving Funds were addressed by Operating Transfers in the amount of \$1,318,630 and \$1,048,489, respectively (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 33*).

- Other Enterprise Funds income before transfers amounted to approximately \$905,523 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 33*) compared with prior year income of approximately \$2,859,378. The decrease in income is due primarily to the gain from sale of Project of \$4,007,463 in prior year compared to \$2,003,456 in the current year, before transfer.

Ke Kumu Ekahi and the Kuhio Park Terrace Resource Center continue to operate at a deficit.

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, 2012 is \$296,503,732 (*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 55 and 56.*)

HPHA Capital Assets Years ended June 30, 2012 and June 30, 2011 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,373	\$ 2,373	\$ 22,966	\$ 22,966	\$ 25,339	\$ 25,339
Buildings and improvements	15,041	15,041	529,204	536,419	544,245	551,460
Equipment	1,198	1,198	8,797	9,721	9,995	10,919
Construction in progress	-	350	35,664	35,991	35,664	36,341
Total	18,612	18,962	596,631	605,097	615,243	624,059
Accumulated Depreciation	(13,828)	(13,527)	(304,911)	(311,924)	(318,739)	(325,451)
Total Capital Assets Net	\$ 4,784	\$ 5,435	\$ 291,720	\$ 293,173	\$ 296,504	\$ 298,608

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

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

Major Projects Outstanding FY2012 (work-in-progress) at the end of the year

- AMP 30 Puuwai Momi Electrical System Repairs I and II- \$2,139,560
- AMP 30 Salt Lake Apartment and Elevator Renovation and Installation of a New Elevator - \$1,388,888
- AMP 31 Kalihi Valley Homes, Site & Dwelling Improvements Phase IVA - \$4,651,779
- AMP 31 Puahala Homes Site Improvements - \$2,783,231
- AMP 32 Mayor Wright Emergency Security Improvements - \$100,000
- AMP 32 Mayor Wright Homes, Reroofing - \$715,266
- AMP 34 Kalakaua Homes Roof Improvements, Painting and ADA - \$1,446,562
- AMP 34 Kalakaua Homes ADA and 504 Interior and Exterior Paint and Miscellaneous Repairs - \$2,069,313
- AMP 34 Makua Alii Structural and Spall Repairs and 2nd Phase - \$4,200,917
- AMP 37 Lanakila Homes Fair Housing Renovations - \$2,207,822
- AMP 38 LCCC for Federal and State Projects on the Islands, Kauai - \$2,832,000
- AMP 38 Kawailehua Improvements - \$3,503,434
- AMP 42 Hale Po'ai Building Improvements - \$2,400,000
- AMP 49 Wahiawa Terrace Re-Roof - \$827,999
- AMP 49 Kupuna Home O'Waialua Sewage Treatment Plant Improvements - \$942,081
- AMP 50 Palolo Valley Homes Physical Improvements - \$2,789,960
- AMP 50 Palolo Valley Homes Physical Improvements Phase I and II - \$11,140,600
- PHA-Wide PHA-Wide Vacant Unit Repairs - \$5,638,480

Debt Activity

As of June 30, 2012, HPHA has no Mortgage and Notes Payable debt outstanding. The two loans for the Banyan Street Manor development were paid in full during the fiscal year ended June 30, 2011. During the fiscal year ended June 30, 2011, approximately \$294,605 was paid as part of the planned amortization and the sale of Banyan Street Manor development. No additional debt was incurred during the fiscal year ended June 30, 2012.

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2012

ECONOMIC FACTORS

During 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 effectively July 1, 2010. The impact of the transfer to the Authority's net assets was approximately \$22,000,000 and is included in intergovernmental transfers under governmental activities in the governmental-wide statement of activities. The HPHA, however, continues to hold title to the State owned shelter facilities and is working with the Department of the Attorney General to transfer those assets to the Department of Land and Natural Resources.

In February 2010, HHA Wilikina Apartment Project, Inc. a corporate agent of HPHA entered in an agreement for the sale of Wilikina Apartments Projects to VB Wilikina Limited Partnership, a Washington Limited Partnership for an agreed price of \$10 million. The sale was consummated on April 23, 2012. The buyer agrees to maintain and operate the Wilikina Apartments Project as an affordable rental and to continue the affordability requirement of the Wilikina Apartments Project throughout the term of the Ground Lease.

In May 2009, the Board of Directors authorized the sale of the Banyan Street Manor Apartments at 1122 Banyan Street, Honolulu, Hawaii. In January 2010, the HPHA entered into a Purchase Agreement with Banyan Housing Limited Partnership (LP) and issued escrow instructions for the sale. The sale was structured as a purchase of the improvements by Banyan Housing LP and the assumption of the ground lease issued by the City and County of Honolulu to the HPHA by Banyan Housing LP. On May 30, 2011 the sale of Banyan Street Manor closed and the HPHA received sale proceeds in the amount of \$6.6 million.

On August 20, 2009, the HPHA Board of Directors approved the selection of the Michaels Development Company to undertake a mixed finance redevelopment project at the Kuhio Park Terrace and Kuhio Homes(KPT/KH). On May 12, 2011 the sale of Kuhio Park Terrace closed and the HPHA received sale proceeds in the amount of \$3.1 million. HPHA will continue to redevelop the remaining parcel at Kuhio Park Terrace/Kuhio Homes in accordance with its Master Development Agreement.

During the 2012 Legislative session, the Hawaii State Legislature appropriated an unprecedented \$91.0 million in Capital Improvement Program Funds to the HPHA for capital repairs. The majority of these funds will be expended on capital assets of various activities over the next several fiscal periods.

On April 21, 2011, the plaintiffs Fetu Kolio, et al., filed two lawsuits in federal and state courts naming the State of Hawaii, et al., as defendant. The plaintiffs are residents of Mayor Wright Homes, a 364 public housing project built in 1953 and financed by HUD. In the federal action, the plaintiffs seek declaratory and injunctive relief and damages for alleged violations of the ADA, the Rehabilitation Act, and the Fair Housing Amendments. The plaintiffs' state court complaint alleges lack of hot water, vermin infestation, inadequate security. The plaintiffs seek class action status in both actions as well as statutory attorneys' fees. Plaintiffs were denied Class Action Certification in both the State and Federal cases in September, 2012. The parties have actively engaged in several mediation sessions with Keith Hunter of

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2012

Alternative Dispute Resolution Hawaii (ADR) since these lawsuits were filed. At this point, the parties are still discussing possible settlement of both cases.

In August 2009, Iris Rodrigues-Kaikana was murdered by Corbit Ahn at the Kamehameha Homes (“KH”) in Kalihi. KH is operated by the Hawaii Public Housing Authority. Neither Iris, who was 18 years old, or Ahn were residents at KH and may have visited residents of KH on the evening of the murder, although this has not been confirmed. The complaint alleges, among other things, that the State: failed to secure, properly monitor and light the premises; “encouraged hoodlums like Defendant Ahn to enter the premises”; removed gates to keep “gangsters” out; “allowed sexual predators onto the premises”; and refused to enforce a curfew for hoodlums. Defendant Ahn was criminally convicted of murder in July 2012. He is appealing his conviction and he filed a Motion to Stay, this civil action until his criminal appeal is resolved. His Motion to Stay, this civil action pending his criminal appeal was granted in October, 2012. The State intends to vigorously defend this case and plans to file dispositive motions once Defendant Ahn’s criminal appeal is decided.

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, 2012

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash	\$ 5,451,744	\$ 61,372,710	\$ 66,824,454
Restricted cash	117,605	-	117,605
Due from State of Hawaii	19,165,026	-	19,165,026
Receivables:			
Accrued interest	-	796	796
Tenant receivables, less allowance for doubtful receivables of \$2,182,382	-	344,662	344,662
Other	192,987	10,975	203,962
	<u>192,987</u>	<u>356,433</u>	<u>549,420</u>
Internal balances	(189,959)	189,959	-
Due from other state agencies	-	104,945	104,945
Due from HUD	106,853	3,442,294	3,549,147
Inventories	-	931,322	931,322
Prepaid expenses and other assets	1,984,528	17,139	2,001,667
Deposits held in trust	-	26,647	26,647
Total current assets	<u>26,828,784</u>	<u>66,441,449</u>	<u>93,270,233</u>
Notes Receivable	-	5,242,729	5,242,729
Accrued Interest	-	594,410	594,410
Capital Assets, less accumulated depreciation	<u>4,783,599</u>	<u>291,720,133</u>	<u>296,503,732</u>
Total assets	<u>\$ 31,612,383</u>	<u>\$ 363,998,721</u>	<u>\$ 395,611,104</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET ASSETS (continued)

June 30, 2012

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Current Liabilities:			
Accounts payable	\$ 1,858,791	\$ 4,224,598	\$ 6,083,389
Accrued expenses	471,116	4,009,191	4,480,307
Due to State of Hawaii	-	571,402	571,402
Due to HUD	38	-	38
Security deposits	-	837,403	837,403
Deferred income	442,573	409,312	851,885
Total current liabilities	<u>2,772,518</u>	<u>10,051,906</u>	<u>12,824,424</u>
Accrued Expenses	110,726	10,647,612	10,758,338
Commitments and Contingencies			
Net Assets:			
Invested in capital assets, net of related debt	4,783,599	291,720,133	296,503,732
Restricted by legislation and contractual agreements	4,951,841	-	4,951,841
Unrestricted	18,993,699	51,579,070	70,572,769
Total net assets	<u>28,729,139</u>	<u>343,299,203</u>	<u>372,028,342</u>
Total liabilities and net assets	<u>\$ 31,612,383</u>	<u>\$ 363,998,721</u>	<u>\$ 395,611,104</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

	Expenses	Program Revenues			Net (expense) revenue and changes in net assets		
		Charges for services and other revenues	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Functions/Programs:							
Governmental activity --							
Rental Housing and Assistance Program	\$ 61,881,342	\$ -	\$ 52,291,647	\$ -	\$ (9,589,695)	\$ -	\$ (9,589,695)
Total governmental activities	61,881,342	-	52,291,647	-	(9,589,695)	-	(9,589,695)
Business-type activities:							
Rental assistance program	49,077,696	14,197,792	21,605,248	11,029,546	-	(2,245,110)	(2,245,110)
Rental housing program	8,634,927	3,579,967	208,856	-	-	(4,846,104)	(4,846,104)
Others	3,921,030	656,964	-	-	-	(3,264,066)	(3,264,066)
Total business-type activities	61,633,653	18,434,723	21,814,104	11,029,546	-	(10,355,280)	(10,355,280)
Total government-wide	\$ 123,514,995	\$ 18,434,723	\$ 74,105,751	\$ 11,029,546	(9,589,695)	(10,355,280)	(19,944,975)
State Allotted Appropriations, net of lapsed funds of \$10,873,763					(5,415,331)	-	(5,415,331)
Other Non-Program Revenue					-	2,007,974	2,007,974
Capital Contributions					-	8,521,033	8,521,033
Net Transfers					(5,721,234)	5,721,234	-
Intergovernmental Transfer					(350,349)	-	(350,349)
Total general (expenses) revenues and transfers					(11,486,914)	16,250,241	4,763,327
Change in net assets					(21,076,609)	5,894,961	(15,181,648)
Net Assets at July 1, 2011					49,805,748	337,404,242	387,209,990
Net Assets at June 30, 2012					\$ 28,729,139	\$ 343,299,203	\$ 372,028,342

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2012

ASSETS	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Current Assets:						
Cash	\$ -	\$ -	\$ 3,562,616	\$ 1,889,090	\$ 38	\$ 5,451,744
Restricted cash	-	-	117,605	-	-	117,605
Due from State of Hawaii	1,153,286	18,011,740	-	-	-	19,165,026
Other receivables	-	-	192,987	-	-	192,987
Due from other funds	-	-	662,939	128,375	-	791,314
Due from HUD	-	-	-	97,646	9,207	106,853
Prepaid expenses and other assets	47,805	-	1,936,723	-	-	1,984,528
Total assets	<u>\$ 1,201,091</u>	<u>\$ 18,011,740</u>	<u>\$ 6,472,870</u>	<u>\$ 2,115,111</u>	<u>\$ 9,245</u>	<u>\$ 27,810,057</u>
LIABILITIES AND FUND BALANCES						
Current Liabilities:						
Accounts payable	\$ 216,631	\$ 1,604,103	\$ 38,035	\$ 22	\$ -	\$ 1,858,791
Accrued expenses	8,777	-	227,988	234,351	-	471,116
Due to other funds	128,711	-	812,433	30,922	9,207	981,273
Deferred income	-	-	442,573	-	-	442,573
Due to HUD	-	-	-	-	38	38
Total liabilities	<u>354,119</u>	<u>1,604,103</u>	<u>1,521,029</u>	<u>265,295</u>	<u>9,245</u>	<u>3,753,791</u>
Fund Balances:						
Restricted by legislation and contractual agreements	-	-	4,951,841	-	-	4,951,841
Committed	-	10,088,283	-	-	-	10,088,283
Assigned	846,972	6,319,354	-	1,849,816	-	9,016,142
Total fund balances	<u>846,972</u>	<u>16,407,637</u>	<u>4,951,841</u>	<u>1,849,816</u>	<u>-</u>	<u>24,056,266</u>
Total liabilities and fund balances	<u>\$ 1,201,091</u>	<u>\$ 18,011,740</u>	<u>\$ 6,472,870</u>	<u>\$ 2,115,111</u>	<u>\$ 9,245</u>	<u>\$ 27,810,057</u>

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, 2012

Total fund balance - governmental funds		\$	24,056,266
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	4,783,599		
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds	<u>(110,726)</u>		<u>4,672,873</u>
Net assets of governmental activities		\$	<u>28,729,139</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2012

	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Revenues:						
Intergovernmental – HUD annual contributions and others	\$ -	\$ -	\$ 25,263,030	\$ 27,011,608	\$ -	\$ 52,274,638
State allotted appropriations, net of lapsed funds of \$10,873,763	4,972,730	(10,388,061)	-	-	-	(5,415,331)
Other	-	-	16,825	184	-	17,009
Total revenues	4,972,730	(10,388,061)	25,279,855	27,011,792	-	46,876,316
Expenditures:						
Housing assistance payments	626,169	-	23,441,913	25,704,769	-	49,772,851
Personnel services	63,160	-	1,170,978	-	-	1,234,138
Administration	47,865	-	791,037	1,009,676	-	1,848,578
Professional services	30,373	-	62,675	40,262	-	133,310
Capital outlays	-	8,521,033	-	-	-	8,521,033
Other	8,494	13,924	74,136	-	-	96,554
Total expenditures	776,061	8,534,957	25,540,739	26,754,707	-	61,606,464
Excess (deficiency) of revenues over (under) expenditures	4,196,669	(18,923,018)	(260,884)	257,085	-	(14,730,148)
Other Financing Uses - Transfers Out	(4,540,628)	(1,032,450)	-	(148,156)	-	(5,721,234)
Net change in fund balances	(343,959)	(19,955,468)	(260,884)	108,929	-	(20,451,382)
Fund Balances at July 1, 2011	1,190,931	36,363,105	5,212,725	1,740,887	-	44,507,648
Fund Balances at June 30, 2012	\$ 846,972	\$ 16,407,637	\$ 4,951,841	\$ 1,849,816	\$ -	\$ 24,056,266

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, 2012

Net change in fund balances - total governmental funds		\$ (20,451,382)
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, net of \$8,521,033 of capital contribution outlays, is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense of those governmental activity assets amounted to approximately \$301,000.	(301,343)	
Intergovernmental transfers, capital related items	(350,349)	
Long-term compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	<u>26,465</u>	<u>(625,227)</u>
Change in net assets of governmental activities		<u>\$ (21,076,609)</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

June 30, 2012

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	\$ 30,766,321	\$ 897,905	\$ 2,324,285	\$ 22,254,443	\$ 3,778,602	\$ 60,021,556	\$ 1,351,154
Receivables:							
Accrued interest	-	-	423	-	-	423	373
Tenant receivables, less allowance for doubtful accounts of \$2,181,846	302,794	35,743	-	-	6,125	344,662	-
Other	-	10,975	-	-	-	10,975	-
	<u>302,794</u>	<u>46,718</u>	<u>423</u>	<u>-</u>	<u>6,125</u>	<u>356,060</u>	<u>373</u>
Due from other funds	-	77,262	-	12,540,778	1,131,650	13,749,690	939
Due from other state agencies	-	-	-	76,240	28,705	104,945	-
Due from HUD	3,395,833	-	-	-	46,461	3,442,294	-
Inventories	795,398	27,928	88,316	19,680	-	931,322	-
Prepaid expenses and other assets	-	-	-	17,139	-	17,139	-
Deposits held in trust	-	-	-	-	26,647	26,647	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,647</u>	<u>26,647</u>	<u>-</u>
Total current assets	<u>35,260,346</u>	<u>1,049,813</u>	<u>2,413,024</u>	<u>34,908,280</u>	<u>5,018,190</u>	<u>78,649,653</u>	<u>1,352,466</u>
Notes Receivable	4,816,629	426,100	-	-	-	5,242,729	-
Accrued Interest	-	594,410	-	-	-	594,410	-
Capital Assets, less accumulated depreciation	<u>221,185,513</u>	<u>20,750,616</u>	<u>38,758,934</u>	<u>80,427</u>	<u>10,942,529</u>	<u>291,718,019</u>	<u>2,114</u>
	<u>\$ 261,262,488</u>	<u>\$ 22,820,939</u>	<u>\$ 41,171,958</u>	<u>\$ 34,988,707</u>	<u>\$ 15,960,719</u>	<u>\$ 376,204,811</u>	<u>\$ 1,354,580</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (continued)

June 30, 2012

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	\$ 3,732,168	\$ 111,080	\$ 108,556	\$ 84,967	\$ 187,827	\$ 4,224,598	\$ -
Accrued expenses	1,786,177	60,220	11,470	1,141,377	1,009,947	4,009,191	-
Due to other funds	8,993,494	391,794	228,380	59,137	3,886,839	13,559,644	1,026
Due to State of Hawaii	-	-	-	-	571,402	571,402	-
Security deposits	616,387	37,971	146,955	-	36,090	837,403	-
Deferred income	379,353	29,959	-	-	-	409,312	-
Total current liabilities	<u>15,507,579</u>	<u>631,024</u>	<u>495,361</u>	<u>1,285,481</u>	<u>5,692,105</u>	<u>23,611,550</u>	<u>1,026</u>
Accrued Expenses	760,224	56,404	-	9,830,984	-	10,647,612	-
Commitments and Contingencies							
Net Assets:							
Invested in capital assets, net of related debt	221,185,513	20,750,616	38,758,934	80,427	10,942,529	291,718,019	2,114
Unrestricted	23,809,172	1,382,895	1,917,663	23,791,815	(673,915)	50,227,630	1,351,440
Total net assets	<u>244,994,685</u>	<u>22,133,511</u>	<u>40,676,597</u>	<u>23,872,242</u>	<u>10,268,614</u>	<u>341,945,649</u>	<u>1,353,554</u>
Total liabilities and net assets	<u>\$ 261,262,488</u>	<u>\$ 22,820,939</u>	<u>\$ 41,171,958</u>	<u>\$ 34,988,707</u>	<u>\$ 15,960,719</u>	<u>\$ 376,204,811</u>	<u>\$ 1,354,580</u>

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, 2012

Total net assets of enterprise funds	\$ 341,945,649
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	<u>1,353,554</u>
Net assets of business-type activities	<u>\$ 343,299,203</u>

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, 2012

	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	\$ 14,146,334	\$ 1,047,490	\$ 1,934,387	\$ -	\$ 942,137	\$ -	\$ 18,070,348	\$ 2,553
Fee-for-service	-	-	-	5,332,216	-	(5,332,216)	-	-
Other	235,049	21,807	69,429	96,966	72,586	-	495,837	-
Total operating revenues	14,381,383	1,069,297	2,003,816	5,429,182	1,014,723	(5,332,216)	18,566,185	2,553
Operating Expenses:								
Project	5,127,643	-	-	-	-	-	5,127,643	-
Personnel services	8,849,774	781,058	-	5,996,327	-	-	15,627,159	-
Depreciation	11,658,902	706,403	1,399,224	9,065	799,490	-	14,573,084	2,437
Administration	5,523,425	300,016	1,285,637	819,234	664,596	(4,910,797)	3,682,111	36,058
Provision for losses	428,015	44,456	-	443,242	37,908	-	953,621	-
Professional services	134,720	29,365	20,192	527,501	83,941	-	795,719	2,243
Security	1,848,887	-	516	11,481	-	-	1,860,884	-
Insurance	671,545	30,982	125,299	60,675	19,801	-	908,302	-
Repairs and maintenance	3,661,505	241,168	283,702	93,608	285,550	(421,419)	4,144,114	-
Utilities	10,966,753	821,570	1,371,874	112,115	430,177	-	13,702,489	-
Payments in lieu of taxes	206,527	-	-	-	-	-	206,527	-
Capital expenditures	-	-	-	11,262	-	-	11,262	-
Total operating expenses	49,077,696	2,955,018	4,486,444	8,084,510	2,321,463	(5,332,216)	61,592,915	40,738
Operating loss carried forward	(34,696,313)	(1,885,721)	(2,482,628)	(2,655,328)	(1,306,740)	-	(43,026,730)	(38,185)

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, 2012

	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 brought forward	(34,696,313)	(1,885,721)	(2,482,628)	(2,655,328)	(1,306,740)	-	(43,026,730)	(38,185)
Nonoperating Revenues (Expenses):								
Interest income (expense)	2,669	2,157	2,418	42,791	(263)	-	49,772	6,777
Gain on sale of Project	-	-	-	-	2,003,456	-	2,003,456	-
HUD operating subsidies	21,605,248	-	-	-	208,856	-	21,814,104	-
HUD capital fund subsidies	11,029,546	-	-	-	-	-	11,029,546	-
Other (expenses) revenues	(186,260)	-	-	-	214	-	(186,046)	-
Net nonoperating revenues	32,451,203	2,157	2,418	42,791	2,212,263	-	34,710,832	6,777
(Loss) income before transfers	(2,245,110)	(1,883,564)	(2,480,210)	(2,612,537)	905,523	-	(8,315,898)	(31,408)
Capital Contributions	5,142,566	1,997,111	1,381,356	-	-	-	8,521,033	-
Net Transfers	3,396,027	1,318,630	1,173,451	9,747,556	(9,914,430)	-	5,721,234	-
Change in net assets	6,293,483	1,432,177	74,597	7,135,019	(9,008,907)	-	5,926,369	(31,408)
Net Assets at July 1, 2011	238,701,202	20,701,334	40,602,000	16,737,223	19,277,521	-	336,019,280	1,384,962
Net Assets at June 30, 2012	\$ 244,994,685	\$ 22,133,511	\$ 40,676,597	\$ 23,872,242	\$ 10,268,614	\$ -	\$ 341,945,649	\$ 1,353,554

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, 2012

Change in net assets - total enterprise funds	\$ 5,926,369
Change in net assets - internal service funds	<u>(31,408)</u>
Change in net assets of business-type activities	<u>\$ 5,894,961</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

Year ended June 30, 2012

	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	\$ 13,884,407	\$ 996,958	\$ 1,948,970	\$ -	\$ 992,873	\$ 17,823,208	\$ -
Cash payments to employees	(9,252,619)	(782,782)	-	(5,042,922)	-	(15,078,323)	-
Cash payments to suppliers	(27,716,449)	(1,363,953)	(3,136,975)	(1,505,758)	(1,583,964)	(35,307,099)	-
Cash receipts from (payments to) other funds	4,963,367	688,205	1,455,146	3,513,105	(411,098)	10,208,725	46,531
Other cash receipts (payments)	235,049	18,617	72,093	11,354	86,782	423,895	(25,885)
	<u>(17,886,245)</u>	<u>(442,955)</u>	<u>339,234</u>	<u>(3,024,221)</u>	<u>(915,407)</u>	<u>(21,929,594)</u>	<u>20,646</u>
Net cash (used in) provided by operating activities							
Cash Flows from Noncapital Financing Activities:							
HUD operating subsidy received	22,868,253	-	-	-	388,500	23,256,753	-
Net operating transfers	-	1,016,113	226,464	10,079,634	(9,914,430)	1,407,781	-
Other	-	-	-	-	(49)	(49)	-
	<u>22,868,253</u>	<u>1,016,113</u>	<u>226,464</u>	<u>10,079,634</u>	<u>(9,525,979)</u>	<u>24,664,485</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities							
Cash Flows from Capital and Related Financing Activities:							
HUD capital subsidy received	11,433,963	-	-	-	-	11,433,963	-
Net proceeds from sale of Project	-	-	-	-	10,000,000	10,000,000	-
Payments for acquisition of property and equipment	(9,644,770)	-	-	-	-	(9,644,770)	-
Release of restricted deposits and funded reserves	-	-	-	-	79,634	79,634	-
Other	-	-	-	-	13,073	13,073	-
	<u>1,789,193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,092,707</u>	<u>11,881,900</u>	<u>-</u>
Net cash provided by capital and related financing activities							
Subtotal carried forward	<u>6,771,201</u>	<u>573,158</u>	<u>565,698</u>	<u>7,055,413</u>	<u>(348,679)</u>	<u>14,616,791</u>	<u>20,646</u>

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, 2012

	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	6,771,201	573,158	565,698	7,055,413	(348,679)	14,616,791	20,646
Cash Flows from Investing Activity -- Receipts of Interest	2,669	12,034	53,846	29,074	-	97,623	40,398
Net cash provided by investing activities	2,669	12,034	53,846	29,074	-	97,623	40,398
Net increase (decrease) in cash	6,773,870	585,192	619,544	7,084,487	(348,679)	14,714,414	61,044
Cash at July 1, 2011	23,992,451	312,713	1,704,741	15,169,956	4,127,281	45,307,142	1,290,110
Cash at June 30, 2012	\$ 30,766,321	\$ 897,905	\$ 2,324,285	\$ 22,254,443	\$ 3,778,602	\$ 60,021,556	\$ 1,351,154

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, 2012

	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 to net cash (used in) provided by operating activities							
Operating loss	\$ (34,696,313)	\$ (1,885,721)	\$ (2,482,628)	\$ (2,655,328)	\$ (1,306,740)	\$ (43,026,730)	\$ (38,185)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities							
Depreciation	11,658,902	706,403	1,399,224	9,065	799,490	14,573,084	2,437
Provision for losses	428,015	44,456	-	443,242	37,908	953,621	-
Changes in assets and liabilities:							
Tenant receivables	(358,630)	(44,214)	1,906	-	(1,954)	(402,892)	-
Other receivables	-	(3,190)	2,664	-	82,121	81,595	-
Due from other funds	-	773,813	1,440,344	(3,080,592)	106,731	(759,704)	115,808
Due from other state agency	-	-	-	11,354	-	11,354	-
Inventories	(29,955)	(429)	3,975	6,672	-	(19,737)	-
Prepaid expenses and other assets	-	-	-	(11,639)	-	(11,639)	-
Deposits held in trust	-	-	-	-	(611)	(611)	-
Accounts payable	(270,580)	59,577	(53,912)	38,119	(79,533)	(306,329)	-
Accrued expenses	322,246	(1,724)	182	2,758,369	(20,242)	3,058,831	-
Due to other funds	4,963,367	(85,608)	14,802	(543,483)	(517,829)	3,831,249	(59,414)
Security deposits	30,397	(480)	12,677	-	(14,748)	27,846	-
Deferred income	66,306	(5,838)	-	-	-	60,468	-
Net cash (used in) provided by operating activities	<u>\$ (17,886,245)</u>	<u>\$ (442,955)</u>	<u>\$ 339,234</u>	<u>\$ (3,024,221)</u>	<u>\$ (915,407)</u>	<u>\$ (21,929,594)</u>	<u>\$ 20,646</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority
 FIDUCIARY FUND
 STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	Private Purpose Trust
ASSET	
Cash	\$ 1,655
	1,655
NET ASSETS	
Total Net Assets - Held in Trust	\$ 1,655
	1,655

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, 2012

	<u>Private Purpose Trust</u>
Net Assets at July 1, 2011	<u>\$ 1,655</u>
Net Assets at June 30, 2012	<u><u>\$ 1,655</u></u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

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, 2012, 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

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, 2012 has been reported in the government-wide financial statements.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

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 the Government Accounting Standards Board (GASB) Statement 20, *Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

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 Housing and Assistance Program. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. These funds include Section 8 Housing Choice Voucher Program, Contract Administration, Residential Opportunities Self-Sufficient Programs (ROSS), 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

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 Program, Housing Revolving Fund, Housing for Elders Revolving Fund, Central Office Cost Center 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

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. Department of Housing and Urban Development (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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

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

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:

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

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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

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.

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 \$774,000.

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

Balance at July 1, 2011	Additions	Reductions	Balance at June 30, 2012
<u>\$2,314,000</u>	<u>\$1,060,000</u>	<u>\$1,130,000</u>	<u>\$2,244,000</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

k. Vacation (continued)

As of June 30, 2012, approximately \$170,000 and \$2,074,000 of the unpaid vacation balance was for government-wide activities and business-type activities, respectively, and is included in accrued expenses in the accompanying statement of net assets.

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.

m. Restrictions of Fund Balances

The Authority classifies fund balances into specifically defined classifications for governmental fund types. Classifications include the following:

Restricted. Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

Committed. Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature. Committed fund balances also include contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned. Balances that are constrained by management to be used for specific purposes but are neither restricted nor committed. The general and capital projects fund balances are assigned 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.

Unassigned. Residual balances that are not contained in the other classifications.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

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. Management's 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 Issued Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates FASB, APB, and ARB pronouncements, not conflicting with GASB pronouncements, and issued on or before November 30, 1989, into the GASB authoritative literature. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Management is currently assessing the impact of GASB Statement No. 62 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 June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Management is currently assessing the impact of GASB Statement No. 63 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

p. Recently Issued Accounting Pronouncements (continued)

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension*. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. The provisions of this Statement are effective for periods beginning after June 15, 2014. Management is currently assessing the impact of GASB Statement No. 68 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

2. Budgeting and Budgetary Control (continued)

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.

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, 2012 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

3. Cash (continued)

At June 30, 2012, total cash, including restricted cash and deposits, reported in the statement of net assets is \$66,968,706 which consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
State pool and petty cash	\$ -	\$ 7,490,702	\$ 7,490,702
Cash in bank (book balance)	<u>5,569,349</u>	<u>53,882,008</u>	<u>59,451,357</u>
	5,569,349	61,372,710	66,942,059
Deposits held in trust	<u>-</u>	<u>26,647</u>	<u>26,647</u>
Total Cash	<u>\$ 5,569,349</u>	<u>\$ 61,399,357</u>	<u>\$ 66,968,706</u>

During 2012, the Authority recorded a valuation loss of approximately \$12,000 for its State pool cash balances included in interest income. The valuation adjustment relates primarily to the State of Hawaii auction rate securities and is reported in interest income (expense) in the accompanying statement of revenues, expenses and changes in net assets.

Bank balance of cash in bank was approximately \$61,863,000, of which \$3,646,000 was covered by federal depository insurance and \$58,217,000 by collateral held by the pledging financial institution's trust department or agent in the name of the Authority.

4. Notes Receivable

a. Uncollateralized Promissory 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, 2012, 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. The Authority is currently addressing this issue.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

4. Notes Receivable (continued)

b. Note Receivable for Sale of Kuhio Park Terrace Towers

On May 1, 2011, the Authority entered into an Acquisitions Financing Agreement (Agreement) to sell, transfer and convey unto a third party the buildings, structures, equipment, machinery, apparatus, fixtures and fittings (Improvements) of the two high rise buildings known as Kuhio Park Terrace Towers (Project), and for the execution of a ground lease for the land underlying the Improvements (Property), as defined in the Agreement. The ground lease annual rent is one dollar (\$1) and expires on May 11, 2076, with an option for an additional ten (10) years. The buyer, as defined in the Agreement, is required to redevelop the Project to include 555 units, 347 of which will be operated as public housing. In order to assist the buyer in financing the rehabilitation of the Project, the State of Hawaii, Hawaii Housing and Finance Development Corporation issued revenue bonds in the amount of \$66,000,000 for which the proceeds were used to make a mortgage loan to the buyer.

The buyer, pursuant to the Agreement, agreed to pay the Authority an acquisition fee of \$4,665,000 in consideration for acquiring the leasehold interest in the Property and \$45,000,000 for the Improvements, such that the total purchase price was \$49,665,000. Of the total purchase price, \$3,162,943 was paid in cash and the remaining balance of \$46,502,057 is being financed pursuant to the Agreement by a note. The note, which is secured by a leasehold mortgage and security agreement, matures in May 2051 and accrues interest at the greater of 4.19 percent per annum or the long term annually compounding applicable federal rate. The note is payable from cash flows from the Property in the amounts and priority set forth in the note, provided that the payments due shall not exceed seventy-five percent (75%) of the borrower's surplus cash, as defined in the note. Additionally, the note is subordinate to the rights of certain financing agreements related to the issuance of revenue bonds for the redevelopment of the Project. Any remaining unpaid principal and accrued interest balance is due and payable on the maturity date of the note.

Additionally, prior to the execution of the ground lease and sale of the Improvements, several planned capital improvements related to the Project had not been completed. As both the Authority and the buyer agreed that the work is necessary, the buyer agreed to complete the work and the Authority agreed to provide the financing. Accordingly, the Authority agreed to loan the buyer up to \$3,900,000 from Public Housing Capital Funds and State of Hawaii Capital Improvement Projects Funds. Payment of principal would be deferred until the maturity date, whereupon all principal is due, subject to the availability of surplus cash, as defined in the note agreement. As of June 30, 2012, the Authority has not provided such financing.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

4. Notes Receivable (continued)

b. Note Receivable for Sale of Kuhio Park Terrace Towers (continued)

The sale of the Project is being accounted for under the cost recovery method. Under this method, the gain on sale is deferred until the total payments made by the buyer exceed the cost of the Project. However, a portion of the deferred gain is recognized as income to the extent that the deferred gain exceeds the note receivable from the buyer plus the maximum contingent liability to the Authority for other debt on the Project.

During 2012, the Authority identified an additional \$3,363,794 of capital assets under the Federal Low Rent Program related to the Kuhio Park Terrace Towers and adjusted the deferred gain balance accordingly as of June 30, 2012. As of June 30, 2012, the net note receivable, inclusive of all principal, accrued interest and deferred gain related to the Project, is as follows and reflected under the Federal Low Rent Program statement of net assets:

Principal and accrued interest	\$ 46,502,057
Deferred gain	<u>(41,685,428)</u>
Net note receivable	<u>\$ 4,816,629</u>

5. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 2,373,410	\$ -	\$ -	\$ 2,373,410
Construction in progress	350,349	-	(350,349)	-
Total capital assets not being depreciated	<u>2,723,759</u>	<u>-</u>	<u>(350,349)</u>	<u>2,373,410</u>
Capital assets, being depreciated:				
Building and improvements	15,040,694	-	-	15,040,694
Equipment	1,197,769	-	-	1,197,769
Total capital assets being depreciated	<u>16,238,463</u>	<u>-</u>	<u>-</u>	<u>16,238,463</u>
Less accumulated depreciation for:				
Building and improvements	12,365,358	284,722	-	12,650,080
Equipment	1,161,573	16,621	-	1,178,194
Total accumulated depreciation	<u>13,526,931</u>	<u>301,343</u>	<u>-</u>	<u>13,828,274</u>
Governmental activities, net	<u>\$ 5,435,291</u>	<u>\$ 301,343</u>	<u>\$ (350,349)</u>	<u>\$ 4,783,599</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

5. Capital Assets (continued)

	July 1, 2011	Increases	Decreases	June 30, 2012
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 22,966,200	\$ -	\$ -	\$ 22,966,200
Construction in progress	35,990,652	19,084,969	(19,411,560)	35,664,061
Total capital assets not being depreciated	58,956,852	19,084,969	(19,411,560)	58,630,261
Capital assets being depreciated:				
Building and improvements	536,419,347	15,695,902	(22,911,224)	529,204,025
Equipment	9,721,050	13,717	(938,029)	8,796,738
Total capital assets being depreciated	546,140,397	15,709,619	(23,849,253)	538,000,763
Less accumulated depreciation for:				
Building and improvements	302,463,406	14,560,851	(20,759,300)	296,264,957
Equipment	9,461,276	14,670	(830,012)	8,645,934
Total accumulated depreciation	311,924,682	14,575,521	(21,589,312)	304,910,891
Business-type activities capital assets, net	<u>\$ 293,172,567</u>	<u>\$ 20,219,067</u>	<u>\$ (21,671,501)</u>	<u>\$ 291,720,133</u>

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

Governmental Activity -	
Rental Housing and Assistance Program	<u>\$ 301,343</u>
Business-Type Activities:	
Federal Low Rent Program	11,658,902
Housing Revolving Fund	706,403
Housing for Elders Revolving Fund	1,399,224
Central Office Cost Center Fund	9,065
Internal Services	2,437
Others	799,490
Total depreciation expense – business-type activities	<u>14,575,521</u>
Total depreciation expense	<u>\$ 14,876,864</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

5. Capital Assets (continued)

At June 30, 2012, capital assets for the proprietary funds consisted of the following:

	Enterprise Funds						Internal Service Funds	Total
	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center	Other Enterprise Funds	Total Enterprise Funds		
Land	\$ 13,093,629	\$ 2,252,881	\$ 6,104,817	\$ -	\$ 1,514,873	\$ 22,966,200	\$ -	\$ 22,966,200
Buildings and improvements	432,253,888	28,880,216	55,622,256	42,857	12,404,808	529,204,025	-	529,204,025
Equipment, Furniture and fixtures	6,543,964	252,521	208,356	79,274	-	7,084,115	1,712,623	8,796,738
Construction in Progress	32,326,143	878,045	2,459,873	-	-	35,664,061	-	35,664,061
Less accumulated depreciation	<u>263,032,111</u>	<u>11,513,047</u>	<u>25,636,368</u>	<u>41,704</u>	<u>2,977,152</u>	<u>303,200,382</u>	<u>1,710,509</u>	<u>304,910,891</u>
Net property and Equipment	<u>\$ 221,185,513</u>	<u>\$ 20,750,616</u>	<u>\$ 38,758,934</u>	<u>\$ 80,427</u>	<u>\$ 10,942,529</u>	<u>\$ 291,718,019</u>	<u>\$ 2,114</u>	<u>\$ 291,720,133</u>

6. Sale of Wilikina Apartments

On May 22, 2012, with the approval of HUD, the Authority consummated the sale of the Project building, reserves and operating funds for \$10,000,000. \$10,000,000 was allocated and paid in consideration for the building and related improvements and \$1 for the ground lease interest, as defined in the agreement. The purchase price was paid by a combination of proceeds from the sale of federal and state low-income housing tax credits and tax-exempt private activity bonds allocated by Hawaii Housing Finance and Development Corporation. The Authority recognized a gain of \$2,003,456 from the sale which is included under other enterprise funds in the statement of revenues and expenses, and changes in net assets.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

7. Commitments and Contingencies

a. Lease Commitments

The Authority leases from the City and County of Honolulu the land upon which its former Banyan Street Manor Project building is situated on, and subleases it to the Project's new owner. The lease is for a term of 55 years beginning May 27, 2011. Lease rent in the amount of \$75 was prepaid by the new owner for the entire term of the lease. As part of the sales price of the Project building, reserves and operating funds on May 27, 2011, \$75 was allocated for the ground lease interest and other property, as defined in the agreement.

The Authority leases the land upon which its former Wilikina Apartments Project building is situated on to its new owner. The lease is for a term of 65 years beginning May 22, 2012. Lease rent in the amount of \$1 was prepaid by the new owner for the entire term of the lease.

b. Construction Contracts

At June 30, 2012, the Federal Low Rent Program fund and the Capital Projects fund had outstanding construction contract commitments to expend approximately \$9,136,538 and \$10,088,283, respectively, for the construction and renovation of housing projects.

c. 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.

d. 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, 2012.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

7. Commitments and Contingencies (continued)

e. 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, 2012 amounted to approximately \$4,014,000.

f. 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.

g. 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

7. Commitments and Contingencies (continued)

g. Litigation (continued)

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

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

7. Commitments and Contingencies (continued)

g. Litigation (continued)

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

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

7. Commitments and Contingencies (continued)

g. Litigation (continued)

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

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.

Fetu Kolio, et al. v. State of Hawaii, et al., Civil No. 11-1-0795-04 GWBC (1st Cir.)

On April 21, 2011, the plaintiffs filed two lawsuits in federal and state courts. The plaintiffs are residents of the Mayor Wright Homes, a 364 public housing project built in 1953 and financed by HUD. In the federal action, the plaintiffs seek declaratory and injunctive relief and damages for alleged violations of the ADA, the Rehabilitation Act, and the Fair Housing Amendments. The plaintiffs' state court complaint alleges causes of action for breach of implied warranty of habitability and breach of lease, and alleges lack of hot water, vermin infestation, and inadequate security. The plaintiffs seek class action status in both actions as well as statutory attorneys' fees.

The parties have been actively engaged in several mediation sessions. The parties have agreed to limited discovery while discussing settlement. The Authority believes it is unlikely that it will obtain a favorable outcome. In addition to injunctive relief and monetary damages, the plaintiffs will likely obtain attorney's fees in excess of \$50,000. Accordingly, an accrual for \$50,000 has been recorded in the accompanying statement of net assets of the Authority.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

7. Commitments and Contingencies (continued)

g. Litigation (continued)

Steven Rodrigues v. Corbit Ahn, et al., Civil No 10-1-1411-06 (1st Cir.)

In August 2009, Iris Rodrigues-Kaikana was murdered by Corbit Ahn at the Kamehameha Homes in Kalihi. Kamehameha Homes ("KH") is operated by the Hawaii Public Housing Authority (which is administratively attached to DHS). Neither Iris, who was 18 years old, or Ahn were residents at KH. Both may have visited residents of KH on the evening of the murder, although this has not been confirmed. The Complaint alleges, among other things, that the State: failed to secure, to properly monitor and light the premises; "encouraged hoodlums like Defendant Ahn to enter the premises"; removed gates to keep "gangsters" out; "allowed sexual predators onto the premises"; and refused to enforce a curfew for hoodlums. Defendant Ahn was criminally convicted of murder in July 2012. He is appealing his conviction, and he was granted a Motion to Stay his civil action in October 2012 until his criminal appeal is resolved.

The State intends to vigorously defend this case and plans to file a dispositive motion after discovery has been completed. If the State is found liable, the potential loss is estimated at \$150,000. However, as the likelihood of an unfavorable outcome against the State is low, the Authority has not provided for any loss provision.

h. HUD Examination

In September 2011, as a result of HUD's limited review of the Authority's fiscal year 2010 policies and procedures, and operations, HUD issued a performance evaluation resulting in the Authority as being designated as a "troubled" public housing agency. Subsequently HUD performed a review of the Authority's fiscal year 2011 policies and procedures, and operations. HUD issued its 2011 performance evaluation results in 2012 and designated the Authority as a "sub-standard" public housing agency.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

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.

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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

8. Retirement Plan (continued)

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, 2012, 2011 and 2010 were approximately \$1,571,000, \$1,537,000, and \$1,603,000, 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.

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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

9. Other Post Retirement Employee Benefits (continued)

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.

Annual OPEB Cost and Net OPEB Obligation

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. The Authority's contribution for the year ended June 30, 2012, was approximately \$834,000, which represented 30% of the Authority's share of the ARC for postretirement healthcare and life insurance benefits of approximately \$3,092,000. The Authority's contribution for the years ended June 30, 2011 and 2010 were approximately \$737,000 and \$703,000, respectively.

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2012:

Balance at June 30, 2011	\$ 7,031,554
Additions	3,091,746
Deletions	<u>(834,001)</u>
Balance at June 30, 2012	<u>\$ 9,289,299</u>

As of June 30, 2012, the postretirement liability balance of approximately \$9,289,000 was included in long-term accrued expenses under the Central Office Cost Center Fund.

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

10. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2012 is as follows:

Due from	Housing Choice Voucher	Section 8 Contract Admin	Housing Revolving Fund	Central Office Cost Center Fund	Internal Services Fund	Non-major Enterprise
General Fund	\$ -	\$ -	\$ -	\$ 42,142	\$ -	\$ 86,569
Housing Choice Voucher	-	-	-	812,433	-	-
Section 8 Contract Admin	-	-	-	-	-	30,922
Federal Low-Rent Program	-	-	2,578	8,432,435	-	558,481
Housing Revolving Fund	-	-	-	391,794	-	-
Housing for Elders Revolving Fund	-	-	-	-	-	228,380
Central Office Cost Center	-	-	-	-	-	59,137
Internal Services Fund	-	-	-	-	-	1,026
Nonmajor – Enterprise	662,939	128,375	74,684	2,861,974	939	157,928
Nonmajor – Government	-	-	-	-	-	9,207
Total	<u>\$ 662,939</u>	<u>\$ 128,375</u>	<u>\$ 77,262</u>	<u>\$12,540,778</u>	<u>\$ 939</u>	<u>\$ 1,131,650</u>

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

11. Net Transfers

The composition of net transfer balances reflected in the financial statements as of June 30, 2012 is as follows:

Transfer From	Federal Low Rent Program	Housing Revolving Fund	Housing For Elders Revolving Fund	Central Office Cost Center Fund	Non-Major Enterprise Funds
General Fund	\$ 1,867,601	\$1,318,169	\$ 1,295,481	\$ 59,377	\$ -
Capital Projects	1,014,941	461	-	-	17,048
Section 8 Contract					
Administration	-	-	-	-	148,156
Housing Elders Revolving Fund	-	-	-	246,992	-
Federal Low Rent Program	-	-	124,962	13,717	-
Central Office Cost Center	652,164	-	-	-	-
Nonmajor – Enterprise	-	-	-	10,079,634	-
Nonmajor – Government	-	-	-	-	-
Total	<u>\$ 3,534,706</u>	<u>\$1,318,630</u>	<u>\$ 1,420,443</u>	<u>\$ 10,399,720</u>	<u>\$ 165,204</u>

The following describes the transfers noted above:

General Fund: The General Fund expended approximately \$4,541,000 from the current year annual State of Hawaii appropriations to pay for rental housing service shortfalls under certain enterprise funds.

Section 8 Contract: The Section 8 Contract expended approximately \$148,000 to pay for Non-Major Enterprise service shortfalls.

Capital Projects: The Capital Projects Fund expended approximately \$1,032,000 from the current year annual State of Hawaii appropriations to pay for rental housing service repairs and maintenance shortfalls under certain enterprise funds.

Federal Low Rent Program: The Federal Low Rent Program expended approximately \$139,000 to pay for capital outlays for certain enterprise funds.

Central Office Cost Center: The Central Office Cost Center expended approximately \$652,000 to pay for capital outlays for certain enterprise funds.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

11. Net Transfers (continued)

Housing for Elders Revolving Fund: The Housing for Elders Revolving Fund expended approximately \$247,000 to pay for administrative shortfalls under the Central Office Cost Center fund.

Nonmajor - Enterprise: The Wilikina Apartments Project transferred the net proceeds from the sale of the Wilikina Apartments of approximately \$10,000,000 to the Central Office Cost Center Fund. The amount has been restricted by the Authority's Board of Directors for future housing service and development plans.

12. Capital Contributions

During 2012, the Capital Projects Fund expended approximately \$8,521,000 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, 2012 is as follows:

<u>Contributed From</u>	<u>Federal Low Rent Program</u>	<u>Housing Revolving Fund</u>	<u>Housing For Elders Revolving Fund</u>	<u>Total</u>
Capital Projects Fund	<u>\$5,142,566</u>	<u>\$1,997,111</u>	<u>\$1,381,356</u>	<u>\$ 8,521,033</u>

**Required Supplementary Information
Other Than Management's Discussion and Analysis**

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2012

	General Fund		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
State allotted appropriations	<u>\$ 5,458,432</u>	<u>\$ 5,458,432</u>	<u>\$ 5,458,432</u>
Expenditures -			
Rental housing and assistance program	<u>5,458,432</u>	<u>5,458,432</u>	<u>4,972,730</u>
EXCESS OF REVENUES UNDER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 485,702</u>
	Housing Choice Voucher Program		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>\$ 24,299,861</u>	<u>\$ 24,299,861</u>	<u>\$ 24,299,861</u>
Expenditures -			
Rental housing and assistance program	<u>24,299,861</u>	<u>24,299,861</u>	<u>25,540,738</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,240,877)</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS (continued)

Year ended June 30, 2012

	<u>Section 8 Contract Administration</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>\$ 27,011,608</u>	<u>\$ 27,011,608</u>	<u>\$ 27,011,608</u>
Expenditures -			
Rental housing and assistance program	<u>27,011,608</u>	<u>27,011,608</u>	<u>26,714,445</u>
 EXCESS OF REVENUES OVER EXPENDITURES	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 297,163</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
BUDGET-TO-GAAP RECONCILIATION

Year ended June 30, 2012

	<u>General Fund</u>	<u>Housing Choice Voucher Program</u>	<u>Section 8 Contract Administration</u>
Excess (deficiency) of revenues over (under) expenditures and other sources and uses - actual on budgetary basis	\$ 485,702	\$ (1,240,877)	\$ 297,163
Reserve for encumbrance at year end*	1,153,286	-	-
Expenditures for liquidation of prior year's encumbrances	(1,041,017)	-	-
Reversion of prior year's allotments	(485,702)	-	-
Accrual adjustments, operating transfers and other	<u>(456,228)</u>	<u>979,993</u>	<u>(188,234)</u>
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES AND OTHER USES - US GAAP BASIS	<u>\$ (343,959)</u>	<u>\$ (260,884)</u>	<u>\$ 108,929</u>

* Amount reflects the encumbrance balance included in continuing appropriation.

See accompanying independent auditor's report

Supplementary Information

Hawaii Public Housing Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2012

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
<u>U.S. Department of Housing and Urban Development:</u>		
Section 8 Project-Based Cluster --		
Section 8 Housing Assistance Payments - Special Allocations	14.195	\$ 26,902,863
Public and Indian Housing	14.850	21,605,248
Section 8 Housing Choice Vouchers Program	14.871	25,541,217
Public Housing Capital Fund:		
Annual Grant	14.872	9,967,259
ARRA Grant	14.885	1,062,287
Total federal expenditures		<u>\$ 85,078,874</u>

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, 2012

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.

Hawaii Public Housing Authority

SCHEDULE OF MODERNIZATION FUNDS AND MODERNIZATION COSTS
FOR PROJECT HI-08-P001-501-06

Year ended June 30, 2012

	Grant No. <u>HI-08-P001-501-06</u>
Original modernization funds approved	<u>\$ 12,478,929</u>
Modernization funds disbursed	<u>\$ 12,478,929</u>
Modernization funds expended (actual modernization cost)	<u>\$ 12,478,929</u>
Amounts to be recaptured	<u>\$ -</u>
EXCESS OF MODERNIZATION FUNDS DISBURSED	<u><u>\$ -</u></u>

Notes:

1. All modernization work in connection with the modernization grant has been completed.
2. The entire actual modernization cost or liabilities incurred by the Authority have been fully paid.
3. There are no undischarged mechanics', laborers', contractors', or material-men's liens against such modernization work on file in any public office where the same should be filed in order to be valid against such modernization work.
4. The time in which such liens could be filed has expired.

Hawaii Public Housing Authority

FINANCIAL DATA SCHEDULE
BALANCE SHEET - ENTITY-WIDE
June 30, 2012

Line Item No.	Description	Section 8		CDBG Economic Development Initiative 14.246	Resident Opportunity and Supportive Services 14.870	Section 8		ARRA Capital Fund Stimulus Grant 14.885	State/Local	Business			Central Office		Total
		Federal Low Rent Program	Housing Assistance Payments 14.195			Housing Choice Voucher Program 14.871	Activities			Internal Service	Fiduciary	Cost Center	Elimination		
111	Cash - Unrestricted	30,149,934	1,889,068	4	34	1,345,969	-	-	-	6,816,446	1,351,154	1,655	22,231,775	-	63,786,039
112	Cash - Restricted - Modernization and Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
113	Cash - Other Restricted	-	22	-	-	2,334,252	-	-	-	1,055	-	-	22,668	-	2,357,997
114	Cash - Tenant Security Deposits	616,387	-	-	-	-	-	-	-	209,938	-	-	-	-	826,325
115	Cash - Restricted for Payment of Current Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
100	Total Cash	30,766,321	1,889,090	4	34	3,680,221	-	-	-	7,027,439	1,351,154	1,655	22,254,443	-	66,970,361
121	Accounts Receivable - PHA Projects	-	-	-	-	192,987	-	-	-	-	-	-	-	-	192,987
122	Accounts Receivable - HUD Other Projects	3,395,833	97,646	903	8,304	-	-	-	-	46,459	-	-	-	-	3,549,145
124	Accounts Receivable - Other Government	-	-	-	-	-	-	19,165,026	-	-	-	-	251,910	-	19,416,936
125	Accounts Receivable - Miscellaneous	-	-	-	-	-	-	-	-	40,299	-	-	21,440	-	61,739
126	Accounts Receivable - Tenants	981,179	-	-	-	-	-	-	-	1,456,374	-	-	-	-	2,437,553
126.1	Allowance for Doubtful Accounts - Tenants	(678,385)	-	-	-	-	-	-	-	(1,413,895)	-	-	(197,110)	-	(2,289,390)
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-
127	Notes, Loans, & Mortgages Receivable - Current	-	-	-	-	-	-	-	-	-	-	-	-	-	-
128	Fraud Recovery	-	-	-	-	-	-	-	-	-	-	-	-	-	-
128.1	Allowance for Doubtful Accounts - Fraud	-	-	-	-	-	-	-	-	-	-	-	-	-	-
129	Accrued Interest Receivable	-	-	-	-	-	-	-	-	595,271	373	-	-	-	595,644
120	Total Receivables, Net of Allowances for Doubtful Accounts	3,698,627	97,646	903	8,304	192,987	-	19,165,026	-	695,803	373	-	76,240	-	23,964,614
131	Investments - Unrestricted	-	-	-	-	-	-	-	-	-	-	-	-	-	-
132	Investments - Restricted	-	-	-	-	-	-	-	-	-	-	-	-	-	-
135	Investments - Restricted for Payment of Current Liability	-	-	-	-	-	-	-	-	-	-	-	-	-	-
142	Prepaid Expenses and Other Assets	-	-	-	-	1,936,723	-	47,805	-	-	-	-	17,139	-	2,001,667
143	Inventories	874,938	-	-	-	-	-	-	-	127,869	-	-	21,648	-	1,024,455
143.1	Allowance for Obsolete Inventories	(79,540)	-	-	-	-	-	-	-	(11,625)	-	-	(1,968)	-	(93,133)
144	Inter Program Due From	1,862,113	128,375	-	-	1,754,631	-	-	-	886,646	939	-	12,540,778	(17,173,482)	-
145	Assets Held for Sale	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total Other Current Assets	2,657,511	128,375	-	-	3,691,354	-	47,805	-	1,002,890	939	-	12,577,597	(17,173,482)	2,932,989
150	Total Current Assets	37,122,459	2,115,111	907	8,338	7,564,562	-	19,212,831	-	8,726,132	1,352,466	1,655	34,908,280	(17,173,482)	93,867,964
161	Land	13,093,629	-	-	-	-	-	2,373,410	-	9,872,572	-	-	-	-	25,339,611
162	Buildings	432,253,688	-	-	-	-	-	15,040,694	-	96,907,211	-	-	42,857	-	544,244,450
163	Furniture, Equipment & Machinery - Dwellings	4,752,953	-	-	-	-	-	1,090,456	-	92,769	-	-	-	-	7,727,191
164	Furniture, Equipment & Machinery - Administration	1,791,013	-	-	-	-	-	107,313	-	368,106	1,720,863	-	79,274	-	2,275,556
165	Leasehold Improvements	-	-	-	-	-	-	-	-	-	-	-	-	-	-
166	Accumulated Depreciation	(263,031,913)	-	-	-	-	-	(13,828,274)	-	(40,126,556)	(1,718,749)	-	(41,704)	-	(318,747,196)
167	Construction in Progress	32,326,143	-	-	-	-	-	-	-	3,337,978	-	-	-	-	35,664,121
168	Infrastructure	-	-	-	-	-	-	-	-	-	-	-	-	-	-
160	Total Capital Assets, Net of Accumulated Depreciation	221,185,513	-	-	-	-	-	4,783,599	-	70,452,080	2,114	-	80,427	-	296,503,733
171	Notes, Loans and Mortgages Receivable - Non-Current	46,502,057	-	-	-	-	-	-	-	426,100	-	-	-	-	46,928,157
172	Notes, Loans, & Mortgages Receivable - Non Current - Past Due	-	-	-	-	-	-	-	-	-	-	-	-	-	-
173	Grants Receivable - Non Current	-	-	-	-	-	-	-	-	-	-	-	-	-	-
174	Other Assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-
176	Investments in Joint Ventures	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Total Other Non-Current Assets	46,502,057	-	-	-	-	-	-	-	426,100	-	-	-	-	46,928,157
180	Total Non-Current Assets	267,687,570	-	-	-	-	-	4,783,599	-	70,878,180	2,114	-	80,427	-	343,431,890
190	Total Assets	304,810,029	2,115,111	907	8,338	7,564,562	-	23,996,430	-	79,604,312	1,354,580	1,655	34,988,707	(17,173,482)	437,299,854

Hawaii Public Housing Authority

FINANCIAL DATA SCHEDULE
BALANCE SHEET - ENTITY-WIDE
June 30, 2012

Line Item No.	Description	Federal	Section 8	CDBG Economic	Resident	Section 8	ARRA Capital	State/Local	Business			Central Office		Total
		Low Rent	Housing	Development	Opportunity	Housing Choice	Fund Stimulus		Activities	Internal Service	Fiduciary	Cost Center	Elimination	
		Program	Assistance	Initiative	and Supportive	Voucher	Grant							
			14.195	14.246	14.870	14.871	14.885							
311	Bank Overdraft	-	-	-	-	-	-	-	-	-	-	-	-	-
312	Accounts Payable <= 90 Days	3,921,190	22	-	-	18,935	-	1,820,734	375,995	-	-	74,420	-	6,211,296
313	Accounts Payable >90 Days Past Due	-	-	-	-	-	-	-	-	-	-	-	-	-
321	Accrued Wage/Payroll Taxes Payable	337,051	-	-	-	40,224	-	8,777	30,484	-	-	231,620	-	648,156
322	Accrued Compensated Absences - Current Portion	505,758	-	-	-	52,114	-	-	29,736	-	-	285,567	-	873,175
324	Accrued Contingency Liability	-	-	-	-	-	-	-	-	-	-	-	-	-
325	Accrued Interest Payable	-	-	-	-	-	-	-	-	-	-	-	-	-
331	Accounts Payable - HUD PHA Programs	10	-	4	34	-	-	-	-	-	-	-	-	48
332	Account Payable - PHA Projects	-	-	-	-	19,100	-	-	-	-	-	-	-	19,100
333	Accounts Payable - Other Government	-	-	-	-	-	-	-	571,402	-	-	-	-	571,402
341	Tenant Security Deposits	616,387	-	-	-	-	-	-	210,518	-	-	-	-	826,905
342	Deferred Revenues	379,353	-	-	-	442,573	-	-	41,428	-	-	(1,423)	-	42,547,359
343	Current Portion of Long-term Debt - Capital Projects/Mortgage	-	-	-	-	-	-	-	-	-	-	-	-	-
344	Current Portion of Long-term Debt - Operating Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-
345	Other Current Liabilities	860	-	-	-	3	-	-	-	-	-	429,775	-	430,638
346	Accrued Liabilities - Other	752,026	234,351	-	-	18,045	-	-	1,053,581	-	-	195,838	-	2,253,841
347	Inter Program - Due To	10,855,609	30,922	903	8,304	1,904,125	-	128,711	4,184,745	1,026	-	59,137	(17,173,482)	-
348	Loan Liability - Current	-	-	-	-	-	-	-	-	-	-	-	-	-
310	Total Current Liabilities	17,368,244	265,295	907	8,338	2,495,119	-	1,958,222	6,497,889	1,026	-	1,274,934	(17,173,482)	54,381,920
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
352	Long-term Debt, Net of Current - Operating Borrowings	-	-	-	-	-	-	-	-	-	-	-	-	-
353	Non-current Liabilities - Other	41,685,428	-	-	-	117,602	-	-	-	-	-	10,547	-	128,149
354	Accrued Compensated Absences - Non Current	760,224	-	-	-	-	-	110,726	56,404	-	-	541,685	-	1,469,039
355	Loan Liability - Non Current	-	-	-	-	-	-	-	-	-	-	-	-	-
356	FASB 5 Liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
357	Accrued Pension and OPEB Liabilities	1,448	-	-	-	-	-	-	-	-	-	9,289,299	-	9,290,747
350	Total Non-Current Liabilities	42,447,100	-	-	-	117,602	-	110,726	56,404	-	-	9,841,531	-	10,887,935
300	Total Liabilities	59,815,344	265,295	907	8,338	2,612,721	-	2,068,948	6,554,293	1,026	-	11,116,465	(17,173,482)	65,269,855
508.1	Invested In Capital Assets, Net of Related Debt	221,185,513	-	-	-	-	-	4,783,599	70,452,080	2,114	-	80,427	-	296,503,733
509.2	Fund Balance Reserved	-	-	-	-	-	-	-	-	-	-	-	-	-
511.1	Restricted Net Assets	-	-	-	-	2,844,517	-	-	1,055	-	-	-	-	2,845,572
511.2	Unreserved, Designated Fund Balance	-	-	-	-	-	-	-	-	-	-	-	-	-
512.1	Unrestricted Net Assets	23,809,172	1,849,816	-	-	2,107,324	-	17,143,883	2,625,589	1,351,440	1,655	23,791,815	-	72,680,694
512.2	Unreserved, Undesignated Fund Balance	-	-	-	-	-	-	-	-	-	-	-	-	-
513	Total Equity/Net Assets	244,994,685	1,849,816	-	-	4,951,841	-	21,927,482	73,078,724	1,353,554	1,655	23,872,242	(17,173,482)	372,029,999
600	Total Liabilities and Equity/Net Assets	304,810,029	2,115,111	907	8,338	7,564,562	-	23,996,430	79,633,017	1,354,580	1,655	34,988,707	(17,173,482)	437,299,854

Hawaii Public Housing Authority

FINANCIAL DATA SCHEDULE
BALANCE SHEET - ENTITY-WIDE
June 30, 2012

Line Item No.	Description	Section 8		CDBG Economic	Resident	Section 8		ARRA Capital	Business			Central Office		Total
		Federal	Housing			Development	Opportunity		Housing	ARRA Capital	State/Local	Internal Service	Fiduciary	
		Low Rent	Assistance	Initiative	and Supportive	Voucher	Fund Stimulus	Activities	Internal Service	Fiduciary	Cost Center	Elimination		
		Program	14.195	14.246	14.870	14.871	14.885							
70300	Net Tenant Rental Revenue	13,906,404	-	-	-	-	-	-	3,893,381	-	-	-	-	17,799,785
70400	Tenant Revenue - Other	240,030	-	-	-	-	-	-	105,435	-	-	-	-	345,465
70500	Total Tenant Revenue	14,146,434	-	-	-	-	-	-	3,998,816	-	-	-	-	18,145,250
70600	HUD PHA Operating Grants	21,605,248	27,011,608	-	-	25,253,478	224,139	-	208,856	-	-	-	-	74,303,329
70610	Capital Grants	9,967,263	-	-	-	-	838,145	-	-	-	-	-	-	10,805,408
70710	Management Fee	-	-	-	-	-	-	-	-	-	-	3,752,822	(3,752,822)	-
70720	Asset Management Fee	-	-	-	-	-	-	-	-	-	-	526,440	(526,440)	-
70730	Book Keeping Fee	-	-	-	-	-	-	-	-	-	-	631,535	(631,535)	-
70740	Front Line Service Fee	-	-	-	-	-	-	-	-	-	-	421,419	(421,419)	-
70750	Other Fees	-	-	-	-	-	-	-	-	-	-	-	-	-
70700	Total Fee Revenue	31,572,511	27,011,608	-	-	25,253,478	1,062,284	-	208,856	-	-	5,332,216	(5,332,216)	85,108,737
70800	Other Government Grants	-	-	-	-	-	-	4,972,730	-	-	-	-	-	4,972,730
71100-010	Housing Assistance Payment	-	-	-	-	-	-	-	-	-	-	-	-	-
71100-020	Administrative Fee	-	-	-	-	-	-	-	-	-	-	-	-	-
71100	Investment Income - Unrestricted	2,669	184	-	-	288	-	-	9,904	6,784	-	42,747	-	62,576
71200	Mortgage Interest Income	-	-	-	-	-	-	-	-	-	-	42	-	42
71300	Proceeds from Disposition of Assets Held for	-	-	-	-	-	-	-	-	-	-	-	-	-
71310	Cost of Sale of Assets	-	-	-	-	-	-	-	-	-	-	-	-	-
71400-010	Fraud Recovery - HAP	-	-	-	-	7,002	-	-	-	-	-	-	-	7,002
71400-020	Fraud Recovery - Administrative Fee	-	-	-	-	7,002	-	-	-	-	-	-	-	7,002
71400	Fraud Recovery	-	-	-	-	14,004	-	-	-	-	-	-	-	14,004
71500	Other Revenue	235,049	-	-	-	12,373	-	-	85,643	2,553	-	96,966	-	432,584
71600	Gain or Loss on Sale of Capital Assets	-	-	-	-	-	-	-	2,003,456	-	-	-	-	2,003,456
72000	Investment Income - Restricted	-	-	-	-	243	-	-	-	-	-	-	-	243
70000	Total Other Revenue	237,718	184	-	-	26,908	-	4,972,730	2,099,003	9,337	-	139,755	-	7,485,635
70000	Total Revenue	45,956,663	27,011,792	-	-	25,280,386	1,062,284	4,972,730	6,306,675	9,337	-	5,471,971	(5,332,216)	110,739,622
91100	Administrative Salaries	2,781,833	-	-	-	746,123	-	61,444	334,492	-	-	3,824,792	-	7,748,684
91200	Auditing Fees	128,112	40,262	-	-	59,207	-	30,373	74,684	2,243	-	68,864	-	403,745
91300	Management Fee	3,487,929	-	-	-	264,576	224,139	9,390	429,907	-	-	-	(3,752,822)	663,119
91310	Book-keeping Fee	385,890	-	-	-	165,360	-	5,884	74,417	-	-	-	(631,535)	16
91400	Advertising and Marketing	627	-	-	-	-	-	-	-	-	-	32,413	-	33,040
91500	Employee Benefit contributions - Administration	501,065	-	-	-	427,898	-	12,419	49,881	-	-	1,285,793	-	2,277,056
91600	Office Expenses	497,309	1,009,676	-	-	52,523	-	42	66,054	36,063	-	315,763	-	1,977,430
91700	Legal Expense	127,173	-	-	-	3,468	-	-	53,927	-	-	257,592	-	442,160
91800	Travel	16,224	-	-	-	1,831	-	-	462	-	-	68,799	-	87,316
91810	Allocated Overhead	-	-	-	-	-	-	-	-	-	-	-	-	-
91900	Other	1,730,519	-	-	-	51,536	-	10,410,002	166,290	2	-	241,657	-	12,600,006
91000	Total Operating - Administrative	9,656,681	1,049,938	-	-	1,772,522	224,139	10,529,554	1,250,114	38,308	-	6,095,673	(4,384,357)	26,232,572
92000	Asset Management Fee	526,440	-	-	-	-	-	-	-	-	-	-	(526,440)	-
92100	Tenant Services - Salaries	-	-	-	-	-	-	-	-	-	-	-	-	-
92200	Relocation Costs	-	-	-	-	-	-	-	-	-	-	-	-	-
92300	Employee Benefit Contributions - Tenant Services	-	-	-	-	-	-	-	-	-	-	-	-	-
92400	Tenant Services - Other	14,185	-	-	-	-	-	-	-	-	-	388	-	14,573
92500	Total Tenant Services	540,625	-	-	-	-	-	-	-	-	-	388	(526,440)	14,573
93100	Water	2,169,595	-	-	-	458	-	115	272,841	-	-	2,094	-	2,445,103
93200	Electricity	3,623,157	-	-	-	30,989	-	7,755	1,407,997	-	-	103,641	-	5,173,539
93300	Gas	1,769,360	-	-	-	-	-	-	189,735	-	-	-	-	1,959,095
93400	Fuel	-	-	-	-	-	-	-	-	-	-	177	-	177
93500	Labor	-	-	-	-	-	-	-	-	-	-	-	-	-
93600	Sewer	3,404,458	-	-	-	1,422	-	356	761,521	-	-	6,203	-	4,173,960
93700	Employee Benefit Contributions - Utilities	-	-	-	-	-	-	-	-	-	-	-	-	-
93800	Other Utilities Expense	183	-	-	-	-	-	-	-	-	-	-	-	183
93000	Total Utilities	10,966,753	-	-	-	32,869	-	8,226	2,632,094	-	-	112,115	-	13,752,057
94100	Ordinary Maintenance and Operations - Labor	3,863,765	-	-	-	-	-	-	532,278	-	-	621,383	-	5,017,426
94200	Ordinary Maintenance and Operations - Materials and Other	1,394,480	-	-	-	394	-	-	253,537	-	-	68,016	-	1,716,427
94300-010	Ordinary Maintenance and Operations Contracts - Garbage & Trash Removal	1,244,657	-	-	-	-	-	-	164,603	-	-	869	-	1,410,129
94300-020	Ordinary Maintenance and Operations Contracts - Heating & Cooling	26,187	-	-	-	-	-	-	14,707	-	-	1,813	-	42,707
94300-030	Ordinary Maintenance and Operations Contracts - Snow Removal	-	-	-	-	-	-	-	-	-	-	-	-	-
94300-040	Ordinary Maintenance and Operations Contracts - Elevator Maintenance	169,052	-	-	-	-	-	-	61,880	-	-	-	-	230,932
94300-050	Ordinary Maintenance and Operations Contracts - Landscape & Grounds	92,564	-	-	-	-	-	-	-	-	-	-	-	92,564
94300-060	Ordinary Maintenance and Operations Contracts - Unit Turnaround	-	-	-	-	-	-	-	32,479	-	-	-	-	32,479
94300-070	Ordinary Maintenance and Operations Contracts - Electrical	67,160	-	-	-	-	-	-	10,195	-	-	3,829	-	81,184
94300-080	Ordinary Maintenance and Operations Contracts - Plumbing	151,209	-	-	-	-	-	-	23,622	-	-	1,433	-	176,264
94300-090	Ordinary Maintenance and Operations Contracts - Extermination	65,651	-	-	-	-	-	-	3,886	-	-	-	-	69,537
94300-100	Ordinary Maintenance and Operations Contracts - Janitorial	-	-	-	-	-	-	-	-	-	-	-	-	-
94300-110	Ordinary Maintenance and Operations Contracts - Routine Maintenance	510,479	-	-	-	225,307	-	-	31,171	-	-	-	-	766,957
94300-120	Ordinary Maintenance and Operations Contracts - Misc Contracts	2,945,344	-	-	-	-	-	-	1,236,454	-	-	153,782	(421,419)	3,914,161
94300	Ordinary Maintenance and Operations Contracts	5,272,303	-	-	-	225,307	-	-	1,578,997	-	-	161,726	(421,419)	6,816,914
94500	Employee Benefit Contributions - Ordinary Maintenance	1,544,274	-	-	-	-	-	-	165,701	-	-	257,031	-	1,967,006
94000	Total Maintenance	12,074,822	-	-	-	225,701	-	-	2,530,513	-	-	1,108,156	(421,419)	15,517,773

Hawaii Public Housing Authority

FINANCIAL DATA SCHEDULE
BALANCE SHEET - ENTITY-WIDE
June 30, 2012

Line Item No.	Description	Section 8		CDBG Economic	Resident	Section 8		ARRA Capital	Business			Central Office		Total	
		Federal	Housing			Development	Opportunity		Housing	ARRA Capital	State/Local	Activities	Internal Service		Fiduciary
		Low Rent	Assistance	Initiative	and Supportive	Voucher	Grant								
		Program	Payments	14.246	Services	Program	14.885								
95100	Protective Services - Labor	-	-	-	-	-	-	-	-	-	-	-	-	-	
95200	Protective Services - Other Contract Costs	2,259,907	-	-	-	725	-	-	-	64,384	-	-	11,481	2,336,497	
95300	Protective Services - Other	1,126	-	-	-	-	-	-	-	-	-	-	-	1,126	
95500	Employee Benefit Contributions - Protective Services	-	-	-	-	-	-	-	-	-	-	-	-	-	
95000	Total Protective Services	2,261,033	-	-	-	725	-	-	-	64,384	-	-	11,481	2,337,623	
96110	Property Insurance	590,378	-	-	-	615	-	135	138,112	-	-	-	6,693	735,933	
96120	Liability Insurance	25,533	-	-	-	3,254	-	-	5,732	-	-	-	12,145	46,664	
96130	Workmen's Compensation	42,566	-	-	-	-	-	-	36,511	-	-	-	-	79,077	
96140	All Other Insurance	55,634	-	-	-	-	-	-	43,388	-	-	-	41,837	140,859	
96100	Total Insurance Premiums	714,111	-	-	-	3,869	-	135	223,743	-	-	-	60,675	1,002,533	
96200	Other General Expenses	405,631	-	-	-	66,661	-	13,962	72,926	-	-	-	235,867	795,047	
96210	Compensated Absences	-	-	-	-	-	-	(26,465)	-	-	-	-	-	(26,465)	
96300	Payments in Lieu of Taxes	206,527	-	-	-	-	-	-	-	-	-	-	-	206,527	
96400	Bad debt - Tenant Rents	428,015	-	-	-	-	-	-	82,094	-	-	-	262	510,371	
96500	Bad debt - Mortgages	-	-	-	-	-	-	-	-	-	-	-	-	-	
96600	Bad debt - Other	-	-	-	-	-	-	-	-	-	-	-	443,242	443,242	
96800	Severance Expense	116,274	-	-	-	(3,043)	-	-	3,940	-	-	-	7,584	124,755	
96000	Total Other General Expenses	1,156,447	-	-	-	63,618	-	(12,503)	158,960	-	-	-	686,955	2,053,477	
96710	Interest of Mortgage (or Bonds) Payable	-	-	-	-	52	-	-	-	-	-	-	-	52	
96720	Interest on Notes Payable (Short and Long Term)	-	-	-	-	-	-	-	-	-	-	-	-	-	
96730	Amortization of Bond Issue Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	
96700	Total Interest Expense and Amortization Cost	-	-	-	-	52	-	-	-	-	-	-	-	52	
96900	Total Operating Expenses	37,370,472	1,049,938	-	-	2,099,356	224,139	137,351	6,859,808	38,308	-	-	8,075,443	(5,332,216)	60,910,660
97000	Excess of Operating Revenue over Operating Expenses	8,586,191	25,961,854	-	-	23,181,030	838,145	(5,552,682)	(553,133)	(28,971)	-	-	(2,603,472)	-	49,828,962
97100	Extraordinary Maintenance	-	-	-	-	-	-	-	-	-	-	-	-	-	
97200	Casualty Losses - Non-capitalized	-	-	-	-	-	-	-	-	-	-	-	-	-	
97300	Housing Assistance Payments	10,546	25,704,769	-	-	23,441,913	-	626,169	-	-	-	-	-	49,783,397	
97350	HAP Portability-In	-	-	-	-	-	-	-	-	-	-	-	-	-	
97400	Depreciation Expense	11,658,902	-	-	-	-	-	301,343	2,905,117	2,437	-	-	9,065	14,876,864	
97500	Fraud Losses	-	-	-	-	-	-	-	-	-	-	-	-	-	
97600	Capital Outlays - Governmental Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	
97700	Debt Principal Payment - Governmental Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	
97800	Dwelling Units Rent Expense	-	-	-	-	-	-	-	-	-	-	-	-	-	
Subtotal		11,669,448	25,704,769	-	-	23,441,913	-	927,512	2,905,117	2,437	-	-	9,065	64,660,261	
90000	Total Expenses	49,039,920	26,754,707	-	-	25,541,269	224,139	1,064,863	9,764,925	40,745	-	-	8,084,508	(5,332,216)	125,570,921
10010	Operating Transfer In	3,551,198	-	-	-	-	-	-	2,904,277	-	-	-	10,152,728	16,608,203	
10020	Operating transfer Out	(155,170)	(148,156)	-	-	-	-	(5,573,078)	(10,326,626)	-	-	-	(405,172)	(16,608,202)	
10030	Operating Transfers from/to Primary Government	-	-	-	-	-	-	-	-	-	-	-	-	-	
10040	Operating Transfers from/to Component Unit	-	-	-	-	-	-	-	-	-	-	-	-	-	
10050	Proceeds from Notes, Loans and Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	
10060	Proceeds from Property Sales	-	-	-	-	-	-	-	-	-	-	-	-	-	
10070	Extraordinary Items, Net Gain/Loss	-	-	-	-	-	-	-	-	-	-	-	-	-	
10080	Special Items (Net Gain/Loss)	-	-	-	-	-	-	-	-	-	-	-	-	-	
10091	Inter Project Excess Cash Transfer In	-	-	-	-	-	-	-	-	-	-	-	-	-	
10092	Inter Project Excess Cash Transfer Out	-	-	-	-	-	-	-	-	-	-	-	-	-	
10093	Transfers between Program and Project - In	-	-	-	-	-	-	-	-	-	-	-	-	-	
10094	Transfers between Project and Program - Out	-	-	-	-	-	-	-	-	-	-	-	-	-	
10100	Total Other financing Sources (Uses)	3,396,028	(148,156)	-	-	-	-	(5,573,078)	(7,422,349)	-	-	-	9,747,556	1	
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	312,771	108,929	-	-	(260,883)	838,145	(12,053,272)	(10,880,599)	(31,408)	-	-	7,135,019	(14,831,298)	
11020	Required Annual Debt Principal Payments	-	-	-	-	-	-	-	-	-	-	-	-	-	
11030	Beginning Equity	238,701,202	1,740,887	-	-	5,212,725	-	42,852,136	80,580,856	1,384,962	1,655	-	16,737,223	387,211,646	
11040	Prior Period Adjustments, Equity Transfers and Corrections of Errors	5,980,712	-	-	-	-	(838,145)	(8,871,382)	3,378,467	-	-	-	-	(350,348)	

Hawaii Public Housing Authority
FINANCIAL DATA SCHEDULE
GASBS NO. 54 SUPPLEMENTAL REPORTING SCHEDULE
June 30, 2012

<u>FDS Line Item</u>	<u>FDS Line Item Name</u>	<u>CFDA No. 14.871 Housing Choice Voucher Program</u>	<u>CFDA No. 14.195 Section 8 Contract Administration</u>	<u>State/Local</u>	<u>Total</u>
513	Total Equity as Reported in FDS	<u>\$ 4,951,841</u>	<u>\$ 1,849,816</u>	<u>\$ 21,927,482</u>	<u>\$ 28,729,139</u>
508.3	Nonspendable Fund Balance	\$ -	\$ -	\$ 4,783,599	\$ 4,783,599
509.3	Restricted Fund Balance	4,951,841	-	-	4,951,841
510.3	Committed Fund Balance	-	-	10,088,283	10,088,283
511.3	Assigned Fund Balance	-	1,849,816	7,055,600	8,905,416
512.3	Unassigned Fund Balance	-	-	-	-
	Total Equity as Calculated	<u>\$ 4,951,841</u>	<u>\$ 1,849,816</u>	<u>\$ 21,927,482</u>	<u>\$ 28,729,139</u>

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**



A Hawaii Limited Liability Partnership

**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 Hawaii Public Housing Authority (the HPHA) as of and for the year ended June 30, 2012, and have issued our report thereon dated December 17, 2012. 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

Management of the HPHA is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the HPHA'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 HPHA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the HPHA'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 discussed below, 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 2012-01 through 2012-03, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the HPHA'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 Questioned Costs as items 2012-04, 2012-06, 2012-08 through 2012-10.

We subsequently noted certain matters that we reported to management of the HPHA in a separate letter.

The HPHA'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 HPHA'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 HPHA, 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 20, 2013

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**



A Hawaii Limited Liability Partnership

**Independent Auditor's Report on Compliance With Requirements
That Could Have a Direct and Material Effect on Each Major Program
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 HPHA) 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, 2012. The HPHA'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 HPHA's management. Our responsibility is to express an opinion on the HPHA'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 HPHA'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 HPHA's compliance with those requirements.

As described in item 2012-04 in the accompanying *Schedule of Findings and Questioned Costs*, the HPHA 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 HPHA to comply with requirements applicable to that program.

As described in item 2012-06 in the accompanying *Schedule of Findings and Questioned Costs*, the HPHA did not comply with requirements regarding equipment and real property that are applicable to its Public Housing Capital Fund program. Compliance with such requirements is necessary, in our opinion, for the HPHA to comply with requirements applicable to that program.

As described in items 2012-08 through 2012-10 in the accompanying *Schedule of Findings and Questioned Costs*, the HPHA did not comply with requirements regarding special tests and provisions that are applicable to its Public and Indian Housing program. Compliance with such requirements is necessary, in our opinion, for the HPHA to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraphs, the HPHA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the HPHA 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 HPHA'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 HPHA'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 2012-04 and 2012-06 through 2012-12 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 deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-05 to be a significant deficiency.

The HPHA'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 HPHA's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity 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 20, 2013

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs
Year Ended June 30, 2012

Section I – Summary of Auditor’s Results:

Financial Statements

Type of auditor’s report issued: Unqualified

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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.871	Section 8 Housing Choice Vouchers Program
14.872	Public Housing Capital Fund
14.850	Public and Indian Housing

Dollar threshold used to distinguish between type A and type B programs: \$2,552,366 (3% of federal award expended)

Auditee qualified as low-risk auditee? Yes No

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Section II – Financial Statement Findings

Finding No.: 2012-01 Financial Management Competencies – Material Weakness

Criteria: Effective internal control over financial reporting requires sufficient accounting and financial reporting expertise to ensure development of reliable financial statements. Additionally, effective communication between operational and financial management ensures that transactions are recorded and reported appropriately. Internal control is affected by people and is not merely policy manuals, procedures and forms.

Condition & cause: The lack of appropriate management leadership in the Fiscal Management Office (FMO), understanding of accounting principles and financial reporting standards at the senior level and ineffective communication between operations and financial management continues to have considerable impact to 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 have originated from prior years.

HPHA continues to have challenges in providing appropriate supervision and having appropriate review and approval of transactions. This lack of dedicated oversight responsibilities and overall management of its accounting and financial reporting function during the 2012 fiscal year have limited the effectiveness of the HPHA's ability to record and report accurate and timely financial information. Specifically we noted that large or unusual transactions were not properly accounted for. Examples include the recording of Wilikina project sale, overcharging of U.S. Department of Housing Urban Development (HUD) management fee to the various asset management projects (AMPs), and the transfer of inter-funds and operating transfers from the State. The following is a summary of some of the conditions resulting from the lack of oversight.

- Lack of appropriate review and approvals, resulting in journal entries recorded incorrectly and numerous correcting journal entries
- Monthly general ledger reconciliations not prepared on a timely basis for the Disbursing Fund, Central Office Cost Center Fund (COCC), and Federal Low Rent Program Fund program (FLRP)
- Inter-fund balances that operating expenses are allocated through and impact the majority of all the HPHA funds were not properly reconciled
- Accruals incorrectly recorded or not recorded at all
- Transfer of assets not properly accounted for or recorded at all between funds
- For FLRP, the beginning net assets balance was out of balance by \$3.5 million

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Section II – Financial Statement Findings

Finding No.: 2012-01 Financial Management Competencies – Material Weakness (continued)

Context: The Fiscal Management Office continues to be challenged by the application of generally accepted governmental accounting principles and HUD reporting requirements, including the computation of management fees in accordance with HUD’s project based accounting, and the Real Estate Assessment Center (REAC) electronic submission filing requirements. Without proper supervision and oversight, these shortcomings are magnified.

Questioned costs: None

Effect: The internal control over financial reporting, which is designed to provide reasonable assurance to the 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 operational and financial positions necessary to effectively carry out the associated responsibilities. An assessment should be done to determine its competency “shortfalls.”

1. The HPHA should perform an assessment to identify its critical accounting and financial reporting, federal compliance and budgeting processes. This will allow the 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.

If it is determined that the HPHA does not have the required skills and ability to perform such an assessment and evaluation, the 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.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Section II – Financial Statement Findings (continued)

Finding No.: 2012-01 Financial Management Competencies – Material Weakness (continued)

Recommendation: (continued)

2. The Fiscal Officer should perform the following.
 - Gain an understanding of each program’s objectives and types of major transactions. He 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 transactions: 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 Program – the checklist would include procedures specific to capital improvements.
 - Monitor control systems to ensure effectiveness, including the timely review and approvals by appropriate personnel.
 - As a majority of the HPHA’s funding is HUD subsidies, consider establishing and maintaining controls over operating and capital improvement budgets.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Section II – Financial Statement Findings (continued)

Finding No.: 2012-01 Financial Management Competencies – Material Weakness (continued)

Recommendation: (continued)

The HPHA will need to provide training to its key senior employees involved in financial reporting processes, including both operational and financial employees as deemed necessary. Additionally, the HPHA may also want to consider supplementing its in-house financial reporting competencies by establishing arrangements with outside specialists who can assist in the training of employees.

PHA Reply (Corrective Action Plan): The HPHA will continue with the implementation of the financial reporting software upgrade for fiscal activities, to address productivity and ease of use in providing necessary reports to management and the housing units. The Fiscal Officer will monitor internal controls at a more detailed level to ensure timely reviews and approvals are adhered to and generally accepted accounting principles are followed.

The Fiscal Office is challenged in recruiting accountants and CPAs at a more experienced level to improve reconciliation, financial reporting, and maintaining controls over operating and capital improvement budgets. The HPHA is reviewing the need to hire outside specialists to assist with staff assessment, training and evaluation, and prepare and implement recommendations. In addition, the HPHA has executive vacancies which have proven to be hard to fill due to low salary range.

Contact Person: Clarence Allen

Target Date: June 2014

Finding No.: 2012-02 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.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Section II – Financial Statement Findings (continued)

Finding No.: 2012-02 Lack of Monitoring – Material Weakness (continued)

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. The HPHA management is aware of the various deficiencies in internal control and is working toward correcting them. However, the lack of appropriate resources has limited management’s ability to correct these control deficiencies on a timely basis.

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, in addition to management determining that the internal control system is not relevant and able to address new risks, management needs to be able to make the necessary changes on a timely basis.

Recommendation: We recommend that management continue to monitor and evaluate the HPHA’s controls that address the higher priority risks and those most critical to reducing a given risk, and obtain the appropriate resources to make the correction to all internal control deficiencies that can affect the HPHA’s attaining its financial reporting objectives.

PHA Reply (Corrective Action Plan): With the production of timely monthly reports, management is able to review the 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.

With the issuance of the single audit findings, the HPHA management team has begun a comprehensive program of monitoring, including identification of major issues, meetings with affected staff and auditors, evaluation of internal controls, and identification of policy and/or procedural revisions. The Office of the Executive Director is taking the lead on monitoring of internal controls to ensure accuracy and timely financial reporting, and that a risk assessment is performed by appropriate personnel on a regular basis.

The Office of the Executive Director and the Fiscal Officer will meet with each Branch/Office individually to monitor and review/report compliance with internal fiscal procedures and deadlines.

Contact Person: Clarence Allen

Target Date: June 2014

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Section II – Financial Statement Findings (continued)

Finding No.: 2012-03 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 produced for the 2012 Board meetings, it was determined that certain key internal control activities, such as reconciliations of the general ledger accounts balances to the corresponding transaction or activity details, was not performed for certain “major funds.”

During the 2012 audit, we did note improvements in the performance of timely reconciliations for a number of funds. With the exception of the Disbursing Fund, Central Office Cost Center Fund (COCC), and Federal Low Rent Program Fund (FLRP), the fund accountants were able to prepare and reconcile many of the other funds’ accounts. Unfortunately, the Disbursing Fund, COCC, and FLRP, of which two are “major funds,” continues to have challenges in the accounting and reporting of transactions due to the lack of timely account reconciliations. Consequently, adjustments were required to correct such balances, including numerous adjustments to the various inter-fund accounts, COCC fees-for-service amounts, and an adjustment of approximately \$9.0 million to FLRP’s fixed assets balances.

Due to the nature and high volume of transactions for the funds noted in the preceding paragraph, 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.

Although there were improvements, the lack of account reconciliations for the funds noted above, is a fundamental deficiency in the organization’s internal control environment. The following is a list of the more significant issues noted during the audit as a result of the lack of the general ledger and respective account reconciliations:

- Lack of reliable monthly financial statements.
- Overcharging of HUD management fee to the various AMPs.
- For Federal Low Rent Fund, the beginning net assets balance was out of balance by \$3.5 million.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Section II – Financial Statement Findings (continued)

Finding No.: 2012-03 Non-reconciliations of General Ledger Accounts – Material Weakness (continued)

- Reconciliation of the detailed fixed assets and CIP to the general ledger was not performed correctly during the year and the original detailed listings of additions and deletions provided were not accurate. Consequently, projects listed within the CIP schedule that were completed was not appropriately transferred to the Capital Assets account and depreciated, and projects that were not completed were improperly listed within the Capital Assets account and being depreciated.
- Reconciliation of the inter-fund balances was not performed during the year.
- Lack of accurate 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 accurate 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.

PHA Reply (Corrective Action Plan): Currently financial statements are being provided to management and housing development for monthly performance review with actual to budget and prior year comparisons. The HPHA’s planned upgrade in the software package will significantly improve the reporting processes. The software upgrade, combined with the regular monitoring of compliance with internal controls will improve the accuracy of financial reporting. The goal is for all Branches and Developments to be able to view general ledger activity on a regular basis via the HPHA’s electronic financial system.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Section II – Financial Statement Findings (continued)

Finding No.: 2012-03 Non-reconciliations of General Ledger Accounts – Material Weakness (continued)

Budget comparisons are being done and the reconciliation of fixed assets and construction in progress to the general ledger will be implemented with the acquisition of a computerized fixed asset system. Until such time, the HPHA will continue to track and reconcile construction in progress to the fixed asset accounts on a manual basis. The implementation of the software upgrade which began in mid-2011 is in its final phase of completion and is scheduled to be completed by April 2013.

The Office of the Executive Director, the Fiscal Officer, and the affected senior staff will be heavily involved in ensuring that financial activities are processed, managed, and reported accurately and timely. The same management team will produce a detailed corrective action plan that meets current economic conditions, including but not limited to, corrective actions, timelines, and staff assessment.

Contact Person: Clarence Allen

Target Date: Effective Immediately

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

Section III – Federal Award Findings and Questioned Costs

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

Finding No.: 2012-04 Special Tests and Provisions – Waiting List – Material Weakness

Criteria: 24 CFR sections 5.410, 982.54(d) and 982.201 through 982.207 require the 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 the HPHA to select participants from the waiting list in accordance with admission policies in the PHA administrative plan.

Condition, cause, and context: The 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, the HPHA's policy for placing applicants onto the tenant-based voucher program waiting list is based upon preference criteria. Applicants on the waiting list who met these preference criteria, with the proper documentation and verification, were admitted into the tenant-based voucher program. However, during our audit, we noted that applicants were placed incorrectly on the waiting list due to incorrect preferences entered into the waiting list or there were missing applications for individuals listed on the waiting list. Also for applicants who were selected from the waiting list and placed into the tenant-based voucher program during the year, we noted no documentation supporting whether or not the applicants were selected from the waitlist in the order mandated by the PHA administrative plan.

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 the HPHA maintain the appropriate documentation that would indicate compliance with its policy. Additionally, the HPHA should implement a quality review over input into the waiting list system and implement monitoring procedures to ensure compliance.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

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

Finding No.: 2012-04 Special Tests and Provisions – Waiting List – Material Weakness (continued)

PHA Reply (Corrective Action Plan): As part of its compliance and monitoring reviews, the Branch Chief and/or appropriate supervisor is required to verify that any placements meet the preference criteria prior to placement. In addition, the HPHA is in the process of establishing a pilot program to reorganize its applications, Section 8 program, and public housing programs, for more effective use of its resources. A letter was sent to the unions for consultation on the matter on January 30, 2013. Once implemented, the pilot program would address quality review standards, by providing for a quality control team of 3.0 FTE to conduct audits of the placements, including the verification of preferences.

Contact Person: Stephanie Fo

Target Date: June 2014

Finding No.: 2012-05 Reporting – Significant Deficiency

Criteria: HUD 52681-B, *Voucher for Payment of Annual Contributions and Operating Statement (OMB No. 2577-0169)* requires the 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” and the amount of housing assistance payments (HAP) reported on the monthly HUD 52681-B reports received by HUD were not reconciled with the HAP registers, which represent voucher amounts actually paid to the landlords. We also noted that there is no detailed independent review of the report before submission.

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

Questioned costs: None

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

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

Finding No.: 2012-05 Reporting – Significant Deficiency (continued)

Recommendation: We recommend that documentation supporting the preparation of the monthly HUD 52681-B reports be reconciled to the monthly HAP registers and 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): The HPHA has revised its process of preparing monthly HUD 52681-B reports and starting in May 2012, began maintaining a log to track adjustments made between the HAP register and 52681-B report. In addition, the supervisor now reviews the reports prior to submission.

Contact Person: Stephanie Fo, Clarence Allen

Target Date: June 2014

Public Housing Capital Fund CFDA No. 14.872

Finding No.: 2012-06 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: The 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. The HPHA hired a third party consultant to assist in reconciling the detailed fixed assets and CIP schedules to the general ledger and provide detailed additions and deletion listings. During the audit, we noted that the reconciliation of the detailed fixed assets and CIP schedules to the general ledger and the detailed additions and deletions listings were not prepared correctly and were inaccurate. We also noted that a Project Acceptance Form from the HPHA

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2012-06 Equipment and Real Property - Material Weakness (continued)

engineers representing that a project was completed was improperly submitted to accounting before the project was completed. Consequently, projects listed within the CIP schedule were completed and not transferred to the Capital Assets account and incomplete projects were improperly reflected in the Capital Assets account. This resulted in several reclassifications between CIP assets and property and equipment and a respective adjustment to 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.

Effect: Noncompliance. Additionally, the lack of appropriate monitoring and reporting may lead to misstatement of the CIP and equipment and real property balances and future 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): The department that is the source of CIP activity has been providing the Fiscal Office monthly with updates of projects completed so that those assets are properly accounted for in the fixed asset sub ledger. The HPHA is implementing a new accounting software that will include a fixed asset module that will relieve the process of manual reconciliation and depreciation calculation.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2012-06 Equipment and Real Property - Material Weakness (continued)

On March 5, 2012, the HPHA launched a Project Acceptance Form incorporating the elements required to capitalize a project. When a construction project is substantially complete and has been accepted and returned to the AMP for use, the Project Engineer will complete the Project Acceptance Form required to close the construction project. The Project Acceptance Form has since been updated and procedures revised to immediately submit the form to the Fiscal Officer after review by the Branch Administrator after the project is completed.

As the management staff continues its monitoring, any outstanding issues related to the accurate reporting of financial statements will be addressed

Contact Person: Clarence Allen, Becky Choi

Target Completion Date: July 2014

Finding No.: 2012-07 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).

Also, 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: HPHA continues to have challenges in identifying an individual who has been properly trained to complete and submit the FDS. Although the HPHA hires a consultant to assist in filing the FDS, the HPHA is ultimately responsible for the report to be in compliance with HUD's requirements. As such, the information provided to the consultant needs to be complete and accurate. During the audit, we noted various audit adjustments to the trial balances which resulted in the unaudited submission being significantly different from the audited submission.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2012-07 Reporting – Material Weakness (continued)

The HUD Form 60002 General Instructions requires that the form should be submitted at the same time the program performance report is submitted. Where an annual performance report is not required, the Section 3 report should be submitted by January 10 and, if the project ends before December 31, within 10 days of project completion. In our review of the required HUD Form 60002, we noted that the form was submitted subsequent to the January 10 deadline.

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

Recommendation: The HPHA should ensure that the individuals responsible for the FDS reporting are knowledgeable in HUD's FDS reporting requirements enough to oversee the reporting process, including properly preparing, reviewing, approving and submitting the FDS. Also, the HPHA should develop a HUD reporting schedule that lists all HUD reporting requirements and designate certain individuals to be responsible to complete the report.

PHA Reply (Corrective Action Plan): The creation and implementation of a detail accounting checklist for all funds will eliminate most of the audit adjustments between the unaudited and audited FDS submission. The plan for the Fiscal office is to fill most of the vacant accounting positions which will alleviate the workload on the current staff.

Regarding the FDS submission, HPHA contracted with an outside CPA firm to file and review the FDS submission since training for staff could not be implemented prior to the required filing date of the FDS. The Fiscal Office is in the process of developing a HUD reporting schedule that list all HUD's reporting requirements and the designation of individuals to review the reports. Additionally, the management staff

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2012-07 Reporting – Material Weakness (continued)

is evaluating and assessing training needs and is currently in the process of securing training services. Once implemented, the upgraded software will also provide HPHA with the FDS schedules for filing with HUD.

The Section 3 report due for 2012 was submitted on January 9, 2013, before the deadline.

Contact Person: Clarence Allen

Target Completion Date: July 2014

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

Public and Indian Housing Program CFDA No. 14.850

Finding No.: 2012-08 Special Tests and Provisions – Waiting List – Material Weakness

Criteria: 24 CFR sections 960.202 through 960.206 require the 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 meet these preference criteria with proper documentation and verification are admitted to the program.

Condition, cause, and context: In our discussions with management, the 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 and placed in a project are not monitored. There is no quality review to reassure that applicants are properly being placed or pulled from the waiting list.

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 the HPHA complies with the special tests and provisions requirements of the program and implement a quality control review over input into the waiting list system and placement of applicants into the various federal projects.

PHA Reply (Corrective Action Plan): Although improvements were made resulting in 136% more new families housed in 2012, the HPHA continues to suffer from lack of or inexperienced staff. The HPHA is evaluating additional strategies and solutions to address future application processing, including the installation of data entry terminals which will allow for “real time” entry by applicants, staffing reconfiguration, and revisions to existing procedures regarding the handling of applications. The HPHA is in the process of establishing a pilot program to reorganize its applications, Section 8 program, and public housing programs, for more effective use of its resources. A letter was sent to the unions for consultation on the matter on January 30, 2013. Once implemented, the pilot program will ensure that resources are dedicated to the timely inputting of applications, by assigning 1.0 FTE to solely input

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

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

Finding No.: 2012-08 Special Tests and Provisions – Waiting List – Material Weakness (continued)

application data into the database. This pilot program will also address the backlog of applications that currently have not been entered into the electronic system. The HPHA will also introduce a short version application. The unit supervisor will also perform quality review to check applicant entries following clerical input in the Emphasys software system.

Contact Person: Stephanie Fo

Target Completion Date: June 2014

Finding No.: 2012-09 Special Tests and Provisions – Recording Declarations of Trust Against Housing Property – Material Weakness

Criteria: 24 CFR part 941 subpart F requires the HPHA to record a current Declaration of Trust (DOT) against all public housing property owned by PHAs that has been acquired, developed, maintained, or assisted with funds from the U.S. Housing Act of 1937. A DOT is a legal instrument that grants HUD an interest in public housing property. It provides public notice that the property must be operated in accordance with all Federal public housing requirements, including the requirement not to convey or otherwise encumber the property unless expressly authorized by federal law and or HUD.

Condition, cause, and context: During our review of the HPHA's DOTs, we noted that several DOTs expired and there were no DOTs on file for 12 out of the 70 properties. Also, in our discussions with management, we noted that the HPHA did not have any monitoring controls over the recording of the DOTs in accordance with the program requirements.

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

Questioned costs: None

Recommendation: We recommend that the HPHA complies with the DOT requirements of the program and establish and implement the necessary policies and procedures over the maintenance of the DOTs to assure compliance with the program requirements.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

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

Finding No.: 2012-09 Special Tests and Provisions – Recording Declarations of Trust Against Housing Property – Material Weakness (continued)

PHA Reply (Corrective Action Plan): The HPHA has experienced significant challenges in procuring a vendor to update title search document for all of its state and federal public housing inventory due to the complicated nature of the title searches. The HPHA issued multiple solicitations which resulted in no response from any vendors. The HPHA succeeded in procuring a portion of updated title search documents for its state and federal public housing inventory. The HPHA is currently working with the Department of the Attorney General to complete recordation of transfer of ownership to HPHA. Once completed, the Department of the Attorney General will file the declaration of trust (DOT) with HUD. Due to the difficulties in procuring a vendor, the HPHA be seeking an exemption from the State procurement code which has now been approved by the state procurement office, to procure the remainder of the title search documents. The HPHA is currently working with several vendors to provide title search documents for the remaining balance of its state and federal public housing inventory.

The DOTs will be effective for a 20 year period. The DOT will be added to the HPHA calendar so that an annual review will be conducted to determine whether updated DOTs are needed to be filed.

Contact Person: Kiriko Oishi, Benjamin Park

Target Completion Date: June 2014

Finding No.: 2012-10 Eligibility – Material Weakness

Criteria: 24 CFR section 5.601 and 24 CFR sections 960.253, 960.255 and 960.259 require the 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, the HPHA housing specialist assess whether or not applicants are eligible to participate in the program based on Federal eligibility guidelines. Additionally, HUD notice Public Indian Housing (PIH) 2007-29 requires HPHA to maintain at least a 95% reporting rate of their revaluations, which is tracked by HUD through the submission of the HUD Form 50058 for each tenant that is reevaluated. Per 24 CFR section 982.152(d), HUD may reduce or offset any administrative fee to HPHA in an amount determined by HUD if the PHA fails to perform PHA administrative responsibilities.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

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

Finding No.: 2012-10 Eligibility – Material Weakness (continued)

To ensure such guidelines are complied with, the 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. Additionally, management monitors the HUD Form 50058 reporting rate via the secured HUD PIH Information Center (PIC) system online.

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

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

- 1) For 4 out of 60 tenant files tested, we noted assets and/or income were miscalculated, not verified, or reported on the Form 50058.
- 2) For 4 out of 60 tenant files tested, we noted verification of social security numbers, disability, or citizenship declarations were missing for household members.
- 3) For 2 out of 60 tenant files tested, we noted unreimbursed medical expenses were either miscalculated or missing supporting documentation.
- 4) For 1 out of 60 tenant files tested, we noted the Form 50058 and rental agreement were missing.

We also noted that the reporting rate of the HUD Form 50058's fell below 95% in 2012.

Effect: Noncompliance. 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 the HPHA enforce proper implementation of its eligibility policy and procedures and establish a regular quality control review of tenant files by program management.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

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

Finding No.: 2012-10 Eligibility – Material Weakness (continued)

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.

PHA Reply (Corrective Action Plan): As part of its compliance and monitoring reviews, the Branch Chief and/or appropriate supervisor is required to verify eligibility on an annual basis and ensure compliance with the 50058 reporting requirement. The HPHA is in the process of establishing a pilot program to reorganize its applications, Section 8 program, and public housing programs, for more effective use of its resources. A letter was sent to the unions for consultation on the matter on January 30, 2013. Once implemented, the pilot program will ensure that reporting of the 50058 form is consistently submitted in a timely manner and that quality review standards are addressed, by providing for a quality control team of 3.0 FTE to conduct audits of tenant files. Staff turnover at neighbor island offices will be addressed by hiring experienced staff or providing training for newly hired staff. In addition, the central quality control team can be deployed to neighbor island offices as needed.

Implementation of this action plan will be monitored by the Office of the Executive Director through monthly reports.

Contact Person: Stephanie Fo and Joanna Renken

Target Completion Date: May 2013

Finding No.: 2012-11 Allowable Costs/Cost Principles – Material Weakness

Criteria: Section 7.10 of the Supplement to HUD Handbook 7475.1 requires the HPHA to prorate the direct costs of the waiting list, screening, leasing and occupancy function (i.e. applications), including supervisory personnel, to the AMPs. Such prorations may be based on the number of units, average turnover, or another reasonable allocation method.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

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

Finding No.: 2012-11 Allowable Costs/Cost Principles – Material Weakness (continued)

Section 7.5 of the Supplement to HUD Handbook 7475.1 requires the HPHA to charge a reasonable management fee. In addition, for those AMPs that are privately managed, the COCC can retain the difference between a reasonable property management fee and the actual cost of the property management fees paid to the private management company.

Condition, cause, and context: Based on our discussions with management, we noted there is no independent review and approval over the applications front-line allocation schedule or the management fee schedule prior to recording in the general ledger. As a result, adjustments were subsequently made to reflect the proper fee amounts.

Effect: Failure to properly monitor allowable costs can lead to noncompliance with program requirements and potential disallowed costs.

Questioned costs: None

Recommendation: We recommend that the HPHA implement policies and procedures to establish a review and approval process of reconciling schedules. 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.

PHA Reply (Corrective Action Plan): The HPHA will establish an implement adequate policies and procedures which will include a monthly review by the Fiscal Officer to reconciliation schedules and once they are completed, attest to their completeness. In addition, once the control system has been developed, it will be reviewed regularly for possible improvements.

Contact Person: Clarence Allen

Target Completion Date: June 2014

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2012

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

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

Finding No.: 2012-12 Cash Management – Material Weakness

Criteria: 31 CFR section 205.33 requires a Federal Program Agency to limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition, cause, and context: During our audit, we noted that controls over transferring operating subsidies to the correct Asset Management Project grouping (AMP) cash account are in place but are not operating effectively. We noted that operating subsidies received from HUD were not properly transferred to the AMPs' cash accounts in the correct amount or not transferred at all. Corrections were made as a result of the audit finding.

Effect: Failure to properly monitor operating subsidies and related cash transfers to AMPs can lead to noncompliance with program requirements.

Questioned costs: None

Recommendation: We recommend that the HPHA reform its current review and approval process over transfers of operating subsidies to the various. The review and its results should be documented for monitoring at the HPHA management level. Such a review and approval process should identify any misappropriated cash and ultimately reduce the number of errors.

PHA Reply (Corrective Action Plan): The HPHA will review its approval process and institute stricter controls in the transfer of operating subsidies to the various AMPs. This will include additional internal controls for monitoring such as confirming the operating subsidy schedule and Contract Letter received from HUD on a monthly basis.

Contact Person: Clarence Allen

Target Completion Date: June 2014

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2012

Section 8 Housing Choice Vouchers Program CFDA No. 14.871

Finding No.: 2011-04 Special Tests and Provisions – Waiting List – Material Weakness

Condition, cause, and context: The 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 onto the voucher-based program waiting list is based upon preference criteria. Applicants on the waiting list who met these preference criteria, with the proper documentation and verification, were admitted into the voucher-based program. However, during our audit, we noted that applicants were placed incorrectly on the waiting list due to incorrect preferences entered into the waiting list or there were missing applications for individuals listed on the waiting list. Also, for applicants who were selected from the waiting list and placed into the voucher-based program during the year, we noted no documentation supporting whether or not the applicants were selected from the waitlist in the order maintained by the PHA administrative plan.

Recommendation: We recommend that HPHA maintain 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 compliance.

Status: The comment is still applicable. See finding 2012- 04.

Finding No.: 2011-05 Housing Quality Standards Inspections – Material Weakness

Condition, cause and context: Due to management oversight, we noted that only 22 out of 27 required quality control HQS inspections samples were performed.

Recommendation: We recommend that HPHA maintain and monitor a log of quality control HQS inspections to facilitate its compliance with HUD's minimum quality controls requirement.

Status: The comment is not longer applicable.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2012

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

Finding No.: 2011-06 Reporting – Significant Deficiency

Condition, cause and context: During our audit, we noted that the amount of “units leased” and the amount of housing assistance payments (HAP) reported on the monthly HUD 52681-B reports received by HUD did not agree with the HAP registers, which represent voucher amounts actually paid to the landlords. We also noted that there is no independent review of the report before submission.

Recommendation: We recommend that documentation supporting the preparation of the monthly HUD 52681-B reports be reconciled to the monthly HAP registers and retained by management. To ensure that amounts are reported to correctly, we also recommend that an independent review be performed to ensure that amounts being reported agree with supporting documents.

Status: The comment is still applicable. See finding 2012-05.

Finding No.: 2011-07 Special Tests and Provisions – Rolling Forward Equity Balances – Significant Deficiency

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.

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.

Status: The comment is not longer applicable.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2012

Public Housing Capital Fund CFDA No. 14.872

Finding No.: 2011-08 Equipment and Real Property – Material Weakness

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.

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.

Status: The comment is still applicable. See finding 2012-06.

Finding No.: 2011-09 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. Although the HPHA hires a consultant to assist in filing, the information provided to the consultant need to be complete and accurate. For example, the various audit adjustments to the trial balances resulted in the unaudited submission being significantly different from the audited submission.

Also, during our audit, we noted that the same individual completes, reviews and approves Form HUD 60002 prior to submission to HUD.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2012

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2011-09 Reporting – Material Weakness (continued)

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: A portion of the comment is still applicable. See finding 2012-07.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2012

Public and Indian Housing CFDA No. 14.850

Finding No.: 2011-10 Special Tests and Provisions – Waiting List – Material Weakness

Condition, cause, and context: In our discussions with management, the 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 and placed in a project are not monitored. There is no quality review to reassure that applicants are properly being placed or pulled from the waiting list.

Recommendation: We recommend that HPHA complies with the reporting requirements of the program and implement a quality control review over input into the waiting list system and placement of applicants into the various federal projects.

Status: The comment is still applicable. See finding 2012-08.

Finding No.: 2011-11 Special Tests and Provisions – Recording Declarations of Trust Against Housing Property – Material Weakness

Conditions, cause, and context: During our review of HPHA’s DOTs, we noted that several DOTs expired and there were no DOTs on file for 12 out of the 70 properties. Also, in our discussions with management, we noted that HPHA did not have any monitoring controls over the recording of the DOTs in accordance with the program requirements.

Recommendation: We recommend that HPHA complies with the DOT requirements of the program and establish and implement the necessary policies and procedures over the maintenance of the DOTs to assure compliance with the program requirements.

Status: The comment is still applicable. See finding 2012-09.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2012

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

Finding No.: 2011-12 Eligibility – Material Weakness

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

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

- 1) For 11 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 12 out of 60 tenant files tested, we noted that required forms were missing or were not properly executed.

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: The comment is still applicable. See finding 2012-10.