

Hawaii Public Housing Authority

Financial Statements

June 30, 2013

Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**



A Hawaii Limited Liability Partnership

March 24, 2014

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, 2013. 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, 2013, 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, 2013.

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, 2013, 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 for each major program; internal control over compliance; and report on schedule of expenditures of federal awards.
- Part IV – The schedule of findings and questioned costs and management responses
- Part V – The summary schedule of prior audit findings.

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

Sincerely,



Wilcox Choy
Partner

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PART I
FINANCIAL SECTION



A Hawaii Limited Liability Partnership

Independent Auditor's Report

The Auditor
State of Hawaii

Board of Directors
Hawaii Public Housing Authority:

Report on the Financial Statements

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, 2013 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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, 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison schedules on pages 9 through 21 and pages 71 to 73, respectively, 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.

Other Information

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 Federal Awards on pages 75 through 76, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is not a required part of the basic financial statements.

The accompanying Financial Data Schedule on pages 77 through 83 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Federal Awards and the Financial Data Schedule are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Federal Awards and the Financial Data Schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2014 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 24, 2014

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2013

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, 2013. 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, 2013, 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, 2012 to June 30, 2013, 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 Housing Authority).

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2013

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the assets of the HPHA exceeded its liabilities by \$452,217,006 (net Position). Of this amount, \$298,609,752 is invested in capital assets, net of related debt. (As detailed on *Government-Wide Statement of Net Position, page 22*)
- The HPHA's government wide net position increased by \$80,188,664. The increase in net position is the offsetting activities in government activities and business-type activities as follows:
 - a. Governmental activities increase in net position of \$76,393,184 is primarily due to State allotted appropriations, net of lapsed funds of \$3,366,246 and net transfers of \$(6,809,938) (as detailed on *Government-Wide Statement of Activities, page 24*).
 - b. Business-type activities increase in net position of approximately \$3,795,480 (as detailed on *Government-Wide Statement of Activities, page 24*) is primarily due to capital contribution transfers of \$7,761,494; net operating transfers of \$6,809,938 from Governmental Activities and loss before transfers of \$10,775,952 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 33*).

The capital contribution transfers are related to the Capital Project fund's current year capital outlay (\$7,761,494) (as detailed on *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, page 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, page 27*).

The loss before transfers of \$10,775,952 as compared to prior year loss of \$8,347,306 is primarily due to higher personnel and repair and maintenance costs. (as detailed on *Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, pages 32 and 33*).

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2013

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 Position* and the *Statement of Activities* provide both long-term and short-term information about the HPHA's overall financial status.

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

The *Statement of Activities* shows how the HPHA's net position 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, 2013

- **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 Position 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 position), 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) government accounting and reporting principals. 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, 2013

GOVERNMENT-WIDE FINANCIAL ANALYSIS

HAWAII PUBLIC HOUSING AUTHORITY Condensed Statements of Net Positions June 30, 2013 & June 30, 2012 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 104,158	\$ 26,829	\$ 66,188	\$ 66,441	\$ 170,346	\$ 93,270
Capital assets	4,541	4,784	294,068	291,720	298,609	296,504
Other assets	-	-	8,131	5,837	8,131	5,837
Total Assets	\$ 108,699	\$ 31,613	\$ 368,387	\$ 363,998	\$477,086	\$ 395,611
Current and other liabilities	\$ 3,473	\$ 2,773	\$ 7,472	\$ 10,051	\$ 10,945	\$ 12,824
Long-term liabilities	104	111	13,820	10,647	13,924	10,758
Total Liabilities	3,577	2,884	21,292	20,698	24,869	23,582
Net position:						
Invested in capital assets, net of related debt	4,541	4,784	294,068	291,720	298,609	296,504
Restricted	3,851	4,952	-	-	3,851	4,952
Unrestricted	96,730	18,993	53,027	51,580	149,757	70,573
Total net position	105,122	28,729	347,095	343,300	452,217	372,029
Total liabilities & net position	\$ 108,699	\$ 31,613	\$ 368,387	\$ 363,998	\$ 477,086	\$ 395,611

Statement of net position

Net position 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 \$452,217,006. \$298,609,752 of net position is invested in capital assets, net of related debt. As discussed in the financial highlights, net position increased by \$80,188,664 during the fiscal period. (as detailed in the *Government-Wide Statement of Net Position and Statement of Activities, pages 22 and 23*).

Of the HPHA's total assets, \$298,609,752 (or 63%) 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 Position, page 22*) in the amount of \$97,990,485 and comprises 21% of total assets. Amounts that are "Due from the State of Hawaii" represent available State allotted appropriations as of the end of the fiscal year and are primarily designated for capital improvement projects. Net position for the previous fiscal year had a similar composition with the majority of total net position represented by capital assets, net of related debt.

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2013

Accounts payable and accrued current expenses of \$9,013,746 (as detailed in the *Government-Wide Statement of Net Position, page 23*) comprise 82% of the HPHA's total current liabilities. Long term liabilities increased by \$3,165,226 from the prior year. This is primarily due to the net increase in other post retirement employee benefits liability of \$3,125,421 (as detailed in the *Notes to the Financial Statements, #8, 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 Statements of Activities Years Ended June 30, 2013 and June 30, 2012 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues						
Program Revenues:						
Charges for services	\$ -	\$ -	\$ 18,015	\$ 18,435	\$ 18,015	\$ 18,435
Operating grants and contributions	50,910	52,292	21,511	21,814	72,421	74,106
Capital grants and contributions	-	-	12,466	11,029	12,466	11,029
Other income	-	-	2,311	2,008	2,311	2,008
General Revenues:						
State allotted appropriations, net of lapsed funds	93,063	(5,415)	-	-	93,063	(5,415)
Total revenues	143,973	46,877	54,303	53,286	198,276	100,163
Expenses						
Governmental Activities						
Rental housing assistance program	60,771	61,881	-	-	60,771	61,881
Business-type activities						
Rental assistance program	-	-	53,466	49,078	53,466	49,078
Housing development program	-	-	7,803	8,635	7,803	8,635
Other	-	-	3,810	3,921	3,810	3,921
Total governmental-wide expenses	60,771	61,881	65,079	61,634	125,850	123,515
Excess (deficiency) of revenues over (under) expenses	83,202	(15,004)	(10,776)	(8,348)	72,426	(23,352)
Capital contributions	-	-	7,762	8,521	7,762	8,521
Transfers	(6,810)	(6,071)	6,810	5,721	-	(350)
CHANGES IN NET POSITION	76,392	(21,075)	3,796	5,894	80,188	(15,181)
Total net position, beginning of year	28,731	49,806	343,298	337,404	372,029	387,210
Total net position, end of year	\$ 105,123	\$28,731	\$ 347,094	\$ 343,298	\$ 452,217	\$ 372,029

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2013

Statement of Activities

Operating grants and contributions decreased \$1,684,174 in the current year from \$74,105,751 to \$72,421,577 due to reduced federal funds resulting from the federal budget sequestration. Capital grants and contributions increased by \$1,436,214 in the current year from \$11,029,546 to \$12,465,760. The increase was due to HUD operating and capital subsidies increasing 3% from \$32,843,650 in the prior year to \$33,976,825. Contributing to the higher business-type activities operating loss of \$13,087,175 for the year (as detailed in the *Government – Wide Statement of Activities, Page 23*), was higher Rental assistance program losses due to higher management fees, personnel costs and utilities. Consequently, business-type activities recognized net loss, before capital contributions and transfers, of \$10,775,952 for the year.

Governmental activities net position increased by \$76,393,184 from prior year. This increase is primarily due to State allotted appropriations of \$93,063,303 net of lapsed capital funds of \$3,366,246 and net transfers of \$6,809,938 to business-type activities (as detailed in *Government-Wide Statement of Activities, Page 23*).

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 \$100,684,489, of which \$93,992,786 is reserved for capital projects, an increase of \$76,628,223 in comparison with the prior year's combined fund balance of \$24,056,266 (as detailed on *Governmental Funds, Balance Sheet, page 25 and Statement of Revenues, Expenditures and Changes in Fund Balances, page 27*).
- The general fund balance excess of revenues over expense at the end of the fiscal year was \$3,889,233. However, \$3,742,519 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*)
- The key factors in the increases in capital projects fund balance were the net transfers out of \$6,809,938, and the state allotted appropriations of \$93,063,303, net of lapsed funds (as detailed on the *Government-Wide, Statement of Activities, page 24*).

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2013

- The remaining change is related to the net change in Capital Projects Fund of approximately \$80,474,794 which consists of capital outlay of approximately \$7,761,494 net of current year appropriations of approximately \$91,602,534 net of lapsed funds of \$3,366,246 or \$88,236,288 (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 \$93,992,786 for Capital Projects (as detailed on *Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balances, page 27*), of which \$45,643,000 had not been released to HPHA by the end of the Fiscal Year.
- The Housing Choice Voucher Program subsidy for the current year showed an increase of \$83,569 from prior year primarily due to additional funding for tenant protection and Veterans Affairs Supportive Housing vouchers.

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 \$10,775,952 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 33*) compared with prior year loss of \$8,347,306. The change is primarily due to gain on sale of projects of \$2,003,456 included in prior year net loss before transfers.
- The COCC loss before transfers decreased from \$2,612,537 to a loss of \$2,035,053 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, pages 32 and 33*). This is primarily due to the overall increase in "Fee-for-service" income of approximately \$2,252,048 to \$7,584,264 or 42.23%. The majority of the increase is related to the increase in capital fund management fees and offset by \$2,310,030 related to exempt maintenance staff hired and related OPEB expenses. There were also decreases in Administrative Expenses, Provision for Losses and Repair and Maintenance Expenses which contributed to the decrease in losses.

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During the past fiscal year, the COCC received approximately \$1,605,355 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 33*) of operating transfers compared with prior year transfers of \$10,386,003. Of this amount, \$10,000,000 was from the sale of the Wilikina Apartments Project.

- Under the Federal Low Rent Program, net loss before transfers amounted to approximately \$6,046,550 compared to the prior year net loss of \$2,245,110. The total net loss variance from prior year was \$3,801,440 due to operating expenses increasing by \$4,388,335 to \$53,466,031 from prior year (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 32*). The majority of the increases was related to exempt Personnel Services costs, Depreciation, Repair and Maintenance Expenses and Utilities.
- 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. Consequently, Housing Revolving fund and Housing for Elderly losses before transfers amounted to \$347,001 and \$2,458,663, respectively (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 33*).
- Other Enterprise Funds income before transfers amounted to approximately \$108,697 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Positions, page 33*) compared with prior year income of approximately \$905,523. The decrease in income is due primarily to the gain from sale of Project of \$2,003,456 in prior year before transfer.

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

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2013

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, 2013 is \$298,609,752 (*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 57.*)

HPHA Capital Assets Years ended June 30, 2013 and June 30, 2012 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 2,373	\$ 2,373	\$ 22,966	\$ 22,966	\$ 25,339	\$ 25,339
Buildings and improvements	15,041	15,041	554,858	529,204	569,899	544,245
Equipment	1,198	1,198	7,750	8,797	8,948	9,995
Construction in progress	-	-	27,423	35,664	27,423	35,664
Total	18,612	18,612	612,997	596,631	631,609	615,243
Accumulated Depreciation	(14,071)	(13,828)	(318,929)	(304,911)	(333,000)	(318,739)
Total Capital Assets Net	\$ 4,541	\$ 4,784	\$ 294,068	\$ 291,720	\$ 298,609	\$ 296,504

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

Major Projects Outstanding FY2013 (work-in-progress) at the end of the year

- AMP 30 Puuwai Momi Electrical System Repairs I and II - \$2,431,464
- AMP 30 Salt Lake Apartment and Elevator Renovation (1) Plus Installation (1)
New Elevator (Construction) - \$1,449,920
- AMP 31 Kalihi Valley Homes, Site & Dwelling Improvements Phase IVA - \$4,651,779
- AMP 32 Mayor Wright Homes, Emergency Security Improvements (Construction) - \$207,785
- AMP 34 Kalakaua Homes ADA and 504 Interior and Exterior, Exterior Paint and
Miscellaneous Repairs (Construction) - \$2,069,313
- AMP 34 Makua Alii, Structural and Spall Repairs 2nd Phase (Construction) - \$3,128,453
- AMP 38 Hale Nana Kai O'Kea, Physical Improvement, ADA (Construction) - \$2,270,145
- AMP 38 Kalaheo Homes, Physical Improvements, ADA (Construction) - \$1,534,272
- AMP 38 Kawailehua, (Federal) Exterior Improvements (Construction) - \$2,476,702
- Kawailehua, (State) Improvements (Construction) - \$1,026,732

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2013

- AMP 42 Hale Po'ai Building Improvements (Construction) - \$2,550,294
- AMP 43 Hale Hookipa, Nani Olu, Reroofing (Construction) - \$2,350,683
- AMP 46 Ke Kumu Ekolu, Roofing & Interior Repairs (Construction) - \$2,484,052
- AMP 50 Palolo Valley Homes Physical Improvements Phase 1 & 2 (Construction) - \$11,005,528
- AMP 52KPT, Michaels Development Redevelopment of KPT and Kuhio Homes (Construction) - \$2,000,000
- PHA-Wide PHA-Wide, Type C Units - \$5,061,518

Debt Activity

As of June 30, 2013, 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 \$291,605 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, 2013.

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 position 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.

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2013

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 Alternative Dispute Resolution Hawaii (ADR) since these lawsuits were file. At this point, the parties have settled one of the lawsuits and are still in discussion to possibly settle the remaining case.

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 file 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.

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2013

On July 9, 2013, the property known as KE KUMU Ekahi in the City of Waikoloa, County of Hawaii, consisting of 48 unit low income rental housing project terminated its ground lease and the property reverted to HPHA. In consideration HPHA released KE KUMU LIMITED PARTNERSHIP from a mortgage loan of \$426,100 and the mortgagee and Mortgagor forever discharge each other from any liabilities that may exist.

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 POSITION

June 30, 2013

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash	\$ 3,725,127	\$ 60,641,336	\$ 64,366,463
Restricted cash	129,314	846,394	975,708
Due from State of Hawaii	97,990,485	-	97,990,485
Receivables:			
Accrued interest	-	2,487	2,487
Tenant receivables, less allowance for doubtful receivables of \$1,427,957	-	469,060	469,060
Other	39,659	793,845	833,504
	<u>39,659</u>	<u>1,265,392</u>	<u>1,305,051</u>
Internal balances	4,529	(4,529)	-
Due from other state agencies	-	118,999	118,999
Due from HUD	196,449	2,310,956	2,507,405
Inventories	-	973,274	973,274
Prepaid expenses and other assets	2,072,112	8,843	2,080,955
Deposits held in trust	<u>-</u>	<u>27,496</u>	<u>27,496</u>
Total current assets	<u>104,157,675</u>	<u>66,188,161</u>	<u>170,345,836</u>
Notes Receivable	-	8,130,985	8,130,985
Capital Assets, less accumulated depreciation	<u>4,541,383</u>	<u>294,068,369</u>	<u>298,609,752</u>
Total assets	<u>\$ 108,699,058</u>	<u>\$ 368,387,515</u>	<u>\$ 477,086,573</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET POSITION (continued)

June 30, 2013

LIABILITIES AND NET POSITION	Governmental Activities	Business-Type Activities	Total
Current Liabilities:			
Accounts payable	\$ 2,989,996	\$ 2,819,276	\$ 5,809,272
Accrued expenses	483,190	2,721,284	3,204,474
Due to State of Hawaii	-	571,402	571,402
Security deposits	-	880,464	880,464
Deferred income	-	480,391	480,391
Total current liabilities	<u>3,473,186</u>	<u>7,472,817</u>	<u>10,946,003</u>
Accrued Expenses	103,549	13,820,015	13,923,564
Commitments and Contingencies			
Net Position:			
Invested in capital assets, net of related debt	4,541,383	294,068,369	298,609,752
Restricted by legislation and contractual agreements	3,850,587	-	3,850,587
Unrestricted	<u>96,730,353</u>	<u>53,026,314</u>	<u>149,756,667</u>
Total net position	<u>105,122,323</u>	<u>347,094,683</u>	<u>452,217,006</u>
Total liabilities and net position	<u>\$ 108,699,058</u>	<u>\$ 368,387,515</u>	<u>\$ 477,086,573</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

	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	\$ 60,770,693	\$ -	\$ 50,910,512	\$ -	\$ (9,860,181)	\$ -	\$ (9,860,181)
Total governmental activities	60,770,693	-	50,910,512	-	(9,860,181)	-	(9,860,181)
Business-type activities:							
Rental assistance program	53,466,031	13,641,327	21,511,065	12,465,760	-	(5,847,879)	(5,847,879)
Rental housing program	7,803,356	3,351,110	-	-	-	(4,452,246)	(4,452,246)
Others	3,809,502	1,022,452	-	-	-	(2,787,050)	(2,787,050)
Total business-type activities	65,078,889	18,014,889	21,511,065	12,465,760	-	(13,087,175)	(13,087,175)
Total government-wide	\$ 125,849,582	\$ 18,014,889	\$ 72,421,577	\$ 12,465,760	(9,860,181)	(13,087,175)	(22,947,356)
State Allotted Appropriations, net of lapsed funds of \$3,366,246					93,063,303	-	93,063,303
Other Non-Program Revenue					-	2,311,223	2,311,223
Capital Contributions					-	7,761,494	7,761,494
Net Transfers					(6,809,938)	6,809,938	-
Total general revenues and transfers					86,253,365	16,882,655	103,136,020
Change in net position					76,393,184	3,795,480	80,188,664
Net Position at July 1, 2012					28,729,139	343,299,203	372,028,342
Net Position at June 30, 2013					\$ 105,122,323	\$ 347,094,683	\$ 452,217,006

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2013

ASSETS	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Total Governmental Funds
Current Assets:					
Cash	\$ 4	\$ -	\$ 1,967,044	\$ 1,758,079	\$ 3,725,127
Restricted cash	-	-	129,314	-	129,314
Due from State of Hawaii	1,299,440	96,691,045	-	-	97,990,485
Other receivables	-	-	39,659	-	39,659
Due from other funds	-	-	213,450	126,337	339,787
Due from HUD	903	-	-	195,546	196,449
Prepaid expenses and other assets	45,322	-	2,026,790	-	2,072,112
Total assets	<u>\$ 1,345,669</u>	<u>\$ 96,691,045</u>	<u>\$ 4,376,257</u>	<u>\$ 2,079,962</u>	<u>\$ 104,492,933</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Accounts payable	\$ 229,026	\$ 2,698,259	\$ 53,100	\$ 9,611	\$ 2,989,996
Accrued expenses	7,761	-	252,508	222,921	483,190
Due to other funds	97,464	-	-	-	97,464
Total current liabilities	334,251	2,698,259	305,608	232,532	3,570,650
Due to other funds	17,732	-	220,062	-	237,794
Fund Balances:					
Restricted by legislation and contractual agreements	-	-	3,850,587	-	3,850,587
Committed	-	20,367,829	-	-	20,367,829
Assigned	993,686	73,624,957	-	1,847,430	76,466,073
Total fund balances	993,686	93,992,786	3,850,587	1,847,430	100,684,489
Total liabilities and fund balances	<u>\$ 1,345,669</u>	<u>\$ 96,691,045</u>	<u>\$ 4,376,257</u>	<u>\$ 2,079,962</u>	<u>\$ 104,492,933</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 POSITION

June 30, 2013

Total fund balance - governmental funds		\$	100,684,489
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds	4,541,383		
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds	<u>(103,549)</u>		<u>4,437,834</u>
Net position of governmental activities		\$	<u>105,122,323</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, 2013

	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Total Governmental Funds
Revenues:					
Intergovernmental – HUD annual contributions and others	\$ -	\$ -	\$ 25,346,599	\$ 25,551,741	\$ 50,898,340
State allotted appropriations, net of lapsed funds of \$3,366,246	4,827,015	88,236,288	-	-	93,063,303
Other	-	-	11,987	185	12,172
Total revenues	4,827,015	88,236,288	25,358,586	25,551,926	143,973,815
Expenditures:					
Housing assistance payments	523,786	-	24,199,508	24,380,061	49,103,355
Personnel services	228,038	-	1,137,574	-	1,365,612
Administration	99,352	-	1,007,811	950,464	2,057,627
Professional services	29,298	-	26,647	46,013	101,958
Security	12,311	-	-	-	12,311
Repairs and maintenance	5,132	-	-	-	5,132
Capital outlays	1,382	7,761,494	-	-	7,762,876
Other	38,483	-	88,300	-	126,783
Total expenditures	937,782	7,761,494	26,459,840	25,376,538	60,535,654
Excess (deficiency) of revenues over (under) expenditures	3,889,233	80,474,794	(1,101,254)	175,388	83,438,161
Other Financing Uses - Transfers Out	(3,742,519)	(2,889,645)	-	(177,774)	(6,809,938)
Net change in fund balances	146,714	77,585,149	(1,101,254)	(2,386)	76,628,223
Fund Balances at July 1, 2012	846,972	16,407,637	4,951,841	1,849,816	24,056,266
Fund Balances at June 30, 2013	\$ 993,686	\$ 93,992,786	\$ 3,850,587	\$ 1,847,430	\$ 100,684,489

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, 2013

Net change in fund balances - total governmental funds		\$ 76,628,223
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 \$7,761,494 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 \$242,000.	(242,216)	
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>7,177</u>	<u>(235,039)</u>
Change in net assets of governmental activities		<u>\$ 76,393,184</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

June 30, 2013

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	\$ 27,891,493	\$ 659,683	\$ 2,528,648	\$ 19,710,117	\$ 8,873,981	\$ 59,663,922	\$ 977,414
Restricted cash	-	-	-	846,394	-	846,394	-
	<u>27,891,493</u>	<u>659,683</u>	<u>2,528,648</u>	<u>20,556,511</u>	<u>8,873,981</u>	<u>60,510,316</u>	<u>977,414</u>
Receivables:							
Accrued interest	-	88	2,144	-	-	2,232	255
Tenant receivables, less allowance for doubtful accounts of \$1,427,957	376,861	85,686	2,341	-	4,172	469,060	-
Other	761,997	6,956	-	-	23,820	792,773	1,072
	<u>1,138,858</u>	<u>92,730</u>	<u>4,485</u>	<u>-</u>	<u>27,992</u>	<u>1,264,065</u>	<u>1,327</u>
Due from other funds	1,988,375	-	-	9,846,310	705,689	12,540,374	9,287
Due from other state agencies	-	-	-	87,256	31,743	118,999	-
Due from HUD	2,310,956	-	-	-	-	2,310,956	-
Inventories	830,096	28,027	90,100	25,051	-	973,274	-
Prepaid expenses and other assets	-	-	-	8,843	-	8,843	-
Deposits held in trust	-	-	-	-	27,496	27,496	-
	<u>34,159,778</u>	<u>780,440</u>	<u>2,623,233</u>	<u>30,523,971</u>	<u>9,666,901</u>	<u>77,754,323</u>	<u>988,028</u>
Total current assets							
Notes Receivable	8,130,985	-	-	-	-	8,130,985	-
Due from Other Funds	-	-	-	6,930,987	-	6,930,987	-
Capital Assets, less accumulated depreciation	222,466,123	20,553,818	37,531,447	142,644	13,006,193	293,700,225	368,144
	<u>264,756,886</u>	<u>21,334,258</u>	<u>40,154,680</u>	<u>37,597,602</u>	<u>22,673,094</u>	<u>386,516,520</u>	<u>1,356,172</u>
Total assets							

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET POSITION (continued)

June 30, 2013

LIABILITIES AND NET POSITION	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	\$ 2,581,725	\$ 42,186	\$ 129,632	\$ 41,366	\$ 24,367	\$ 2,819,276	\$ -
Accrued expenses	1,609,636	53,374	8,042	954,123	96,109	2,721,284	-
Due to other funds	3,563,793	344,829	210,796	29,150	8,643,416	12,791,984	-
Due to State of Hawaii	-	-	-	-	571,402	571,402	-
Security deposits	655,017	40,499	146,955	-	37,993	880,464	-
Deferred income	442,857	28,011	-	9,523	-	480,391	-
Total current liabilities	8,853,028	508,899	495,425	1,034,162	9,373,287	20,264,801	-
Accrued Expenses	719,859	56,977	-	13,043,179	-	13,820,015	-
Due to Other Funds	6,174,685	518,508	-	-	-	6,693,193	-
Total liabilities	15,747,572	1,084,384	495,425	14,077,341	9,373,287	40,778,009	-
Commitments and Contingencies							
Net Position:							
Invested in capital assets, net of related debt	222,466,123	20,553,818	37,531,447	142,644	13,006,193	293,700,225	368,144
Unrestricted	26,543,191	(303,944)	2,127,808	23,377,617	293,614	52,038,286	988,028
Total net position	249,009,314	20,249,874	39,659,255	23,520,261	13,299,807	345,738,511	1,356,172
Total liabilities and net position	\$ 264,756,886	\$ 21,334,258	\$ 40,154,680	\$ 37,597,602	\$ 22,673,094	\$ 386,516,520	\$ 1,356,172

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

June 30, 2013

Total net position of enterprise funds	\$ 345,738,511
Amounts reported for business-type activities in the statement of net position are different because internal service fund assets and liabilities are included with business-type activities	<u>1,356,172</u>
Net position of business-type activities	<u>\$ 347,094,683</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 POSITION

Year ended June 30, 2013

	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	\$ 13,413,285	\$ 942,751	\$ 1,994,995	\$ -	\$ 801,088	\$ -	\$ 17,152,119	\$ 15,780
Fee-for-service	-	-	-	7,584,264	-	(7,584,264)	-	-
Other	228,042	16,501	60,982	541,387	78	-	846,990	-
Total operating revenues	13,641,327	959,252	2,055,977	8,125,651	801,166	(7,584,264)	17,999,109	15,780
Operating Expenses:								
Project	5,134,858	-	-	-	-	-	5,134,858	-
Personnel services	9,173,727	802,911	-	8,306,357	-	-	18,282,995	-
Depreciation	12,715,747	841,076	1,440,125	15,501	501,535	-	15,513,984	14,233
Administration	6,485,838	304,398	1,246,544	752,224	579,777	(6,905,548)	2,463,233	58
Provision for (recovery of) losses	453,189	(48,197)	-	-	(45,517)	-	359,475	-
Professional services	195,948	37,941	19,096	556,056	28,679	-	837,720	2,844
Security	1,817,483	-	2,336	21,595	-	-	1,841,414	-
Insurance	611,473	32,422	129,176	44,066	3,431	-	820,568	-
Repairs and maintenance	5,204,707	142,414	326,027	329,357	132,526	(678,716)	5,456,315	-
Utilities	11,636,851	738,774	1,356,709	140,019	423,639	-	14,295,992	-
Payments in lieu of taxes	36,210	-	-	-	-	-	36,210	-
Capital expenditures	-	-	-	18,990	-	-	18,990	-
Total operating expenses	53,466,031	2,851,739	4,520,013	10,184,165	1,624,070	(7,584,264)	65,061,754	17,135
Operating loss carried forward	(39,824,704)	(1,892,487)	(2,464,036)	(2,058,514)	(822,904)	-	(47,062,645)	(1,355)

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2013

	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	(39,824,704)	(1,892,487)	(2,464,036)	(2,058,514)	(822,904)	-	(47,062,645)	(1,355)
Nonoperating Revenues (Expenses):								
HUD operating subsidies	21,511,065	-	-	-	-	-	21,511,065	-
HUD capital fund subsidies	12,465,760	-	-	-	-	-	12,465,760	-
Other (expenses) revenues	(198,671)	1,545,486	5,373	23,461	931,601	-	2,307,250	3,973
Net nonoperating revenues	33,778,154	1,545,486	5,373	23,461	931,601	-	36,284,075	3,973
(Loss) income before transfers	(6,046,550)	(347,001)	(2,458,663)	(2,035,053)	108,697	-	(10,778,570)	2,618
Capital Contributions	6,833,181	(1,920,921)	206,317	77,717	2,565,200	-	7,761,494	-
Net Transfers	3,227,998	384,285	1,235,004	1,605,355	357,296	-	6,809,938	-
Change in net position	4,014,629	(1,883,637)	(1,017,342)	(351,981)	3,031,193	-	3,792,862	2,618
Net Position at July 1, 2012	244,994,685	22,133,511	40,676,597	23,872,242	10,268,614	-	341,945,649	1,353,554
Net Position at June 30, 2013	\$ 249,009,314	\$ 20,249,874	\$ 39,659,255	\$ 23,520,261	\$ 13,299,807	\$ -	\$ 345,738,511	\$ 1,356,172

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2013

Change in net position - total enterprise funds	\$ 3,792,862
Change in net position - internal service funds	<u>2,618</u>
Change in net position of business-type activities	<u><u>\$ 3,795,480</u></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, 2013

	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	\$ 12,988,163	\$ 941,585	\$ 1,992,654	\$ -	\$ 849,622	\$ 16,772,024	\$ -
Cash payments to employees	(9,173,727)	(802,338)	-	(5,094,162)	-	(15,070,227)	-
Cash payments to suppliers	(32,525,415)	(1,331,788)	(3,064,024)	(2,090,237)	(1,217,809)	(40,229,273)	-
Cash receipts from other funds	1,984,607	933,090	1,217,420	4,923,112	5,539,836	14,598,065	7,435
Other cash receipts (payments)	(255,398)	20,520	60,982	539,894	(122,731)	243,267	(5,000)
Net cash (used in) provided by operating activities	(26,981,770)	(238,931)	207,032	(1,721,393)	5,048,918	(23,686,144)	2,435
Cash Flows from Noncapital Financing Activities:							
HUD operating subsidy received	22,173,100	-	-	-	-	22,173,100	-
Other	-	-	-	-	46,461	46,461	-
Net cash provided by noncapital financing activities	22,173,100	-	-	-	46,461	22,219,561	-
Cash Flows from Capital and Related Financing Activities:							
HUD capital subsidy received	12,888,602	-	-	-	-	12,888,602	-
Payments for acquisition of property and equipment	(7,441,733)	-	-	-	-	(7,441,733)	(380,263)
Issuance of note receivable	(3,314,356)	-	-	-	-	(3,314,356)	-
Other	(198,671)	-	-	-	-	(198,671)	-
Net cash provided by (used in) capital and related financing activities	1,933,842	-	-	-	-	1,933,842	(380,263)
Subtotal carried forward	(2,874,828)	(238,931)	207,032	(1,721,393)	5,095,379	467,259	(377,828)

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, 2013

	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	(2,874,828)	(238,931)	207,032	(1,721,393)	5,095,379	467,259	(377,828)
Cash Flows from Investing Activity --							
Receipts of Interest	-	709	(2,669)	23,461	-	21,501	4,088
Net cash provided by (used in) investing activities	-	709	(2,669)	23,461	-	21,501	4,088
Net increase (decrease) in cash	(2,874,828)	(238,222)	204,363	(1,697,932)	5,095,379	488,760	(373,740)
Cash at July 1, 2012	30,766,321	897,905	2,324,285	22,254,443	3,778,602	60,021,556	1,351,154
Cash at June 30, 2013	<u>\$ 27,891,493</u>	<u>\$ 659,683</u>	<u>\$ 2,528,648</u>	<u>\$ 20,556,511</u>	<u>\$ 8,873,981</u>	<u>\$ 60,510,316</u>	<u>\$ 977,414</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, 2013

	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	\$ (39,824,704)	\$ (1,892,487)	\$ (2,464,036)	\$ (2,058,514)	\$ (822,904)	\$ (47,062,645)	\$ (1,355)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:							
Depreciation	12,715,747	841,076	1,440,125	15,501	501,535	15,513,984	14,233
Provision for (recovery of) losses	453,189	(48,197)	-	-	(45,517)	359,475	-
Loss on disposal	278,557	-	-	-	-	278,557	-
Changes in assets and liabilities:							
Tenant receivables	(527,256)	(1,746)	(2,341)	-	47,477	(483,866)	-
Other receivables	(761,997)	4,019	-	-	(23,820)	(781,798)	(1,071)
Due from other funds	1,239,623	461,547	1,235,004	(2,631,165)	605,483	910,492	(8,345)
Due from other state agency	-	-	-	(11,016)	(3,038)	(14,054)	-
Inventories	(34,698)	(99)	(1,784)	(5,371)	-	(41,952)	-
Prepaid expenses and other assets	-	-	-	8,296	-	8,296	-
Deposits held in trust	-	-	-	-	(849)	(849)	-
Accounts payable	(1,150,443)	(68,894)	21,076	(43,601)	(163,460)	(1,405,322)	-
Accrued expenses	(216,906)	(6,273)	(3,428)	3,024,941	17,754	2,816,088	-
Due to other funds	744,984	471,543	(17,584)	(29,987)	4,934,351	6,103,307	(1,027)
Security deposits	38,630	2,528	-	-	1,906	43,064	-
Deferred income	63,504	(1,948)	-	9,523	-	71,079	-
Net cash (used in) provided by operating activities	<u>\$ (26,981,770)</u>	<u>\$ (238,931)</u>	<u>\$ 207,032</u>	<u>\$ (1,721,393)</u>	<u>\$ 5,048,918</u>	<u>\$ (23,686,144)</u>	<u>\$ 2,435</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET POSITION

June 30, 2013

	<u>Private Purpose Trust</u>
ASSETS	
	<u>\$ -</u>
NET POSITION	
Total Net Position - Held in Trust	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year ended June 30, 2013

	<u>Private Purpose Trust</u>
Net Position at July 1, 2012	\$ 1,655
Other	<u>(1,655)</u>
Net Position at June 30, 2013	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2013

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, 2013, 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 basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The government-wide financial statements, the statement of net position 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, 2013

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. Indirect expenses are allocated to a specific function in accordance with the U.S. Department of Housing and Urban Development requirements. 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.

Net positions 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 position. 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, 2013

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, 2013 has been reported in the government-wide financial statements.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

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.

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.

The GASB codification 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, 2013

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 and Contract Administration.

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, 2013

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, 2013

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, 2013

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

The cost of inventories is recorded as an expenditure when consumed.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

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 within governmental activities are eliminated in the statement of net position.

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 position – 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 \$670,000.

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

Balance at July 1, 2012	Additions	Reductions	Balance at June 30, 2013
<u>\$2,244,000</u>	<u>\$978,000</u>	<u>\$1,084,000</u>	<u>\$2,138,000</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

1. Organization and Significant Accounting Policies (continued)

k. Vacation (continued)

As of June 30, 2013, approximately \$151,000 and \$1,987,000 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 position.

l. Restrictions of Net Positions and Fund Balances

Net positions 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 position. When both restricted and unrestricted resources are available for use, it is generally the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

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, 2013

1. Organization and Significant Accounting Policies (continued)

m. 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.

n. 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.

o. Recently Adopted/Issued Accounting Pronouncements

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 were adopted on July 1, 2012. The adoption of this statement did not result in a material effect on the financial statements.

In March 2012, the GASB issued GASB Statement No. 65 (GASB 65), *Items Previously Reported as Assets and Liabilities*. This Statement reclassifies, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as revenues and expenses, certain items that were previously reported as assets and liabilities. The provisions of GASB 65 are effective for periods beginning after December 15, 2012. Management is currently assessing the impact of this Statement 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, 2013

1. Organization and Significant Accounting Policies (continued)

o. Recently Adopted/Issued Accounting Pronouncements (continued)

In June 2012, GASB issued Statement No. 68 (GASB 68), *Accounting and Reporting for Pensions (an amendment of GASB Statement No. 27)*. GASB 68 amends the accounting guidance related to employers' accounting for pension plans administered through trusts or similar arrangements and requires the recognition of a liability for the employers' accumulated obligation for pension benefits. GASB 68 also provides additional guidance regarding the recognition of annual costs of pension benefits and revises the disclosure requirements for the notes to the financial statements and required supplementary information. GASB 68 will be effective for the Authority's financial statements for the year ending June 30, 2015. Management is currently assessing the impact of this Statement 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 April 2013, the GASB issued Statement No. 70, *Accounting and Reporting for Nonexchange Financial Guarantees*. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. This Statement also requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. The provisions of this Statement are effective for periods beginning after June 15, 2013. Management does not believe the adoption of this Statement will have a material effect on its financial statements.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

2. Budgeting and Budgetary Control

The budget of the Authority is a detailed operating plan identifying estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, services and activities to be provided during the fiscal year, (2) the estimated revenues available to finance the operating plan, and (3) the estimated spending requirements of the operating plan. The budget represents a process through which financial policy decisions are made, implemented and controlled. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected as budgeted revenues in the accompanying required supplementary information – budgetary comparison schedule are estimates as compiled by the Authority and reviewed by the Department of Budget and Finance. Budgeted expenditures are derived primarily from acts of the State Legislature and from other authorizations contained in the State Constitution, the Hawaii Revised Statutes and other specific appropriation acts in various Session Laws of Hawaii.

Expenditures of these appropriated funds are made pursuant to the appropriations in the biennial budget as amended by subsequent supplemental appropriations. Budgetary control is maintained at the departmental level. Budget revisions and interdepartmental transfers may be affected with certain executive and legislative branch approvals.

The general fund and certain special revenue funds have legally appropriated annual budgets. The final legally adopted budget in the accompanying required supplementary information – budgetary comparison schedule represent the original appropriations, transfers and other legally authorized legislative and executive changes.

To the extent not expended or encumbered, general fund and special revenue funds appropriations generally lapse at the end of the fiscal year or grant period for which the appropriations were made. The State Legislature or federal government specifies the lapse dates and any other contingencies that may terminate the authorization for other appropriations. Known lapses occurring in the year of appropriation, if any, are included in the amended budgets, and are netted against revenues in the accompanying required supplementary information – budgetary comparison schedule.

A comparison of both the original budget and the final budget to the actual revenues and expenditures of the general and certain special revenue funds are presented in the accompanying required supplementary information – budgetary comparison schedule. Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP are mainly due to revenues and expenditures of unbudgeted funds and the different methods used to recognize resource uses. For budgeting purposes, resource uses are recognized when cash disbursements are made or funds are encumbered.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

2. Budgeting and Budgetary Control (continued)

For financial statements presented in accordance with GAAP, expenditures are recognized when incurred and encumbrances are not reported as resources used.

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP for the general and certain special revenue funds for the year ended June 30, 2013 is set forth in the required supplementary information.

3. Cash

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

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

At June 30, 2013, total cash, including restricted cash and deposits, reported in the statement of net position is \$65,369,667 which consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
State pool and petty cash	\$ -	\$ 12,118,818	\$ 12,118,818
Cash in bank (book balance)	<u>3,854,441</u>	<u>49,368,912</u>	<u>53,223,353</u>
	3,854,441	61,487,730	65,342,171
Deposits held in trust	<u>-</u>	<u>27,496</u>	<u>27,496</u>
Total Cash	<u>\$ 3,854,441</u>	<u>\$ 61,515,226</u>	<u>\$ 65,369,667</u>

During 2013, the Authority recorded a valuation gain of approximately \$33,000 for its State pool cash balances included in other income. The valuation adjustment relates primarily to the State of Hawaii auction rate securities and is reported in other income (expense) in the accompanying statement of revenues, expenses and changes in net position.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

3. Cash (continued)

Bank balance of cash in bank was approximately \$57,496,000, of which \$750,000 was covered by federal depositary insurance and \$56,746,000 by collateral held by the pledging financial institution's trust department or agent in the name of the Authority.

4. Notes Receivable

a. Note Receivable – Housing Revolving Fund

In 1992, the Authority entered into a ground lease agreement with a Hawaii limited partnership (Partnership) with the intent of the Partnership developing a 48-unit low-income rental housing project known as Ke Kumu at Waikoloa, and then subleasing the project and property back to the Authority. In connection with the development of the project, on January 1, 1993, the Authority provided a \$426,100 loan to the Partnership. The note receivable was recorded under the Housing Revolving Fund, bore interest at 9% and was collateralized by the property and improvements of the project. 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 agreed with the developer to acquire such building improvements. However, as of June 30, 2012, the legal title transfer had not been executed and the balance of the \$426,100 and the related accrued interest receivable balance of approximately \$594,410 remained outstanding under the Housing Revolving Fund as of June 30, 2012. In addition, the Authority had also recorded approximately \$581,600 and \$350,000 of accrued lease rent and related interest on the disputed outstanding lease rent, respectively, under Kekumu at Waikoloa Project included in other enterprise funds.

During 2013, the Authority and the Partnership entered to a Termination and Release of Ground Lease and Sublease; QuitClaim Assignment and a Release of Mortgage agreements, whereby both parties released and forever discharged each other from any and all obligations, claims, or liabilities. As a result of these agreements, the Authority recorded under Housing Revolving Fund \$2,565,200 of received improvements and \$1,544,700 of excess fair value of assets received over the note receivable balance and related interest receivable to other income. At June 30, 2013, the Authority contributed the improvements of \$2,565,200 from Housing Revolving Fund to Kekumu at Waikoloa Project. The Authority also adjusted approximately \$931,600 of accrued lease rent and related interest on the disputed outstanding lease rent balance to other income under Kekumu at Waikoloa Project included in other enterprise funds.

Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2013

4. Notes Receivable (continued)

b. Notes Receivable for Sale of Kuhio Park Terrace Towers – Federal Low Rent Program

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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

4. Notes Receivable (continued)

b. Notes Receivable for Sale of Kuhio Park Terrace Towers – Federal Low Rent Program (continued)

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 is deferred until the maturity date, whereupon all principal is due, subject to the availability of surplus cash, as defined in the note agreement. The note does not bear interest unless the borrower defaults upon the maturity date of May 2051. As of June 30, 2013, the Authority loaned \$3,314,356, to the buyer, which is included in the accompanying statement of net position under the Federal Low Rent Program.

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.

As of June 30, 2013, 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 position:

Principal and accrued interest	\$ 51,802,341
Deferred gain	<u>(46,985,712)</u>
Net note receivable	<u>\$ 4,816,629</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

5. Capital Assets

Capital assets activity for the year ended June 30, 2013 was as follows:

	July 1, 2012	Increases	Decreases	June 30, 2013
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 2,373,410	\$ -	\$ -	\$ 2,373,410
Construction in progress	-	-	-	-
Total capital assets not being depreciated	2,373,410	-	-	2,373,410
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	16,238,463	-	-	16,238,463
Less accumulated depreciation for:				
Building and improvements	12,650,080	228,474	-	12,878,554
Equipment	1,178,194	13,742	-	1,191,936
Total accumulated depreciation	13,828,274	242,216	-	14,070,490
Governmental activities, net	\$ 4,783,599	\$ 242,216	\$ -	\$ 4,541,383
	July 1, 2012	Increases	Decreases	June 30, 2013
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 22,966,200	\$ -	\$ -	\$ 22,966,200
Construction in progress	35,664,061	15,269,524	(23,510,536)	27,423,049
Total capital assets not being depreciated	58,630,261	15,269,524	(23,510,536)	50,389,249
Capital assets being depreciated:				
Building and improvements	529,204,025	25,653,728	-	554,857,753
Equipment	8,796,738	464,568	(1,510,941)	7,750,365
Total capital assets being depreciated	538,000,763	26,118,296	(1,510,941)	562,608,118
Less accumulated depreciation for:				
Building and improvements	296,278,749	15,499,103	-	311,777,852
Equipment	8,632,142	29,945	(1,510,941)	7,151,146
Total accumulated depreciation	304,910,891	15,529,048	(1,510,941)	318,928,998
Business-type activities capital assets, net	\$ 291,720,133	\$ 25,858,772	\$ (23,510,536)	\$ 294,068,369

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

5. Capital Assets (continued)

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

Governmental Activity -	
Rental Housing and Assistance Program	<u>\$ 242,216</u>
Business-Type Activities:	
Federal Low Rent Program	12,715,747
Housing Revolving Fund	841,076
Housing for Elders Revolving Fund	1,440,125
Central Office Cost Center Fund	15,501
Internal Services	14,233
Others	<u>501,535</u>
Total depreciation expense – business-type activities	<u>15,528,217</u>
Total depreciation expense	<u><u>\$ 15,770,433</u></u>

At June 30, 2013, 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	454,190,822	29,639,159	56,014,907	42,857	14,970,008	554,857,753	-	554,857,753
Equipment, Furniture and fixtures	5,043,959	252,521	214,676	150,524	-	5,661,680	2,088,685	7,750,365
Construction in Progress	24,385,566	763,380	2,273,540	563	-	27,423,049	-	27,423,049
Less accumulated depreciation	<u>274,247,853</u>	<u>12,354,123</u>	<u>27,076,493</u>	<u>51,300</u>	<u>3,478,688</u>	<u>317,208,457</u>	<u>1,720,541</u>	<u>318,928,998</u>
Net property and Equipment	<u><u>\$ 222,466,123</u></u>	<u><u>\$ 20,553,818</u></u>	<u><u>\$ 37,531,447</u></u>	<u><u>\$ 142,644</u></u>	<u><u>\$13,006,193</u></u>	<u><u>\$293,700,225</u></u>	<u><u>\$ 368,144</u></u>	<u><u>\$294,068,369</u></u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

6. 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, 2013, the Federal Low Rent Program fund and the Capital Projects fund had outstanding construction contract commitments to expend approximately \$4,079,000 and \$20,465,000, respectively, for the construction and renovation of housing projects.

c. Consulting Agreement

In conjunction with the sale of Kuhio Park Terrace Towers (see Note 4), the Authority entered into a consulting agreement with the developer to provide the developer with certain consulting services related to the rehabilitation of the Project. The consulting fee is 19.7 percent of the total development fee charged to the buyer by the developer, or \$3,176,488. As part of the initial sale agreement, the buyer is to receive state tax credits which are expected to be paid/released by May 2016. If the buyer, in accordance with terms defined in the sale agreement, determines that unpaid state tax credits should be released, the Authority would be obligated to pay the buyer for these state tax credits up to its portion of the consulting fees earned and received. The Authority would be able to recover amounts paid to the buyer upon payment/release of the previously unpaid tax credits by the State.

In accordance with the consulting agreement, the amount paid to the Authority shall be held in an interest bearing escrow account by an escrow agent mutually agreed upon by the Authority and the buyer until the state tax credit release date, which is estimated to be May 2016. Approximately \$806,000 of restricted cash recorded under the Central Officer Center as of June 30, 2013 represents consulting fees earned and received, was subsequently deposited into an approved escrow account.

Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2013

6. Commitments and Contingencies (continued)

d. Torts

The Authority is involved in various actions, the outcome of which, in the opinion of management and the Attorney General, will not have a material adverse effect on the Authority's financial position except for the OHA and Kuhio Park Terrace lawsuits described below. Losses, if any, are either covered by insurance or will be a liability against the State of Hawaii.

e. Workers' Compensation Policy

The State is self-insured for workers' compensation. Accordingly, the Authority is liable for workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims include the effects of specific incremental claim adjustment expenses, salvage and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. As of June 30, 2013, the Authority has determined there is not a significant liability for workers' compensation claims.

f. Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave at June 30, 2013 amounted to approximately \$4,188,000.

g. Deferred Compensation Plan

In 1984, the State established a deferred compensation plan, which enables State employees to defer a portion of their compensation. The State Department of Human Resources Development has the fiduciary responsibility of administering the plan. Deferred compensation is not available to employees until termination, retirement, death or an unforeseeable emergency.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

6. Commitments and Contingencies (continued)

h. Litigation

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

The lands transferred to the United States by the Republic of Hawaii at Hawaii's annexation to the United States in 1898 are commonly referred to as the ceded lands. Upon Hawaii's admission to the Union in 1959, title to ceded lands still held by the United States and to lands, which the United States acquired, by exchange for ceded lands after 1898 was conveyed by the United States to the State of Hawaii. Section 5 of the Admission Act expressly provided that those lands were to be held by the State as a public trust. Certain rental housing projects of the Authority are situated on parcels of land, which are to be held by the State as a public trust under Section 5.

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

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

6. Commitments and Contingencies (continued)

h. Litigation (continued)

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

In 1995, OHA filed suit against the State to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the Hawaii Housing Authority for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in OHA I. OHA disagrees that the repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court's September 12, 2001, decision in OHA I should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Fetu Kolio, et al. v. State of Hawaii, et al., Civil No. 11-00266 LEK-RLP (USDC) & 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 were denied Class Action Certification in both the State and Federal cases in September 2012.

As of June 30, 2013, the USDC case has been settled with the plaintiffs for \$20,000. The settlement will be requested from general funds from the 2014 Hawaii State Legislature. The State case is ongoing.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

6. Commitments and Contingencies (continued)

h. 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.

7. 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

7. Retirement Plan (continued)

a. Plan Description (continued)

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

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

b. Funding Policy

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

The Authority's contributions requirements as of June 30, 2013, 2012 and 2011 were approximately \$1,789,000, \$1,571,000, and \$1,537,000, respectively.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

8. 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.

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, 2013, was approximately \$1,176,000, which represented 27% of the Authority's share of the ARC for postretirement healthcare and life insurance benefits of approximately \$4,301,000. The Authority's contribution for the years ended June 30, 2012 and 2011 were approximately \$834,000 and \$737,000, respectively.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

8. Other Post Retirement Employee Benefits (continued)

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2013:

Balance at June 30, 2012	\$ 9,289,299
Additions	4,301,427
Deletions	<u>(1,176,006)</u>
Balance at June 30, 2013	<u>\$ 12,414,720</u>

As of June 30, 2013, the postretirement liability balance of approximately \$12,415,000 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, 2013

9. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2013 is as follows:

Current Due from	Housing	Section 8	Federal	Central	Internal	Non-major
	Choice	Contract	Low-Rent	Office	Services	Enterprise
	Voucher	Admin	Program	Cost Center	Fund	
				Fund		
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97,464
Federal Low-Rent Program	-	-	-	3,563,793	-	-
Housing Revolving Fund	-	-	-	36,964	-	307,865
Housing for Elders						
Revolving Fund	-	-	-	78,224	-	132,572
Central Office Cost Center	-	-	-	-	9,185	19,965
Nonmajor – Enterprise	213,450	126,337	1,988,375	6,167,329	102	147,823
Total	\$ 213,450	\$ 126,337	\$ 1,988,375	\$ 9,846,310	\$ 9,287	\$ 705,689

Noncurrent Due to	Housing	Federal	Housing
	Choice	Low-Rent	Revolving
	Voucher	Program	Fund
	General		
Central Office Cost Center	\$ 17,732	\$ 220,062	\$ 518,508

The current interfund receivable and payable balances are due to interfund services provided or reimbursable expenditures and payments between funds. The non-current balance represents the respective fund's share of the Authority's OPEB liability recorded under the Central Office Cost Center Fund as of year-end.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

10. Net Transfers

The composition of net transfer balances reflected in the financial statements as of June 30, 2013 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	\$ 1,565,618	\$ 383,613	\$ 1,462,346	\$ 151,420	\$ 179,522
Capital Projects	612,598	672	39,418	2,236,957	-
Section 8 Contract					
Administration	-	-	-	-	177,774
Housing Elders Revolving Fund	-	-	-	266,760	-
Central Office Cost Center	1,049,782	-	-	-	-
Total	\$ 3,227,998	\$ 384,285	\$ 1,501,764	\$ 2,655,137	\$ 357,296

The following describes the transfers noted above:

General Fund: The General Fund expended approximately \$3,742,000 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 \$178,000 to pay for Non-Major Enterprise service shortfalls.

Capital Projects: The Capital Projects Fund expended approximately \$2,890,000 from the current year annual State of Hawaii appropriations to primarily pay for capital improvement administrative expenses and rental housing service repairs and maintenance under certain enterprise funds.

Central Office Cost Center: The Central Office Cost Center expended approximately \$1,050,000 to pay for repairs and maintenance for certain enterprise funds.

Housing for Elders Revolving Fund: The Housing for Elders Revolving Fund expended approximately \$267,000 to pay for administrative expenses under the Central Office Cost Center fund.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2013

11. Capital Contributions

During 2013, the Capital Projects Fund expended approximately \$7,843,000 from the current year annual State of Hawaii appropriations to pay for capital outlays that were contributed to enterprise funds. The Housing Revolving Fund contributed approximately \$2,565,000 of capital improvements to Kekumu at Waikoloa Project under other enterprise funds (see Note 4). The composition of capital contribution balances reflected in the financial statements as of June 30, 2013 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>Central Office Cost Center</u>	<u>Non-Major Enterprise Funds</u>	<u>Total</u>
Capital Projects Fund	\$ 6,833,181	\$ 644,279	\$ 206,317	\$ 77,717	\$ -	\$ 7,761,494
Housing Revolving Fund	-	-	-	-	2,565,200	2,565,200
Total	<u>\$ 6,833,181</u>	<u>\$ 644,279</u>	<u>\$ 206,317</u>	<u>\$ 77,717</u>	<u>\$ 2,565,200</u>	<u>\$ 10,326,694</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, 2013

	General Fund		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
State allotted appropriations	<u>\$ 5,087,603</u>	<u>\$ 5,087,603</u>	<u>\$ 5,087,603</u>
Expenditures -			
Rental housing and assistance program	<u>5,087,603</u>	<u>5,087,603</u>	<u>4,827,015</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 260,588</u>
	Housing Choice Voucher Program		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>\$ 24,305,739</u>	<u>\$ 24,305,739</u>	<u>\$ 24,299,861</u>
Expenditures -			
Rental housing and assistance program	<u>24,305,739</u>	<u>24,305,739</u>	<u>26,459,840</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,159,979)</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, 2013

	<u>Section 8 Contract Administration</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>\$ 25,551,741</u>	<u>\$ 25,551,741</u>	<u>\$ 25,551,741</u>
Expenditures -			
Rental housing and assistance program	<u>25,551,741</u>	<u>25,551,741</u>	<u>25,330,525</u>
 EXCESS OF REVENUES OVER EXPENDITURES	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 221,216</u></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, 2013

	<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	\$ 260,588	\$ (2,159,979)	\$ 221,216
Reserve for encumbrance at year end*	1,299,440	-	-
Expenditures for liquidation of prior year's encumbrances	(874,861)	-	-
Reversion of prior year's allotments	(260,588)	-	-
Accrual adjustments, operating transfers and other	<u>(277,865)</u>	<u>1,058,725</u>	<u>(223,602)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES - US GAAP BASIS	<u><u>\$ 146,714</u></u>	<u><u>\$ (1,101,254)</u></u>	<u><u>\$ (2,386)</u></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, 2013

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	\$ 25,554,311
Public and Indian Housing	14.850	21,511,065
Section 8 Housing Choice Vouchers	14.871	26,459,960
Public Housing Capital Fund	14.872	<u>12,465,760</u>
Total federal expenditures		<u><u>\$ 85,991,096</u></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, 2013

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 position, or cash flows of the Authority.

Hawaii Public Housing Authority
Financial Data Schedule
Entity-Wide Balance Sheet and Revenue and Expense Summary
June 30, 2013

Line Item No.	Description	Section 8		CDBG Economic	Section 8		State/Local	Business Activities	Internal Service	Fiduciary	Central Office		Elimination	Total
		Federal Low Rent Program	Housing Assistance Payments 14.195	Development Initiative 14.246	Housing Choice Voucher Program 14.871	Cost Center								
111	Cash - Unrestricted	26,481,895	1,758,051	4	1,083,505	-	-	11,824,252	977,414	-	19,710,117	-	-	61,835,238
113	Cash - Other Restricted	803,606	28	-	1,012,663	-	-	12,615	-	-	846,394	-	-	2,675,306
114	Cash - Tenant Security Deposits	655,017	-	-	-	-	-	225,447	-	-	-	-	-	880,464
115	Cash - Restricted for Payment of Current Liabilities	-	-	-	190	-	-	-	-	-	-	-	-	190
100	Total Cash	27,940,518	1,758,079	4	2,096,358	-	-	12,062,314	977,414	-	20,556,511	-	-	65,391,198
121	Accounts Receivable - PHA Projects	-	-	-	39,659	-	-	-	-	-	-	-	-	39,659
122	Accounts Receivable - HUD Other Projects	2,310,956	195,546	903	-	-	-	-	-	-	-	-	-	2,507,405
124	Accounts Receivable - Other Government	-	-	-	-	97,990,485	-	53,567	-	-	1,429	-	-	98,045,481
125	Accounts Receivable - Miscellaneous	785,279	-	-	-	-	-	392,930	1,072	-	281,981	-	-	1,461,262
126	Accounts Receivable - Tenants	581,348	-	-	-	-	-	901,236	-	-	-	-	-	1,482,584
126.1	Allowance for Doubtful Accounts - Tenants	(227,769)	-	-	-	-	-	(807,310)	-	-	-	-	-	(1,035,079)
126.2	Allowance for Doubtful Accounts - Other	-	-	-	-	-	-	(383,980)	-	-	(197,110)	-	-	(581,090)
129	Accrued Interest Receivable	-	-	-	-	-	-	505	255	-	956	-	-	1,716
120	Total Receivables, Net of Allowances for Doubtful Accounts	3,449,814	195,546	903	39,659	97,990,485	-	156,948	1,327	-	87,256	-	-	101,921,938
142	Prepaid Expenses and Other Assets	-	-	-	2,026,790	45,322	-	27,496	-	-	8,843	-	-	2,108,451
143	Inventories	914,553	-	-	-	-	-	129,940	-	-	27,556	-	-	1,072,049
143.1	Allowance for Obsolete Inventories	(84,457)	-	-	-	-	-	(11,813)	-	-	(2,505)	-	-	(98,775)
144	Inter Program Due From	2,849,655	126,337	-	220,581	-	-	700,587	9,287	-	16,777,297	(20,683,744)	-	-
	Total Other Current Assets	3,679,751	126,337	-	2,247,371	45,322	-	846,210	9,287	-	16,811,191	(20,683,744)	-	3,081,725
150	Total Current Assets	35,070,083	2,079,962	907	4,383,388	98,035,807	-	13,065,472	988,028	-	37,454,958	(20,683,744)	-	170,394,861
161	Land	13,093,629	-	-	-	2,373,410	-	9,872,571	-	-	-	-	-	25,339,610
162	Buildings	454,190,822	-	-	-	15,040,694	-	100,624,005	-	-	42,857	-	-	569,898,378
163	Furniture, Equipment & Machinery - Dwellings	3,266,459	-	-	-	1,090,456	-	99,089	-	-	-	-	-	4,456,004
164	Furniture, Equipment & Machinery - Administration	1,777,500	-	-	-	107,313	-	368,106	2,096,928	-	150,524	-	-	4,500,371
166	Accumulated Depreciation	(274,247,853)	-	-	-	(14,070,490)	-	(42,909,293)	(1,728,784)	-	(51,300)	-	-	(333,007,720)
167	Construction in Progress	24,385,566	-	-	-	-	-	3,036,980	-	-	563	-	-	27,423,109
160	Total Capital Assets, Net of Accumulated Depreciation	222,466,123	-	-	-	4,541,383	-	71,091,458	368,144	-	142,644	-	-	298,609,752
171	Notes, Loans and Mortgages Receivable - Non-Current	8,130,985	-	-	-	-	-	-	-	-	-	-	-	8,130,985
	Total Other Non-Current Assets	8,130,985	-	-	-	-	-	-	-	-	-	-	-	8,130,985
180	Total Non-Current Assets	230,597,108	-	-	-	4,541,383	-	71,091,458	368,144	-	142,644	-	-	306,740,737
190	Total Assets	265,667,191	2,079,962	907	4,383,388	102,577,190	-	84,156,930	1,356,172	-	37,597,602	(20,683,744)	-	477,135,598
311	Bank Overdraft	49,025	-	-	-	-	-	-	-	-	-	-	-	49,025
312	Accounts Payable <= 90 Days	1,936,822	9,583	-	50,871	212,189	-	196,673	-	-	36,851	-	-	2,442,989
313	Accounts Payable >90 Days Past Due	-	-	-	2,229	-	-	-	-	-	-	-	-	2,229
321	Accrued Wage/Payroll Taxes Payable	312,103	-	-	39,594	1,877	-	27,378	-	-	327,346	-	-	708,298
322	Accrued Compensated Absences - Current Portion	328,427	-	-	41,363	5,880	-	25,996	-	-	268,110	-	-	669,776
331	Accounts Payable - HUD PHA Programs	-	28	4	325	-	-	-	-	-	-	-	-	357
333	Accounts Payable - Other Government	36,212	-	-	-	-	-	571,402	-	-	4,515	-	-	612,129
341	Tenant Security Deposits	655,017	-	-	-	-	-	225,447	-	-	-	-	-	880,464
342	Deferred Revenues	442,857	-	-	-	-	-	36,053	-	-	9,523	-	-	488,433
345	Other Current Liabilities	644,903	-	-	17,412	618,737	-	-	-	-	312,058	-	-	1,593,110
346	Accrued Liabilities - Other	932,894	222,921	-	31,143	2,096,359	-	95,621	-	-	46,609	-	-	3,425,547
347	Inter Program - Due To	10,599,758	-	903	227,193	114,293	-	9,712,447	-	-	29,150	(20,683,744)	-	-
310	Total Current Liabilities	15,938,018	232,532	907	410,130	3,049,335	-	10,891,017	-	-	1,034,162	(20,683,744)	-	10,872,357
353	Non-current Liabilities - Other	-	-	-	122,671	-	-	-	-	-	40,806	-	-	163,477
354	Accrued Compensated Absences - Non Current	719,859	-	-	-	103,549	-	56,977	-	-	587,651	-	-	1,468,036
357	Accrued Pension and OPEB Liabilities	-	-	-	-	-	-	-	-	-	12,414,722	-	-	12,414,722
350	Total Non-Current Liabilities	719,859	-	-	122,671	103,549	-	56,977	-	-	13,043,179	-	-	14,046,235
300	Total Liabilities	16,657,877	232,532	907	532,801	3,152,884	-	10,947,994	-	-	14,077,341	(20,683,744)	-	24,918,592
508.1	Invested In Capital Assets, Net of Related Debt	222,466,123	-	-	-	4,541,383	-	71,091,458	368,144	-	142,644	-	-	298,609,752
511.1	Restricted Net Assets	-	-	-	3,850,587	-	-	-	-	-	-	-	-	3,850,587
512.1	Unrestricted Net Assets	26,543,191	1,847,430	-	-	94,882,923	-	2,117,478	988,028	-	23,377,617	-	-	149,756,667
513	Total Equity/Net Assets	249,009,314	1,847,430	-	3,850,587	99,424,306	-	73,208,936	1,356,172	-	23,520,261	-	-	452,217,006
600	Total Liabilities and Equity/Net Assets	265,667,191	2,079,962	907	4,383,388	102,577,190	-	84,156,930	1,356,172	-	37,597,602	(20,683,744)	-	477,135,598

See accompanying independent auditor's report.

Hawaii Public Housing Authority
Financial Data Schedule
Entity-Wide Balance Sheet and Revenue and Expense Summary
June 30, 2013

Line Item No.	Description	Section 8		CDBG Economic	Section 8		State/Local	Business Activities	Internal Service	Fiduciary	Central Office		Elimination	Total
		Federal Low Rent Program	Housing Assistance Payments 14.195	Development Initiative 14.246	Housing Choice Voucher Program 14.871	Cost Center								
70300	Net Tenant Rental Revenue	13,331,600	-	-	-	-	-	3,695,774	-	-	-	-	-	17,027,374
70400	Tenant Revenue - Other	81,685	-	-	-	-	-	29,747	-	-	-	-	-	111,432
70500	Total Tenant Revenue	13,413,285	-	-	-	-	-	3,725,521	-	-	-	-	-	17,138,806
70600	HUD PHA Operating Grants	24,312,343	25,551,741	-	25,263,057	-	-	-	-	-	-	-	-	75,127,141
70610	Capital Grants	10,765,839	-	-	-	-	-	-	-	-	-	-	-	10,765,839
70710	Management Fee	-	-	-	-	-	-	-	-	-	4,550,774	(4,550,774)	-	-
70720	Asset Management Fee	-	-	-	-	-	-	-	-	-	1,324,440	(1,324,440)	-	-
70730	Book Keeping Fee	-	-	-	-	-	-	-	-	-	649,058	(649,058)	-	-
70740	Front Line Service Fee	-	-	-	-	-	-	-	-	-	1,059,993	(1,059,993)	-	-
70700	Total Fee Revenue	35,078,182	25,551,741	-	25,263,057	-	-	-	-	-	7,584,265	(7,584,265)	-	85,892,980
70800	Other Government Grants	-	-	-	-	96,429,603	15,825	-	-	-	40,000	-	-	96,485,428
71100	Investment Income - Unrestricted	9,779	185	-	120	-	937,763	3,973	-	-	23,461	-	-	975,281
71200	Mortgage Interest Income	-	-	-	-	-	-	-	-	-	-	-	-	-
71400	Fraud Recovery	-	-	-	3,794	-	-	-	-	-	-	-	-	3,794
71500	Other Revenue	228,042	-	-	91,735	-	-	75,049	15,780	-	2,695,668	-	-	3,106,274
71600	Gain or Loss on Sale of Capital Assets	-	-	-	-	-	-	1,544,690	-	-	-	-	-	1,544,690
	Total Other Revenue	237,821	185	-	95,649	96,429,603	2,573,327	19,753	-	-	2,759,129	-	-	102,115,467
70000	Total Revenue	48,729,288	25,551,926	-	25,358,706	96,429,603	6,298,848	19,753	-	-	10,343,394	(7,584,265)	-	205,147,253
91100	Administrative Salaries	3,285,624	-	-	883,744	194,788	302,570	-	-	-	5,019,144	-	-	9,685,870
91200	Auditing Fees	130,091	27,191	-	24,949	29,107	48,937	2,843	-	-	115,002	-	-	378,120
91300	Management Fee	3,934,609	925,610	-	277,644	7,851	371,073	-	-	-	-	(4,550,774)	-	966,013
91310	Book-keeping Fee	396,256	-	-	173,528	4,920	74,373	-	-	-	-	(649,058)	-	19
91400	Advertising and Marketing	439	-	-	-	-	198	-	-	-	25,259	-	-	25,896
91500	Employee Benefit contributions - Administration	553,549	-	-	243,279	44,976	61,821	-	-	-	1,541,594	-	-	2,445,219
91600	Office Expenses	369,943	16,825	-	48,424	9,308	77,186	-	-	-	386,283	-	-	907,969
91700	Legal Expense	65,196	2,017	-	1,698	191	35,962	-	-	-	348,795	-	-	453,859
91800	Travel	15,774	-	-	1,748	326	4,032	-	-	-	79,448	-	-	101,328
91900	Other	1,597,308	7,933	-	268,320	3,432,649	296,828	55	1,655	-	2,256,411	-	-	7,861,159
91000	Total Operating - Administrative	10,348,789	979,576	-	1,923,334	3,724,116	1,272,980	2,898	1,655	-	9,771,936	(5,199,832)	-	22,825,452
92000	Asset Management Fee	1,324,440	-	-	-	-	-	-	-	-	-	(1,324,440)	-	-
92400	Tenant Services - Other	13,547	-	-	3,692	656	-	-	-	-	375	-	-	18,270
92500	Total Tenant Services	1,337,987	-	-	3,692	656	-	-	-	-	375	(1,324,440)	-	18,270
93100	Water	2,334,279	-	-	689	290	278,662	-	-	-	3,314	-	-	2,617,234
93200	Electricity	3,629,053	-	-	28,086	12,189	1,419,048	-	-	-	125,656	-	-	5,214,032
93300	Gas	2,114,273	-	-	-	-	154,532	-	-	-	-	-	-	2,268,805
93400	Fuel	-	-	-	-	-	-	-	-	-	1,527	-	-	1,527
93600	Sewer	3,555,396	-	-	1,710	763	666,574	-	-	-	9,522	-	-	4,233,965
93800	Other Utilities Expense	548	-	-	-	-	-	-	-	-	-	-	-	548
93000	Total Utilities	11,633,549	-	-	30,485	13,242	2,518,816	-	-	-	140,019	-	-	14,336,111
94100	Ordinary Maintenance and Operations - Labor	3,728,020	-	-	-	-	398,407	-	-	-	1,298,271	-	-	5,424,698
94200	Ordinary Maintenance and Operations - Materials and Other	2,282,082	-	-	712	58	186,135	-	-	-	161,747	-	-	2,630,734
94300	Ordinary Maintenance and Operations Contracts	6,449,420	-	-	203,301	(113,008)	1,436,689	-	-	-	383,730	(1,059,993)	-	7,300,139
94500	Employee Benefit Contributions - Ordinary Maintenance	1,554,190	-	-	-	-	166,180	-	-	-	536,822	-	-	2,257,192
94000	Total Maintenance	14,013,712	-	-	204,013	(112,950)	2,187,411	-	-	-	2,380,570	(1,059,993)	-	17,612,763
95200	Protective Services - Other Contract Costs	2,181,792	-	-	584	12,311	110,587	-	-	-	21,537	-	-	2,326,811
95300	Protective Services - Other	6,901	-	-	60	-	1,029	-	-	-	58	-	-	8,048
95000	Total Protective Services	2,188,693	-	-	644	12,311	111,616	-	-	-	21,595	-	-	2,334,859

See accompanying independent auditor's report.

Hawaii Public Housing Authority
Financial Data Schedule
Entity-Wide Balance Sheet and Revenue and Expense Summary
June 30, 2013

Line Item No.	Description	Federal	Section 8	CDBG Economic	Section 8	State/Local	Business Activities	Internal Service	Fiduciary	Central Office	Elimination	Total
		Low Rent	Housing Assistance	Development	Housing Choice					Cost Center		
		Program	Payments	Initiative	Voucher Program							
96110	Property Insurance	478,818	-	-	527	333	143,298	-	-	6,693	-	629,669
96120	Liability Insurance	81,249	-	-	2,734	594	2,733	-	-	12,199	-	99,509
96130	Workmen's Compensation	25,507	-	-	3,665	687	7,420	-	-	(102,916)	-	(65,637)
96140	All Other Insurance	49,877	-	-	11,315	1,680	50,829	-	-	23,342	-	137,043
96100	Total Insurance Premiums	635,451	-	-	18,241	3,294	204,280	-	-	(60,682)	-	800,584
96200	Other General Expenses	1,377,143	16,901	-	69,492	13,096	7,784	-	-	93,834	-	1,578,250
96300	Payments in Lieu of Taxes	36,210	-	-	-	-	-	-	-	-	-	36,210
96400	Bad debt - Tenant Rents	453,189	-	-	-	-	(93,729)	-	-	-	-	359,460
96800	Severance Expense	26,815	-	-	10,551	(4,033)	3,925	-	-	15,299	-	52,557
96000	Total Other General Expenses	1,893,357	16,901	-	80,043	9,063	(82,020)	-	-	109,133	-	2,026,477
96900	Total Operating Expenses	42,051,538	996,477	-	2,260,452	3,649,732	6,213,083	2,898	1,655	12,362,946	(7,584,265)	59,954,516
97000	Excess of Operating Revenue over Operating Expenses	6,677,750	24,555,449	-	23,098,254	92,779,871	85,765	16,855	(1,655)	(2,019,552)	-	145,192,737
97300	Housing Assistance Payments	8,607	24,380,061	-	24,119,012	523,786	-	-	-	-	-	49,031,466
97350	HAP Portability-In	-	-	-	80,496	-	-	-	-	-	-	80,496
97400	Depreciation Expense	12,715,747	-	-	-	242,216	2,782,736	14,233	-	15,501	-	15,770,433
	Subtotal	12,724,354	24,380,061	-	24,199,508	766,002	2,782,736	14,233	-	15,501	-	64,882,395
90000	Total Expenses	54,775,892	25,376,538	-	26,459,960	4,415,734	8,995,819	17,131	1,655	12,378,447	(7,584,265)	124,836,911
10010	Operating Transfer In	6,160,826	-	-	-	25,000	1,976,585	-	-	2,655,137	(10,817,548)	-
10020	Operating transfer Out	(2,932,828)	(177,774)	-	-	(6,657,164)	-	-	-	(1,049,782)	10,817,548	-
10100	Total Other financing Sources (Uses)	3,227,998	(177,774)	-	-	(6,632,164)	1,976,585	-	-	1,605,355	-	-
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(2,818,606)	(2,386)	-	(1,101,254)	85,381,705	(720,386)	2,622	(1,655)	(429,698)	-	80,310,342
11030	Beginning Equity	244,994,685	1,849,816	-	4,951,841	21,927,482	73,078,726	1,353,550	1,655	23,872,242	-	372,029,997
11040	Prior Period Adjustments, Equity Transfers and Corrections of Errors	6,833,235	-	-	-	(7,884,881)	850,596	-	-	77,717	-	(123,333)
	Ending Equity	249,009,314	1,847,430	-	3,850,587	99,424,306	73,208,936	1,356,172	-	23,520,261	-	452,217,006

See accompanying independent auditor's report.

Hawaii Public Housing Authority
 Financial Data Schedule
 Project Balance Sheet and Revenue and Expense Summary
 June 30, 2013

Line Item No.	Description	HI001000030	HI001000031	HI001000032	HI001000033	HI001000034	HI001000035	HI001000037	HI001000038	HI001000039	HI001000040	HI001000043	HI001000044	HI001000045	HI001000046	HI001000049	HI001000050	AMP52 Operating	Total Projects
97000	Excess of Operating Revenue over Operating Expenses	(1,298,523)	(749,576)	(928,757)	(411,932)	1,898,582	(74,869)	(272,747)	101,852	(98,215)	3,352,709	(110,697)	802,865	32,575	334,838	182,943	3,916,702	-	6,677,750
97300	Housing Assistance Payments	5,413	-	-	233	350	-	-	-	-	-	-	-	-	-	-	2,611	-	8,607
97400	Depreciation Expense	1,200,688	1,935,805	243,719	743,338	595,095	842,698	2,088,624	496,127	673,315	20,279	897,371	1,044,659	772,558	554,249	589,868	17,354	-	12,715,747
	Subtotal	1,206,101	1,935,805	243,719	743,571	595,445	842,698	2,088,624	496,127	673,315	20,279	897,371	1,044,659	772,558	554,249	589,868	19,965	-	12,724,354
90000	Total Expenses	5,905,357	5,589,078	4,665,873	3,854,125	4,899,377	5,249,644	4,159,256	2,741,082	2,366,072	2,393,197	2,483,480	2,883,591	2,357,270	1,317,988	1,899,775	909,370	1,101,357	54,775,892
10010	Operating Transfer In	725,259	625,248	881,541	274,648	267,071	308,514	78,238	71,491	34,016	2,694,618	111	80,821	125	1,559	74,395	43,171	-	6,160,826
10020	Operating transfer Out	-	-	(113,866)	-	(96,835)	(62,986)	(44,622)	-	(17,008)	(2,597,511)	-	-	-	-	-	-	-	(2,932,828)
10100	Total Other financing Sources (Uses)	725,259	625,248	767,675	274,648	170,236	245,528	33,616	71,491	17,008	97,107	111	80,821	125	1,559	74,395	43,171	-	3,227,998
10000	Excess (Deficiency) of Total Revenue Over (Under) Total Expenses	(1,779,365)	(2,060,133)	(404,801)	(880,855)	1,473,373	(672,039)	(2,327,755)	(322,784)	(754,522)	3,429,537	(1,007,957)	(160,973)	(739,858)	(217,852)	(332,530)	3,939,908	0	(2,818,606)
11030	Beginning Equity	-	32,170,186	10,868,832	20,614,565	14,037,450	17,225,419	38,254,994	13,067,287	14,012,173	5,212,375	20,210,491	15,605,408	10,574,272	9,979,250	7,183,764	4,386,167	-	244,994,685
11040	Prior Period Adjustments, Equity Transfers and Corrections of Errors	1,980,064	1,261,559	(757,503)	(517,251)	2,382,726	658,262	737,858	(1,064,525)	262,924	619,588	(391,413)	121,559	7,043	(408,336)	612,529	1,328,151	-	6,833,235
	Ending Equity	200,699	31,371,612	9,706,528	19,216,459	17,893,549	17,211,642	36,665,097	11,679,978	13,520,575	9,261,500	18,811,121	15,565,994	9,841,457	9,353,062	7,463,763	9,654,226	-	249,009,314

See accompanying independent auditor's report.

**Hawaii Public Housing Authority
Financial Data Schedule
GASBS NO. 54 Supplemental Reporting Schedule
June 30, 2013**

<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>\$ 3,850,587</u>	<u>\$ 1,847,430</u>	<u>\$ 99,424,306</u>	<u>\$ 105,122,323</u>
508.3	Nonspendable Fund Balance	\$ -	\$ -	\$ 4,541,383	\$ 4,541,383
509.3	Restricted Fund Balance	3,850,587	-	-	3,850,587
510.3	Committed Fund Balance	-	-	20,367,829	20,367,829
511.3	Assigned Fund Balance	-	1,847,430	74,515,094	76,362,524
512.3	Unassigned Fund Balance	-	-	-	-
	Total Equity as Calculated	<u>\$ 3,850,587</u>	<u>\$ 1,847,430</u>	<u>\$ 99,424,306</u>	<u>\$ 105,122,323</u>

See accompanying independent auditor's report.

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, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hawaii Public Housing Authority (the HPHA), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the HPHA's basic financial statements, and have issued our report thereon dated March 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the HPHA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the HPHA's internal control. Accordingly, we do not express an opinion on the effectiveness of the HPHA's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal

control, described in the accompany *Schedule of Findings and Questioned Costs*, items 2013-01 through 2013-02, that we consider to be significant deficiencies.

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 an instances of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings and Questioned Costs* as item 2013-05.

The HPHA's Response to Findings

The HPHA's responses to the findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The HPHA's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KMH LLP

KMH LLP

Honolulu, Hawaii

March 24, 2014

PART III

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL
CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE
OF EXPENDITURES OF FEDERAL AWARDS REQUIRED
BY OMB CIRCULAR A-133**



A Hawaii Limited Liability Partnership

**Independent Auditor's Report on Compliance for Each Major
Federal Program; Report on Internal Control Over Compliance;
And Report on Schedule of Expenditures of Federal Awards Required
By OMB Circular A-133**

Board of Directors
Hawaii Public Housing Authority

Report on Compliance for Each Major Federal Program

We have audited the Hawaii Public Housing Authority's (the HPHA) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the HPHA's major federal programs for the year ended June 30, 2013. The HPHA's major federal programs are identified in the summary of the auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the HPHA's major federal programs based on our audit of the types of compliance requirements referred to above. 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 consider necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the HPHA's compliance.

Basis for Qualified Opinion on Public and Indian Housing

As described in item 2013-05 in the accompanying *Schedule of Findings and Questioned Costs*, the HPHA did not comply with requirements regarding the following:

<u>Finding Number</u>	<u>CFDA Number</u>	<u>Program Name</u>	<u>Compliance Requirement</u>
2013-05	14.850	Public and Indian Housing	Eligibility

Compliance with such requirements is necessary, in our opinion, for the HPHA to comply with requirements applicable to those programs.

Qualified Opinion on Public and Indian Housing

In our opinion, except for the noncompliance described in Basis for Qualified Opinion paragraph, the HPHA complied, in all material respects, with the types compliance requirements referred to above that could have a direct and material effect on Public and Indian Housing for the year ended June 30, 2013.

Unmodified on Section 8 Housing Choice Vouchers, Public Housing Capital Fund and Section 8 Housing Assistance Payments Program

In our opinion, the HPHA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Section 8 Housing Choice Vouchers, Public Housing Capital Fund and Section 8 Assistance Payments Program for the year ended June 30, 2013.

Other Matters

The HPHA's response to the noncompliance finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The HPHA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on this response.

Report on Internal Control Over Compliance

Management of the HPHA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the HPHA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program 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 material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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.

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 2013-03 through 2013-06 to be material weaknesses.

The HPHA's responses to the internal control over compliance findings identified in our audit are described in the accompany *Schedule of Findings and Questioned Costs*. The HPHA's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on these responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the HPHA as of and for the year ended June 30, 2013, and have issued our report thereon dated March 24, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB A-133 and is not a required part of the 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 24, 2014

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

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
14.872	Public Housing Capital Fund
14.850	Public and Indian Housing
14.195	Section 8 Assistance Payments Programs

Dollar threshold used to distinguish between type A and type B programs: \$2,579,733 (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, 2013

Section II – Financial Statement Findings

Finding No.: 2013-01 Financial Management Competencies – Significant Deficiency

Criteria: Effective internal control over financial reporting requires sufficient accounting and financial reporting expertise to ensure development of reliable financial statements and monitoring. Ongoing monitoring occurs in the course of the operations and ensures that internal controls continue 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. Internal control is affected by people and is not merely policy manuals, procedures and forms.

Condition & cause: 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.

To assist the Fiscal Management Office (FMO) with the understanding of accounting principles and financial reporting standards at the senior level, management hired a consultant to provide appropriate supervision, to assist in the review and approval of transactions, and with the year-end reporting. As a result, the year-end accounting and reporting was greatly improved from previous periods.

However, the ultimate responsibility for the agency’s accounting and financial reporting functions still resides with management. In one instance, we noted that the consultants had implemented a change in how the “interfund” balances would be reported. In our discussion with the consultant and management we informed them that such a change would not have been in compliance with the reporting requirements of Government Accounting Standards. Consequently, the various interfunds were not reconciled until late into the audit. In another instance, we noted that operating subsidies were overstated by approximately \$1.8 million. In our discussion with management, we noted that the entire budgeted amount, and not the prorated amount, of operating subsidies were improperly recorded under the Federal Low Rent Program. This resulted in an audit adjustment.

Context: The hiring of a consultant improved the year-end reporting process, however during the year, the FMO needed to provide the appropriate supervision and review and approval of monthly transactions in accordance with the application of generally accepted governmental accounting principles, HUD reporting requirements, and the Real Estate Assessment Center (REAC) electronic submission filing requirements.

Questioned costs: None

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

Section II – Financial Statement Findings (continued)

Finding No.: 2013-01 Financial Management Competencies – Significant Deficiency (continued)

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: We recommend that management continue its improvements and efforts to monitor and evaluate the HPHA’s internal 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.

In addition to certain HUD reporting requirements, including project based accounting and REAC reporting, and the fact that several of its major funds are enterprise funds that require full accrual basis of accounting, HPHA’s FMO requires a certain level expertise in applying governmental accounting standards to properly carry out its accounting and report functions. HPHA should assess the level of skills required to properly staff the FMO to meet these accounting and reporting requirements. In the meantime, HPHA should provide training to its key senior employees involved in financial reporting processes, including but not limited to government accounting and reporting standards, HUD’s project based accounting, and the REAC electronic submission filing requirements.

PHA Reply (Corrective Action Plan):

As noted in the finding above, the HPHA already started and will continue to initiate specific processes towards improving its monitoring activities and towards correcting internal control deficiencies in certain funds and is working towards correcting the remaining issues.

Currently, the HPHA has identified these problems and key senior staff has started to receive training to ensure these new controls are adopted and enforced. In addition, the HPHA has initiated hiring much needed talent to be able to maintain high accounting standards. The goal is to produce timely accurate reports in compliance with applicable federal regulations and generally accepted accounting procedures. In January 2014, the HPHA hired a well qualified Chief Financial Management Advisor after a three year vacancy.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

Section II – Financial Statement Findings (continued)

Finding No.: 2013-01 Financial Management Competencies – Significant Deficiency (continued)

Additionally, the Chief Financial Management Advisor and the Fiscal Officer are reviewing operational procedures and implementing new policies to prevent this kind of situation from recurring. In October 2013, and February and April 2014, HUD's technical consultants provided training on HUD budgeting, accounting and financial reporting requirements. The HPHA intends to continue to pursue training related to specific areas of concern to improve efficiency and accuracy of work as well as hire the anticipated newly created CPA positions.

Contact Person: Chong Gu, Chief Financial Management Advisor, 808-832-4485

Target Date: August 2014

Finding No.: 2013-02 Non-reconciliations of General Ledger Accounts – Significant Deficiency

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: During the 2013 audit, we did note continued improvements in the performance of timely reconciliations for a number of funds. With the exception of the fixed assets for Federal Low Rent Program Fund and Housing for Elders Revolving Fund, and interfund balances (capital contributions, operating transfers, receivables and payables) for various funds, the fund accountants were able to prepare and reconcile many of the other funds' accounts. Unfortunately, the accounting of fixed assets and interfund balances 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 transfer of approximately \$5.7 million from construction-in-progress (CIP) to fixed assets and several adjustments to properly report transfers and balances between the funds.

Due to the nature and high volume of transactions for the funds noted in the preceding paragraph, the development of reliable financial statements may be compromised. Financial statement preparation must involve processes to ensure that the information presented is accurate, complete and properly recorded in accordance with Government Accounting Standards.

Questioned costs: None

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

Section II – Financial Statement Findings (continued)

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 adhered to for the agency’s fixed assets and interfund balances.

PHA Reply (Corrective Action Plan): Initially, due to the proper staffing levels, the HPHA procured a consultant to assist in these difficult tasks. Unfortunately, due to the complexity of our agency’s accounting, the procured CPAs made errors as well. Therefore, the HPHA established a task force which has been assigned to focus on these two key areas of deficiencies (CIP, Fixed Assets & Interfunding). The HPHA has started the process to review all accounts, policies & procedures and other items to insure that all transactions are correctly recorded and adequately monitored. Any policies or procedures that need to be revised or updated will be incorporated into the HPHA’s fiscal procedures manual.

In addition, journal vouchers, related accruals and month-end closing procedures will be recorded on a timely basis to prevent an occurrence of these problems in the future.

Contact Person: Chong Gu, Chief Financial Management Advisor, 808-832-4485

Target Date: August 2014

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

Section III – Federal Award Findings and Questioned Costs

Section 8 Housing Choice Vouchers CFDA No. 14.871

Finding No.: 2013-03 Eligibility, Reporting, Special Tests and Provisions (Reasonable Rent and Housing Assistance Payments) – Material Weakness

Criteria: 24 CFR sections 5.230, 5.609 and 982.516 require the HPHA to gather information on income and assets, family size, housing conditions for both new and continuing participants on an annual basis. Based on the information gathered, the HPHA housing specialists assess whether or not applicants are eligible to participate in the program based on Federal eligibility guidelines.

24 CFR section 908.10 requires the HPHA to electronically submit the HUD-50058 Family Report, including the Family Self Sufficiency Addendum. Certain key line items contain information deemed critical by HUD.

24 CFR section 982.507 requires the HPHA to determine that the initial rent to owner is a reasonable rent in accordance with its administrative plan and maintain respective documentation.

24 CFR section 982.505(b) requires the HPHA to pay a monthly housing assistance payment to the landlord on behalf of the family that is calculated in accordance with Federal guidelines.

To ensure the guidelines above are complied with, the HPHA performs a quality review of all new placements and 10% of all annual re-examinations. The monthly reviews are performed by the Section 8 Supervisors and are submitted to the Section 8 Chief for analysis and monitoring.

Condition, cause, and context: During our audit and in our discussions with management, we noted that not all of the required supervisory quality control reviews were completed during the year.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

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

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

Finding No.: 2013-03 Eligibility, Reporting, Special Tests and Provisions (Reasonable Rent and Housing Assistance Payments) – Material Weakness (continued)

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

- 1) For 1 out of 80 tenant files tested, we noted that the tenant file could not be located
- 2) For 3 out of 80 tenant files tested, we noted that a declaration of citizenship or privacy form was missing and/or the Family Annual/Update Report form, used to facilitate the annual re-examination was not signed by the tenant.
- 3) For 1 out of 80 tenant files tested, we noted that the incorrect date of birth was indicated on the HUD 50058 form.
- 4) For 1 out of 80 tenant files tested, we noted that the adjusted gross income was incorrectly calculated.
- 5) For 6 out of 80 tenant files tested, we noted that the Family Annual/Update Report form was not signed by the Housing Specialist.

Effect: Failure to properly monitor eligibility determination, HUD 50058 reporting requirements, reasonable rent and housing assistance payments can lead to non-compliance 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 complete regular quality control review of participant files by program management.

PHA Reply (Corrective Action Plan): One full time staff will be hired to perform a quality control review of a higher percentage of the participant files to ensure program integrity, funds permitting. Until this staff is hired, we have already started a more aggressive quality control review of participant files will be accomplished through a monthly 10% quality control review, with an increased quality control review of 15% for specialist staff who are identified as making significant or repeated errors. In addition, the HPHA is currently in recruitment to fill the supervisor position vacated in the previous year.

Contact Person: Stephanie Fo, Section 8 Subsidy Programs Branch, 808-832-5933

Target Date: Effective immediately

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

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

Public Housing Capital Fund CFDA No. 14.872

Finding No.: 2013-04 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 deletions listings. During the audit, we noted errors in the reconciliation of the detailed fixed assets and CIP schedules to the general ledger, which resulted in significant reclassifications between CIP assets and property and equipment, and a respective adjustment to depreciation expense.

Additionally, although the HPHA performed an inventory of all equipment during the year, the inventory was not reconciled to the fixed asset register.

Effect: 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 monthly 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.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2013-04 Equipment and Real Property – Material Weakness (continued)

PHA Reply (Corrective Action Plan): Although much progress has been achieved in the past couple of years, we are in agreement with this finding. HPHA will take the appropriate steps to insure that a Fiscal year-end inventory of all capital assets will be completed. Timely updates of this information to the general ledger will be completed so that all required adjustments can be recorded in the general ledger prior to the closing financial statements.

To address this issue, a revised policy was implemented in March 2014 to complete the Project Acceptance Form at the point of substantial completion for the value of the work placed in service. If a change order is under review, once resolved an amended Project Acceptance Form will be completed and submitted to FMO for full capitalization amounts. This will ensure that the bulk of the capital improvements are capitalized in a timely manner.

The HPHA is also currently assessing all inter-department functions to determine the appropriate staffing assignments for this task and related ECS functions to insure adequate controls will be in place before the year-end close. The HPHA is currently in the process of reviewing its existing inventory and fixed assets so that it ties to the general ledger and that fixed assets are either properly expenses or capitalized according to HPHA's policies.

Contact Person: Clarence Allen, Fiscal Officer, 808-832-4485

Target Completion Date: June 2014

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

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

Public and Indian Housing CFDA No. 14.850

Finding No.: 2013-05 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.

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

Condition, cause, and context: During our testing of participant files, we noted the following:

- 1) For 8 out of 60 tenant files tested, we noted no annual re-examination was performed.
- 2) For 10 out of 60 tenant files tested, we noted that assets and/or income were either miscalculated, not verified or not reported on the Form 50058.
- 3) For 2 out of 60 tenant files tested, we noted that the annual re-examination was not performed on a timely basis.
- 4) For 1 out of 60 tenant files tested, we noted unreimbursed medical expenses were either miscalculated or missing supporting documentation.
- 5) For 2 out of 60 tenant files tested, we noted that social security numbers, disability certifications or citizenship declaration forms were missing for household members.
- 6) For 1 out of 60 tenant files tested, we noted income was miscalculated, resulting in an error to total tenant payment.
- 7) For 6 out of 60 tenant files tested, we noted that the Family Annual/Update Report form, used to facilitate the annual re-examination, was not signed by the Housing Specialist.
- 8) For 2 out of 60 tenant files tested, we noted that the incorrect date of birth was indicated on the HUD 50058.

Additionally, 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 resources at each of the projects.

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

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

Public and Indian Housing CFDA No. 14.850 (continued)

Finding No.: 2013-05 Eligibility – Material Weakness (continued)

Effect: Noncompliance. Failure to properly monitor eligibility determination and failure to adequately determine eligibility can lead to future 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.

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): To address the errors noted in the tenant file reviews, a Rent Calculation Training was conducted in November 2013 by HUD consultant, Nan McKay & Associates. The training provided information to new employees and refresher training for tenured employees and included a certification exam at the end of the training.

HPHA is also in the process of revising the monthly monitoring form to address the 10% quality review of all annual recertification and placement tenant files for accuracy. For state managed properties, one-on-one discussions have been conducted with the supervisor's discussion notes in accordance with the performance appraisal system to improve performance. For the contracted properties, the monthly review will assist in enforcing the contract provisions relating to performance.

Contact Person: Joanna Renken, Public Housing, 808-832-4675

Target Completion Date: June 2014

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

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

Public and Indian Housing CFDA No. 14.850 (continued)

Finding No.: 2013-06 Allowable Costs/Cost Principles – Material Weakness

Criteria: 24 CFR section 990.280(d) requires the HPHA to charge each project using a fee-for-service approach, in the case where the HPHA chooses to centralize functions that directly support a project (e.g. central maintenance). Each project shall be charged for the actual services received and only to the extent that such amounts are reasonable.

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.

Condition, cause, and context: During our audit, we noted that work performed and charged to the AMPs by the Central Maintenance Services Section (CMSS) could not be traced back to the respective work orders. In addition, we noted that the work order report for CMSS was not properly reviewed prior to being recorded to the general ledger. As a result, an adjustment was made to reverse all CMSS charges to AMPs during the year. Additionally, for Special Team work orders, we noted no approval from the respective AMP managers to indicate that the work was performed.

During our audit, we noted that supervisory personnel salary was improperly excluded from the front-line allocation calculation. As such, an adjustment was made to properly reflect all eligible costs in the allocation calculation.

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

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2013

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

Finding No.: 2013-06 Allowable Costs/Cost Principles – Material Weakness (continued)

Questioned costs: None

Recommendation: We recommend that the HPHA implement policies and procedures to establish a review and approval process of supporting schedules for the charges aforementioned, as well as work orders. 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 has policies and procedures in place to review and approve the general ledger supporting schedules. Accordingly, with the hiring of the Chief Management Fiscal Advisor position that was vacant for many years, the HPHA is in the process of reviewing these policies and procedures as well as the internal control setups to determine any deficiencies.

In March 2014, the HPHA implemented revised procedures regarding the review of work completed by the centralized maintenance staff and met with all supervisors, AMP Managers, and fiscal staff to confirm the need for adequate documentation.

Contact Person: Chong Gu, Chief Financial Management Advisor, 808-832-4485

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, 2013

Section 8 Housing Choice Vouchers Program CFDA No. 14.871

Finding No.: 2012-04 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 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 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 no longer applicable.

Finding No.: 2012-05 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 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.

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.

Status: The comment is no longer applicable.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2013

Public Housing Capital Fund CFDA No. 14.872

Finding No.: 2012-06 Equipment and Real Property – Material Weakness

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 listing were not prepared correctly and were inaccurate. We also noted that a Project Acceptance Form from the HPHA 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.

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 2013-04.

Finding No.: 2012-07 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. 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

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2013

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 60002, we noted that the form was submitted subsequent to the January 10 deadline.

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.

Status: The comment is no longer applicable.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2013

Public and Indian Housing CFDA No. 14.850

Finding No.: 2012-08 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 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.

Status: The comment is no longer applicable.

Finding No.: 2012-09 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 no longer applicable.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2013

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

Finding No.: 2012-10 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 4 out of 60 tenant files tested, we noted assets and/or income was 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.

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 2013-05.

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

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.

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2013

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

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

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.

Status: The comment is still applicable. See finding 2013-06.

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

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.

Recommendation: We recommend that the HPHA reform its current review and approval process over transfers of operating subsidies to the various levels. 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.

Status: The comment is no longer applicable.