

# **Hawaii Public Housing Authority**

Financial Statements

June 30, 2014

Together with Independent Auditor's Report

Submitted by

**THE AUDITOR  
STATE OF HAWAII**



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A Hawaii Limited Liability Partnership

February 23, 2015

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, 2014. 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, 2014, 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, 2014.

## **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, 2014, 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**



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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, 2014 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, 2014, 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.

### **Emphasis Matter**

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, 2014, 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 20 and pages 66 to 68, 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 70 through 71, 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 72 through 77 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 February 23, 2015 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  
February 23, 2015

# Hawaii Public Housing Authority

Management Discussion and Analysis  
June 30, 2014

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, 2014. 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 fiscal year ended June 30, 2014, readers should review this in conjunction with the financial statements that follow.

## INTRODUCTION

The HPHA is a full service agency, administratively attached to the State's Department of Human Services, for administrative purposes only. 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, 2013 to June 30, 2014, the HPHA administered the following major programs:

- Federal 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).
- State public housing programs  
The HPHA administered over 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 and Veterans Affairs Supportive Housing Program, and the State funded rental assistance program, subsidizing monthly rental payments to qualified households.

# Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2014

- Federal rental assistance program  
HPHA manages 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).

## FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the assets of the HPHA exceeded its liabilities by \$483.00 million (net Position). Of this amount, \$302.95 million was invested in capital assets, net of related debt. (As detailed on *Government-Wide Statement of Net Position, page 21*)
- The HPHA's government wide net position increased by \$30.79 million. The increase in net position is the offsetting activities in government activities and business-type activities as follows:
  - a. Governmental activities increase in net assets of \$26.02 million is primarily due to State allotted appropriations of \$49.63 million, net of lapsed funds of \$0.73 million and net transfers out of \$6.68 million (as detailed on *Government-Wide Statement of Activities, page 23*).
  - b. Business-type activities increase in net assets of \$4.76 million (as detailed on *Government-Wide Statement of Activities, page 23*) is primarily due to capital contributions of \$14.48 million; net transfers in of \$6.68 million from Governmental Activities and loss before transfers of \$16.40 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 32*).

The capital contribution is related to the Capital Project fund's current year capital outlay of \$14.63 million (as detailed on *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, page 26*) 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 26*).

The loss before transfers of \$16.40 million 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 31 and 32*).

# Hawaii Public Housing Authority

Management Discussion and Analysis  
June 30, 2014

## 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. The report is a summary generated from over 500,000 transactions or approximately 2,000 transactions per day.

**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 and liabilities, with the difference between the two reported as net position. The statement displays the financial position of the HPHA. Over time, increases or decreases in net position may serve as an indicator of 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 two categories:

- **Governmental activities.** The activities in this section are primarily supported by State appropriations and 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 current financial resources measurement focus and the modified accrual basis of accounting. 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, 2014

- **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.

**Fund Financial Statements:** The HPHA uses fund accounting to ensure and demonstrate fiscal accountability. A fund is 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) Statement 34, Basic Financial Statements - Management’s Discussion and Analysis for State and Local Governments. Major funds are reported separately, while non-major funds are combined as a whole and separated as a column in the fund financial statements. Details for the non-major funds can be found in the *Supplementary Information* section.

**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, 2014

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table was derived from the government-wide statement of net position.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

#### HAWAII PUBLIC HOUSING AUTHORITY Condensed Statements of Net Positions June 30, 2014 & June 30, 2013 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 129,689	\$ 104,158	\$ 68,316	\$ 66,188	\$ 198,005	\$ 170,346
Capital assets	4,720	4,541	298,227	294,068	302,947	298,609
Other assets	-	-	8,716	8,131	8,716	8,131
<b>Total Assets</b>	<b>\$ 134,409</b>	<b>\$ 108,699</b>	<b>\$ 375,259</b>	<b>\$ 368,387</b>	<b>\$509,668</b>	<b>\$477,086</b>
Current and other liabilities	\$ 3,178	\$ 3,473	\$ 6,788	\$ 7,472	\$ 9,966	\$ 10,945
Long-term liabilities	89	104	16,611	13,820	16,700	13,924
<b>Total Liabilities</b>	<b>3,267</b>	<b>3,577</b>	<b>23,399</b>	<b>21,292</b>	<b>26,666</b>	<b>24,869</b>
Net position:						
Invested in capital assets, net of related debt	4,720	4,541	298,226	294,068	302,946	298,609
Restricted	2,276	3,851	-	-	2,276	3,851
Unrestricted	124,146	96,730	53,634	53,027	177,780	149,757
<b>Total net position</b>	<b>131,142</b>	<b>105,122</b>	<b>351,860</b>	<b>347,095</b>	<b>483,002</b>	<b>452,217</b>
<b>Total liabilities &amp; net position</b>	<b>\$ 134,409</b>	<b>\$ 108,699</b>	<b>\$ 375,259</b>	<b>\$ 368,387</b>	<b>\$ 509,668</b>	<b>\$ 477,086</b>

### 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 \$483.00 million. \$302.95 million of net position was invested in capital assets, net of related debt. As discussed in the financial highlights, net position increased by \$30.79 million during the fiscal period (as detailed on *Government-Wide Statement of Net Position and Statement of Activities, pages 22 and 23*).

Of the HPHA's total assets, \$302.95 million (or 59.4%) 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 21*) in the amount of \$193.43 million and comprises 37.9% of total assets. Amounts in "Due from the state of Hawaii" represent available State allotted appropriations 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, 2014

Accounts payable and accrued current expenses of \$7.86 million comprise 78.9% of the HPHA's total current liabilities (as detailed in the *Government-Wide Statement of Net Position*, page 22). Long term liabilities increased by \$2.78 million from the prior year. This is primarily due to the net increase in other post retirement employee benefits liability of \$2.73 million (as detailed in the *Notes to the Financial Statements*, #8, page 61.) 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.

The following financial information was derived from the government-wide statement of activities.

### HAWAII PUBLIC HOUSING AUTHORITY Government-Wide Statements of Activities Years Ended June 30, 2014 and June 30, 2013 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
Program Revenues:						
Charges for services	\$ -	\$ -	\$ 19,315	\$ 18,015	\$ 19,315	\$ 18,015
Operating grants and contributions	52,662	50,910	20,358	21,511	73,020	72,421
Capital grants and contributions	-	-	13,869	12,466	13,869	12,466
Other income	-	-	47	2,311	47	2,311
General Revenues:						
State allotted appropriations, net of lapsed funds	49,630	93,063	-	-	49,630	93,063
<b>Total revenues</b>	<b>102,292</b>	<b>143,973</b>	<b>53,589</b>	<b>54,303</b>	<b>155,881</b>	<b>198,276</b>
<b>Expenses</b>						
Governmental Activities						
Rental housing assistance program	69,590	60,771	-	-	69,590	60,771
Business-type activities						
Rental assistance program	-	-	58,285	53,466	58,285	53,466
Housing development program	-	-	8,591	7,803	8,591	7,803
Other	-	-	3,109	3,810	3,109	3,810
<b>Total governmental-wide expenses</b>	<b>69,590</b>	<b>60,771</b>	<b>69,985</b>	<b>65,079</b>	<b>139,575</b>	<b>125,850</b>
Excess (deficiency) of revenues over (under) expenses	32,702	83,202	(16,396)	(10,776)	16,306	72,426
Capital contributions	-	-	14,479	7,762	14,479	7,762
Transfers	(6,682)	(6,810)	6,682	6,810	-	-
<b>CHANGES IN NET POSITION</b>	<b>26,020</b>	<b>76,392</b>	<b>4,765</b>	<b>3,796</b>	<b>30,785</b>	<b>80,188</b>
Total net position, beginning of year	105,122	28,730	347,095	343,299	452,217	372,029
<b>Total net position, end of year</b>	<b>\$ 131,142</b>	<b>\$ 105,122</b>	<b>\$ 351,860</b>	<b>\$ 347,095</b>	<b>\$ 483,002</b>	<b>\$ 452,217</b>

# Hawaii Public Housing Authority

Management Discussion and Analysis  
June 30, 2014

## Statement of Activities

Operating grants and contributions increased by \$0.60 million in the current year from \$72.42 million to \$73.02 million. Capital grants and contributions increased by \$1.40 million in the current year from \$12.47 million to \$13.87 million. HUD operating subsidies for federal public housing program decreased by \$1.15 million or 5.4%, from \$21.51 million in prior year to \$20.36 million. Contributing to the higher business-type activities operating loss of \$16.44 million 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 \$16.40 million.

Governmental activities net position increased by \$26.02 million from prior year's \$105.12 million to current year's \$131.14 million. This increase is primarily due to State allotted appropriations of \$49.63 million net of lapsed capital funds of \$0.73 million, and net transfers out of \$6.68 million (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 (as detailed in *Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balance, page 26*).

- At the end of the fiscal year, combined fund balances amounted to \$126.51 million, of which \$121.76 million was reserved for capital projects, an increase of \$25.83 million, in comparison with the prior year's combined fund balance of \$100.68 million (as detailed in *Governmental Funds, Balance Sheet, page 24 and Statement of Revenues, Expenditures and Changes in Fund Balances, page 26*).
- Under the General Fund, excess of revenues over expense at the end of the fiscal year was \$3.94 million. However, \$4.27 million was transferred out of the General Fund to support the HPHA's business type activities (as detailed in *Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balances, page 26*).
- The Capital Project Fund balance increased by \$27.77 million, to \$121.76 million from prior year's \$93.99 million (as detailed on *Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balances, page 26*). The HPHA received allotted appropriations of \$44.60 million net of lapsed fund of \$0.40 million. Capital outlay was \$14.63 million, and net transfer out was \$2.20 million.



# Hawaii Public Housing Authority

## Management Discussion and Analysis

June 30, 2014

- The Housing Choice Voucher Program fund balance decreased by \$1.58 million, to \$2.28 million. This is mainly because the voucher payment of \$24.03 million is more than the HUD annual contribution of \$23.83 million, with the operating expenses paid by cash reserve from prior years, as required by HUD directives.
- The Section 8 Contract Administration fund balance decreased by \$0.04 million to \$1.81 million. Revenue exceeded expenses by \$0.17 million, offset by operating transfer out of \$0.21 million.

### 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 HUD-mandated 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 federal housing projects for administrative services and general oversight.
- Combined Proprietary Funds losses before transfers amounted to \$16.40 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 32*) compared with prior year loss of \$10.78 million. The change is a combination of an increase in Other Revenue of \$1.3 million, offset by increases in expenses such as Repair and Maintenance of \$0.54 million and Personnel expense by \$1.65 million in order to address the vacant units.
- The COCC finished the current year with a loss before transfers of approximately \$0.002 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, pages 31 and 32*), in comparison to prior year's loss of approximately \$2.04 million. This is primarily due to increase in Other Income of \$1.14 million, from prior year's \$0.54 million, offset by approximately \$1.37 million increase related to staff cost. As a result, the COCC's net position decreased by \$0.13 million from the prior year.
- Under the Federal Low Rent Program, net loss before transfers increased by \$4.58 million to \$10.63 million, compared to prior year net loss of \$6.05 million. The variance was mainly due to Repair and Maintenance Expenses increase of \$4.08 million. The Net Position of this program increased by \$6.24 million, mainly because Capital Contribution increased by \$5.97 million, from prior year's \$6.83 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 32*).
- The State family projects or Housing Revolving fund losses before transfers amounted to \$2.06 million. This is mainly because rental income received is not sufficient to support operational expenditures (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 32*).

## Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2014

- Similarly, the State elderly and disabled or Housing for Elderly fund's rental income received is insufficient to support the fund's operational expenditures, resulting in loss before transfers amounting to \$2.65 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 32*).
- Other Enterprise Funds loss before transfers amounted to approximately \$1.03 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Positions, page 32*) compared with prior year income of \$0.11 million.

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, 2014

## CAPITAL ASSETS AND DEBT ADMINISTRATION

The HPHA's investment in capital assets for the fiscal year ended June 30, 2014 is approximately \$302.95 million (*net of related debt*). This investment in capital assets includes land, buildings and improvements, equipment, furniture, and fixtures, and construction in progress (Detailed in *Notes to the Financial Statements, #5, page 52 through 54*).

### HPHA Capital Assets Years ended June 30, 2014 and June 30, 2013 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 2,373	\$ 2,373	\$ 22,966	\$ 22,966	\$ 25,339	\$ 25,339
Buildings and improvements	15,325	15,041	573,984	554,858	589,309	569,899
Equipment	1,292	1,198	7,836	7,750	9,128	8,948
Construction in progress	23	-	28,954	27,423	28,977	27,423
Total	19,013	18,612	633,740	612,997	652,753	631,609
Accumulated Depreciation	(14,293)	(14,071)	(335,514)	(318,929)	(349,807)	(333,000)
Total Capital Assets Net	\$ 4,720	\$ 4,541	\$ 298,226	\$ 294,068	\$ 302,946	\$ 298,609

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

#### Major Projects Outstanding FY2014 (construction in progress) at the end of the year

- AMP 30 Puuwai Momi, Electrical System Repairs, \$2.70 million
- AMP 30 Salt Lake Apartment, Upgrade Electrical Power, \$0.39 million
- AMP 31 Kalihi Valley Homes, Site & Dwelling Improvements, \$0.73 million
- AMP 31 Hauiki Homes, Upgrade Electrical Distribution System, \$0.40 million
- AMP 34 Makua Alii, Reroofing and Structural Repairs , \$2.99 million
- AMP 34 Kalakaua Homes, Reroofing, Exterior Repairs, Site Improvement and ADA Accessibility, \$0.63 million
- AMP 37 Lanakila Homes I, Physical Improvements, \$0.94 million
- AMP 38 Hale Nana Kai O Kea, Site and Dwelling Improvements, \$2.65 million
- AMP 42 Hale Po'ai, Building Improvements, \$2.22 million
- AMP 45 Koolau Village, ADA Compliance, \$0.49 million
- AMP 45 Hookipa Kahaluu, ADA Compliance, \$0.41 million
- AMP 49 Wahiawa Terrace , Renovation of Vacant Units Statewide - Group B, \$0.69 million

# Hawaii Public Housing Authority

Management Discussion and Analysis  
June 30, 2014

- AMP 50 Palolo Valley Homes, Homes Modernization & Physical Improvements, \$9.52 million

## Debt Activity

As of June 30, 2014, 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, 2014.

## CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

During 2009 legislative session, S.B. bill No. 910 was enacted and requires the transfer of the functions and duties of the homeless programs branch of the Authority to the Department of Human Services effectively July 1, 2010. The impact of the transfer to the Authority's net assets was approximately \$22,000,000 and is included in intergovernmental transfers under governmental activities in the governmental-wide statement of activities. The HPHA, however, continues to hold title to the State owned shelter facilities.

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

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

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

# **Hawaii Public Housing Authority**

Management Discussion and Analysis

June 30, 2014

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 filed. At this point, the parties have settled both of the lawsuits.

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.

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.

On July 11, 2014, Governor Neil Abercrombie and the HPHA announced the redevelopment project of Mayor Wright Homes. Subsequently, the HPHA issued a Request for Qualification to pursue a public/private partnership for the redevelopment, which will be a mixed used, mixed income, mixed financing model that will allow the State to preserve existing public housing and increase low income rental housing stock. The project will revitalize the Kalihi-Palama neighborhood. Negotiation with the top-ranked bidder has started.

## **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, 2014

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash	\$ 3,329,003	\$ 61,657,917	\$ 64,986,920
Restricted cash	886,078	2,432,164	3,318,242
Due from State of Hawaii	125,128,276	-	125,128,276
Receivables:			
Accrued interest	-	1,083	1,083
Tenant receivables, less allowance for doubtful receivables of \$1,731,398	-	421,742	421,742
Other	26,345	45,513	71,858
	<u>26,345</u>	<u>468,338</u>	<u>494,683</u>
Internal balances	(1,846,758)	1,846,758	-
Due from other state agencies	-	173,227	173,227
Due from HUD	95,745	1,131,690	1,227,435
Inventories	-	563,600	563,600
Prepaid expenses and other assets	2,070,131	10,244	2,080,375
Deposits held in trust	-	32,202	32,202
Total current assets	<u>129,688,820</u>	<u>68,316,140</u>	<u>198,004,960</u>
Notes Receivable	-	8,716,630	8,716,630
Capital Assets, less accumulated depreciation	<u>4,719,959</u>	<u>298,226,549</u>	<u>302,946,508</u>
Total assets	<u>\$ 134,408,779</u>	<u>\$ 375,259,319</u>	<u>\$ 509,668,098</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE  
STATEMENT OF NET POSITION (continued)

June 30, 2014

LIABILITIES AND NET POSITION	Governmental Activities	Business-Type Activities	Total
Current Liabilities:			
Accounts payable	\$ 2,742,143	\$ 2,602,996	\$ 5,345,139
Accrued expenses	435,798	2,081,596	2,517,394
Due to State of Hawaii	-	571,402	571,402
Security deposits	-	829,617	829,617
Deferred income	-	702,040	702,040
Total current liabilities	<u>3,177,941</u>	<u>6,787,651</u>	<u>9,965,592</u>
Accrued Expenses	88,821	16,611,211	16,700,032
Commitments and Contingencies			
Net Position:			
Invested in capital assets, net of related debt	4,719,959	298,226,549	302,946,508
Restricted by legislation and contractual agreements	2,275,523	-	2,275,523
Unrestricted	<u>124,146,535</u>	<u>53,633,908</u>	<u>177,780,443</u>
Total net position	<u>131,142,017</u>	<u>351,860,457</u>	<u>483,002,474</u>
Total liabilities and net position	<u>\$ 134,408,779</u>	<u>\$ 375,259,319</u>	<u>\$ 509,668,098</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

	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	\$ 69,590,016	\$ -	\$ 52,661,878	\$ -	\$ (16,928,138)	\$ -	\$ (16,928,138)
Total governmental activities	69,590,016	-	52,661,878	-	(16,928,138)	-	(16,928,138)
Business-type activities:							
Rental assistance program	58,284,924	13,426,776	20,358,082	13,868,576	-	(10,631,490)	(10,631,490)
Rental housing program	8,590,735	3,668,423	-	-	-	(4,922,312)	(4,922,312)
Others	3,108,774	2,220,454	-	-	-	(888,320)	(888,320)
Total business-type activities	69,984,433	19,315,653	20,358,082	13,868,576	-	(16,442,122)	(16,442,122)
Total government-wide	\$ 139,574,449	\$ 19,315,653	\$ 73,019,960	\$ 13,868,576	(16,928,138)	(16,442,122)	(33,370,260)
State Allotted Appropriations, net of lapsed funds of \$729,459					49,629,893	-	49,629,893
Other Non-Program Revenue					-	47,068	47,068
Capital Contributions					-	14,478,767	14,478,767
Net Transfers					(6,682,061)	6,682,061	-
Total general revenues and transfers					42,947,832	21,207,896	64,155,728
Change in net position					26,019,694	4,765,774	30,785,468
Net Position at July 1, 2013					105,122,323	347,094,683	452,217,006
Net Position at June 30, 2014					\$ 131,142,017	\$ 351,860,457	\$ 483,002,474

The accompanying notes are an integral part of this statement.



Hawaii Public Housing Authority

GOVERNMENTAL FUNDS  
BALANCE SHEET

June 30, 2014

ASSETS	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Total Governmental Funds
Current Assets:					
Cash	\$ -	\$ -	\$ 1,363,845	\$ 1,965,158	\$ 3,329,003
Restricted cash	-	-	886,078	-	886,078
Due from State of Hawaii	1,240,182	123,888,094	-	-	125,128,276
Other receivables	-	-	26,345	-	26,345
Due from other funds	487,463	-	705,539	126,337	1,319,339
Due from HUD	-	-	-	95,745	95,745
Prepaid expenses and other assets	35,217	-	2,034,914	-	2,070,131
Total assets	<u>\$ 1,762,862</u>	<u>\$ 123,888,094</u>	<u>\$ 5,016,721</u>	<u>\$ 2,187,240</u>	<u>\$ 132,854,917</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Accounts payable	\$ 545,633	\$ 2,125,264	\$ 65,718	\$ 5,528	\$ 2,742,143
Accrued expenses	6,599	-	210,139	219,060	435,798
Due to other funds	475,268	-	2,159,399	156,391	2,791,058
Total current liabilities	1,027,500	2,125,264	2,435,256	380,979	5,968,999
Due to other funds	69,097	-	305,942	-	375,039
Fund Balances:					
Restricted by legislation and contractual agreements	-	-	2,275,523	-	2,275,523
Committed	-	22,137,718	-	-	22,137,718
Assigned	666,265	99,625,112	-	1,806,261	102,097,638
Total fund balances	666,265	121,762,830	2,275,523	1,806,261	126,510,879
Total liabilities and fund balances	<u>\$ 1,762,862</u>	<u>\$ 123,888,094</u>	<u>\$ 5,016,721</u>	<u>\$ 2,187,240</u>	<u>\$ 132,854,917</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, 2014

Total fund balance - governmental funds		\$	126,510,879
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	4,719,959		
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds	<u>(88,821)</u>		<u>4,631,138</u>
Net position of governmental activities		\$	<u><u>131,142,017</u></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, 2014

	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Total Governmental Funds
<b>Revenues:</b>					
Intergovernmental – HUD annual contributions and others	\$ -	\$ -	\$ 23,832,638	\$ 28,800,635	\$ 52,633,273
State allotted appropriations, net of lapsed funds of \$729,459	5,031,490	44,598,403	-	-	49,629,893
Other	-	-	28,414	191	28,605
<b>Total revenues</b>	<b>5,031,490</b>	<b>44,598,403</b>	<b>23,861,052</b>	<b>28,800,826</b>	<b>102,291,771</b>
<b>Expenditures:</b>					
Housing assistance payments	456,380	-	24,034,950	27,645,657	52,136,987
Personnel services	395,484	-	624,061	60,066	1,079,611
Administration	163,190	-	683,248	886,673	1,733,111
Professional services	32,531	-	29,512	39,988	102,031
Security	235	-	-	-	235
Repairs and maintenance	279	-	-	-	279
Capital outlays	10,662	14,626,430	-	-	14,637,092
Other	29,629	-	64,345	-	93,974
<b>Total expenditures</b>	<b>1,088,390</b>	<b>14,626,430</b>	<b>25,436,116</b>	<b>28,632,384</b>	<b>69,783,320</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>3,943,100</b>	<b>29,971,973</b>	<b>(1,575,064)</b>	<b>168,442</b>	<b>32,508,451</b>
<b>Other Financing Uses - Transfers Out</b>	<b>(4,270,521)</b>	<b>(2,201,929)</b>	<b>-</b>	<b>(209,611)</b>	<b>(6,682,061)</b>
<b>Net change in fund balances</b>	<b>(327,421)</b>	<b>27,770,044</b>	<b>(1,575,064)</b>	<b>(41,169)</b>	<b>25,826,390</b>
<b>Fund Balances at July 1, 2013</b>	<b>993,686</b>	<b>93,992,786</b>	<b>3,850,587</b>	<b>1,847,430</b>	<b>100,684,489</b>
<b>Fund Balances at June 30, 2014</b>	<b>\$ 666,265</b>	<b>\$ 121,762,830</b>	<b>\$ 2,275,523</b>	<b>\$ 1,806,261</b>	<b>\$ 126,510,879</b>

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, 2014

Net change in fund balances - total governmental funds \$ 25,826,390

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 \$14,478,767 of capital contribution outlays,  
is allocated over their estimated useful lives and  
reported as depreciation expense.

Expenditures for capital assets	401,393	
Less current year depreciation expense	<u>(222,817)</u>	178,576

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

14,728

Change in net assets of governmental activities		<u><u>\$ 26,019,694</u></u>
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The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS  
STATEMENT OF NET POSITION

June 30, 2014

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	\$ 21,388,991	\$ 534,257	\$ 3,062,582	\$ 31,960,728	\$ 3,712,788	\$ 60,659,346	\$ 998,571
Restricted cash	-	-	-	2,432,164	-	2,432,164	-
	<u>21,388,991</u>	<u>534,257</u>	<u>3,062,582</u>	<u>34,392,892</u>	<u>3,712,788</u>	<u>63,091,510</u>	<u>998,571</u>
Receivables:							
Accrued interest	-	117	687	-	-	804	279
Tenant receivables, less allowance for doubtful accounts of \$1,731,398	383,791	32,368	875	-	4,708	421,742	-
Other	-	7,061	431	-	38,021	45,513	-
	<u>383,791</u>	<u>39,546</u>	<u>1,993</u>	<u>-</u>	<u>42,729</u>	<u>468,059</u>	<u>279</u>
Due from other funds	2,406,037	480,414	174,479	4,035,457	2,094,659	9,191,046	7,041
Due from other state agencies	-	-	-	33,375	139,852	173,227	-
Due from HUD	1,131,690	-	-	-	-	1,131,690	-
Inventories	458,425	21,004	50,957	33,214	-	563,600	-
Prepaid expenses and other assets	-	-	-	10,244	-	10,244	-
Deposits held in trust	-	-	-	-	32,202	32,202	-
Total current assets	<u>25,768,934</u>	<u>1,075,221</u>	<u>3,290,011</u>	<u>38,505,182</u>	<u>6,022,230</u>	<u>74,661,578</u>	<u>1,005,891</u>
Notes Receivable	8,716,630	-	-	-	-	8,716,630	-
Due from Other Funds	-	-	-	2,178,555	-	2,178,555	-
Capital Assets, less accumulated depreciation	<u>227,816,686</u>	<u>21,418,294</u>	<u>36,101,300</u>	<u>120,555</u>	<u>12,445,871</u>	<u>297,902,706</u>	<u>323,843</u>
Total assets	<u>\$ 262,302,250</u>	<u>\$ 22,493,515</u>	<u>\$ 39,391,311</u>	<u>\$ 40,804,292</u>	<u>\$ 18,468,101</u>	<u>\$ 383,459,469</u>	<u>\$ 1,329,734</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS  
STATEMENT OF NET POSITION (continued)

June 30, 2014

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
<b>Current Liabilities:</b>							
Accounts payable	\$ 2,129,955	\$ 38,062	\$ 112,578	\$ 221,908	\$ 100,493	\$ 2,602,996	\$ -
Accrued expenses	1,128,505	50,858	22,884	769,578	109,771	2,081,596	-
Due to other funds	580,262	1,015,516	640,763	606,453	4,883,374	7,726,368	-
Due to State of Hawaii	-	-	-	-	571,402	571,402	-
Security deposits	602,464	36,211	146,933	-	44,009	829,617	-
Deferred income	667,910	24,607	-	9,523	-	702,040	-
<b>Total current liabilities</b>	<b>5,109,096</b>	<b>1,165,254</b>	<b>923,158</b>	<b>1,607,462</b>	<b>5,709,049</b>	<b>14,514,019</b>	<b>-</b>
Accrued Expenses	744,111	63,469	-	15,803,631	-	16,611,211	-
Due to Other Funds	1,197,862	605,654	-	-	-	1,803,516	-
<b>Total liabilities</b>	<b>7,051,069</b>	<b>1,834,377</b>	<b>923,158</b>	<b>17,411,093</b>	<b>5,709,049</b>	<b>32,928,746</b>	<b>-</b>
<b>Commitments and Contingencies</b>							
<b>Net Position:</b>							
Invested in capital assets, net of related debt	227,816,686	21,418,294	36,101,300	120,555	12,445,871	297,902,706	323,843
Unrestricted	27,434,495	(759,156)	2,366,853	23,272,644	313,181	52,628,017	1,005,891
<b>Total net position</b>	<b>255,251,181</b>	<b>20,659,138</b>	<b>38,468,153</b>	<b>23,393,199</b>	<b>12,759,052</b>	<b>350,530,723</b>	<b>1,329,734</b>
<b>Total liabilities and net position</b>	<b>\$ 262,302,250</b>	<b>\$ 22,493,515</b>	<b>\$ 39,391,311</b>	<b>\$ 40,804,292</b>	<b>\$ 18,468,101</b>	<b>\$ 383,459,469</b>	<b>\$ 1,329,734</b>

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, 2014

Total net position of enterprise funds	\$ 350,530,723
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>1,329,734</u>
Net position of business-type activities	<u><u>\$ 351,860,457</u></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, 2014

	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	\$ 13,196,836	\$ 1,074,857	\$ 2,025,704	\$ -	\$ 873,273	\$ -	\$ 17,170,670	\$ 37,070
Fee-for-service	-	-	-	9,485,882	-	(9,485,882)	-	-
Other	229,940	14,855	162,835	1,683,852	16,431	-	2,107,913	-
Total operating revenues	13,426,776	1,089,712	2,188,539	11,169,734	889,704	(9,485,882)	19,278,583	37,070
Operating Expenses:								
Project	6,856,278	-	-	-	-	-	6,856,278	-
Personnel services	9,282,140	666,727	-	9,979,593	-	-	19,928,460	-
Depreciation	13,646,647	869,693	1,419,756	21,526	560,322	-	16,517,944	67,339
Administration	4,508,515	363,684	1,532,901	247,818	729,503	(5,047,470)	2,334,951	-
Provision for (recovery of) losses	223,252	51,264	1,624	53,371	(20,187)	-	309,324	-
Professional services	233,626	33,526	14,923	383,296	4,333	-	669,704	2,990
Security	1,878,049	-	516	13,092	-	-	1,891,657	-
Insurance	594,220	31,605	125,445	20,233	2,232	-	773,735	-
Repairs and maintenance	9,282,660	294,310	368,142	239,966	247,413	(4,438,412)	5,994,079	-
Utilities	11,731,389	842,882	1,381,069	114,154	394,620	-	14,464,114	-
Payments in lieu of taxes	48,148	-	-	717	-	-	48,865	-
Capital expenditures	-	-	-	124,993	-	-	124,993	-
Total operating expenses	58,284,924	3,153,691	4,844,376	11,198,759	1,918,236	(9,485,882)	69,914,104	70,329
Operating loss carried forward	(44,858,148)	(2,063,979)	(2,655,837)	(29,025)	(1,028,532)	-	(50,635,521)	(33,259)

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, 2014

	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	(44,858,148)	(2,063,979)	(2,655,837)	(29,025)	(1,028,532)	-	(50,635,521)	(33,259)
Nonoperating Revenues:								
HUD operating subsidies	20,358,082	-	-	-	-	-	20,358,082	-
HUD capital fund subsidies	13,868,576	-	-	-	-	-	13,868,576	-
Other revenues	4,088	1,662	6,626	27,022	849	-	40,247	6,821
Net nonoperating revenues	34,230,746	1,662	6,626	27,022	849	-	34,266,905	6,821
Loss before transfers	(10,627,402)	(2,062,317)	(2,649,211)	(2,003)	(1,027,683)	-	(16,368,616)	(26,438)
Capital Contributions	12,797,748	1,561,671	119,348	-	-	-	14,478,767	-
Net Transfers	4,071,521	909,910	1,338,761	(125,059)	486,928	-	6,682,061	-
Change in net position	6,241,867	409,264	(1,191,102)	(127,062)	(540,755)	-	4,792,212	(26,438)
Net Position at July 1, 2013	249,009,314	20,249,874	39,659,255	23,520,261	13,299,807	-	345,738,511	1,356,172
Net Position at June 30, 2014	<u>\$ 255,251,181</u>	<u>\$ 20,659,138</u>	<u>\$ 38,468,153</u>	<u>\$ 23,393,199</u>	<u>\$ 12,759,052</u>	<u>\$ -</u>	<u>\$ 350,530,723</u>	<u>\$ 1,329,734</u>

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, 2014

Change in net position - total enterprise funds	\$ 4,792,212
Change in net position - internal service funds	<u>(26,438)</u>
Change in net position of business-type activities	<u>\$ 4,765,774</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, 2014

	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
<b>Cash Flows from Operating Activities:</b>							
Cash received from renters	\$ 13,139,154	\$ 1,069,219	\$ 2,025,546	\$ -	\$ 894,234	\$ 17,128,153	\$ -
Cash payments to employees	(9,282,140)	(660,235)	-	(7,219,141)	-	(17,161,516)	-
Cash payments to suppliers	(35,669,863)	(1,565,624)	(3,386,518)	(1,157,836)	(1,379,622)	(43,159,463)	-
Cash (payments to) receipts from other funds	(4,306,495)	1,187,329	1,594,249	20,501,411	(4,649,049)	14,327,445	39,315
Other cash receipts (payments)	991,937	14,750	369,404	1,684,925	(26,756)	3,034,260	(1,918)
Net cash (used in) provided by operating activities	<u>(35,127,407)</u>	<u>45,439</u>	<u>602,681</u>	<u>13,809,359</u>	<u>(5,161,193)</u>	<u>(25,831,121)</u>	<u>37,397</u>
<b>Cash Flows from Noncapital Financing Activity --</b>							
HUD operating subsidy received	20,358,083	-	-	-	-	20,358,083	-
Net cash provided by noncapital financing activities	<u>20,358,083</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,358,083</u>	<u>-</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>							
HUD capital subsidy received	15,047,841	-	-	-	-	15,047,841	-
Payments for acquisition of property and equipment	(6,199,462)	(172,498)	(76,830)	-	-	(6,448,790)	(23,037)
Issuance of note receivable	(585,645)	-	-	-	-	(585,645)	-
Other	4,088	-	-	-	-	4,088	3,805
Net cash provided by (used in) capital and related financing activities	<u>8,266,822</u>	<u>(172,498)</u>	<u>(76,830)</u>	<u>-</u>	<u>-</u>	<u>8,017,494</u>	<u>(19,232)</u>
Subtotal carried forward	<u>(6,502,502)</u>	<u>(127,059)</u>	<u>525,851</u>	<u>13,809,359</u>	<u>(5,161,193)</u>	<u>2,544,456</u>	<u>18,165</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, 2014

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Subtotal brought forward	(6,502,502)	(127,059)	525,851	13,809,359	(5,161,193)	2,544,456	18,165
Cash Flows from Investing Activity --							
Receipts of Interest	-	1,633	8,083	27,022	-	36,738	2,992
Net cash provided by investing activities	-	1,633	8,083	27,022	-	36,738	2,992
Net (decrease) increase in cash	(6,502,502)	(125,426)	533,934	13,836,381	(5,161,193)	2,581,194	21,157
Cash at July 1, 2013	27,891,493	659,683	2,528,648	20,556,511	8,873,981	60,510,316	977,414
Cash at June 30, 2014	<u>\$ 21,388,991</u>	<u>\$ 534,257</u>	<u>\$ 3,062,582</u>	<u>\$ 34,392,892</u>	<u>\$ 3,712,788</u>	<u>\$ 63,091,510</u>	<u>\$ 998,571</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, 2014

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:							
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:							
Operating (loss) income	\$ (44,858,148)	\$ (2,063,979)	\$ (2,655,837)	\$ (29,025)	\$ (1,028,532)	\$ (50,635,521)	\$ (33,259)
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:							
Depreciation	13,646,647	869,693	1,419,756	21,526	560,322	16,517,944	67,339
Provision for (recovery of) losses	223,252	51,264	1,624	53,371	(20,187)	309,324	-
Loss on capital asset write off	-	-	206,569	563	-	207,132	-
Changes in assets and liabilities:							
Tenant receivables	(230,182)	2,054	(158)	-	19,651	(208,635)	-
Other receivables	761,997	(105)	(431)	-	(14,201)	747,260	1,072
Due from other funds	3,653,859	429,496	1,164,282	10,438,226	(1,388,970)	14,296,893	2,245
Due from other state agency	-	-	-	510	(108,109)	(107,599)	-
Inventories	371,671	7,023	39,143	(8,163)	-	409,674	-
Prepaid expenses and other assets	-	-	-	(1,401)	-	(1,401)	-
Deposits held in trust	-	-	-	-	(4,706)	(4,706)	-
Accounts payable	(451,770)	(4,124)	(17,054)	180,542	76,126	(216,280)	-
Accrued expenses	(456,879)	3,976	14,842	2,575,907	13,662	2,151,508	-
Due to other funds	(7,960,354)	757,833	429,967	577,303	(3,272,265)	(9,467,516)	-
Security deposits	(52,553)	(4,288)	(22)	-	6,016	(50,847)	-
Deferred income	225,053	(3,404)	-	-	-	221,649	-
Net cash (used in) provided by operating activities	<u>\$ (35,127,407)</u>	<u>\$ 45,439</u>	<u>\$ 602,681</u>	<u>\$ 13,809,359</u>	<u>\$ (5,161,193)</u>	<u>\$ (25,831,121)</u>	<u>\$ 37,397</u>

The accompanying notes are an integral part of this statement.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 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, 2014, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Authority's financial activities.

### b. Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net 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, 2014

## 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 and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column.

### 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, 2014

## 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, 2014 has been reported in the government-wide financial statements.



# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 1. Organization and Significant Accounting Policies (continued)

### c. Measurement Focus and Basis of Accounting (continued)

#### iii. Proprietary Funds

The financial statements of proprietary funds 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 financial activities of the Authority that are reported in the accompanying fund financial statements have been classified into the following major and non-major governmental and proprietary 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, 2014

## 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, 2014

## 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, 2014

## 1. Organization and Significant Accounting Policies (continued)

### 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, 2014

## 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

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method. The cost of inventories is recorded as an expenditure when consumed.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 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 \$677,000.

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

Balance at July 1, 2013	Additions	Reductions	Balance at June 30, 2014
<u>\$2,138,000</u>	<u>\$1,164,000</u>	<u>\$1,140,000</u>	<u>\$2,162,000</u>

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 1. Organization and Significant Accounting Policies (continued)

### k. Vacation (continued)

As of June 30, 2014, approximately \$124,000 and \$2,038,000 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, 2014

## 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 March 2012, the GASB issued GASB Statement No. 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 this statement were adopted on July 1, 2013. The adoption of this statement did not result in a material effect on the financial statements.

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.



# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 1. Organization and Significant Accounting Policies (continued)

### o. Recently Adopted/Issued Accounting Pronouncements (continued)

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 were adopted on July 1, 2013. The adoption of this statement did not result in a material effect on the financial statements.

In May 2014, the GASB approved an exposure draft for issuance which will significantly revise the existing GASB standards contained in GASB Statement No. 45 (GASB 45), *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. If adopted as exposed, the revised accounting for other postemployment benefits (OPEB) will mirror the accounting and reporting framework used in GASB 68 described above. The exposure draft as issued will be effective for the Authority's financial statements for the year ended June 30, 2018.

## 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.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 2. Budgeting and Budgetary Control (continued)

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 schedules 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.

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, 2014 is set forth in the required supplementary information.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

### 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, 2014, total cash, including restricted cash and deposits, reported in the statement of net position is \$68,337,364 which consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
State pool and petty cash	\$ -	\$ 7,270,113	\$ 7,270,113
Cash in bank (book balance)	<u>4,215,085</u>	<u>56,819,964</u>	<u>61,035,049</u>
	4,215,085	64,090,077	68,305,162
Deposits held in trust	<u>-</u>	<u>32,202</u>	<u>32,202</u>
Total Cash	<u>\$ 4,215,085</u>	<u>\$ 64,122,279</u>	<u>\$ 68,337,364</u>

Bank balance of cash in bank was approximately \$64,595,000, of which \$750,000 was covered by federal depository insurance and \$63,845,000 by collateral held by the pledging financial institution's trust department or agent in the name of the Authority.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 4. 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.

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, 2014, 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	\$ 53,835,931
Deferred gain	<u>(49,019,301)</u>
Net note receivable	<u>\$ 4,816,630</u>

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 4. 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, 2014, the Authority loaned the full \$3,900,000 to the buyer, which is included in the accompanying statement of net position under the Federal Low Rent Program.

## 5. Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows:

	July 1, 2013	Increases	Decreases	June 30, 2014
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 2,373,410	\$ -	\$ -	\$ 2,373,410
Construction in progress	-	22,543	-	22,543
Total capital assets not being depreciated	2,373,410	22,543		2,395,953
Capital assets, being depreciated:				
Building and improvements	15,040,694	284,750	-	15,325,444
Equipment	1,197,769	94,100	-	1,291,869
Total capital assets being depreciated	16,238,463	378,850	-	16,617,313
Less accumulated depreciation for:				
Building and improvements	12,878,554	212,759	-	13,091,313
Equipment	1,191,936	10,058	-	1,201,994
Total accumulated depreciation	14,070,490	222,817	-	14,293,307
Governmental activities, net	\$ 4,541,383	\$ 178,576	\$ -	\$ 4,719,959

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 5. Capital Assets (continued)

	July 1, 2013	Increases	Decreases	June 30, 2014
<b>Business-Type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 22,966,200	\$ -	\$ -	\$ 22,966,200
Construction in progress	27,423,049	20,886,474	(19,355,520)	28,954,003
Total capital assets not being depreciated	50,389,249	20,886,474	(19,355,520)	51,920,203
Capital assets being depreciated:				
Building and improvements	554,857,753	19,126,591	-	573,984,344
Equipment	7,750,365	85,918	-	7,836,283
Total capital assets being depreciated	562,608,118	19,212,509	-	581,820,627
Less accumulated depreciation for:				
Building and improvements	311,777,852	16,458,478	-	328,236,330
Equipment	7,151,146	126,805	-	7,277,951
Total accumulated depreciation	318,928,998	16,585,283	-	335,514,281
Business-type activities capital assets, net	<u>\$ 294,068,369</u>	<u>\$ 23,513,700</u>	<u>\$ (19,355,520)</u>	<u>\$ 298,226,549</u>

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

Governmental Activity -	
Rental Housing and Assistance Program	\$ 222,817
Business-Type Activities:	
Federal Low Rent Program	13,646,647
Housing Revolving Fund	869,693
Housing for Elders Revolving Fund	1,419,756
Central Office Cost Center Fund	21,526
Internal Services	67,339
Others	560,322
Total depreciation expense – business-type activities	<u>16,585,283</u>
Total depreciation expense	<u>\$ 16,808,100</u>

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 5. Capital Assets (continued)

At June 30, 2014, 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	471,748,936	31,207,636	56,014,907	42,857	14,970,008	573,984,344	-	573,984,344
Equipment, Furniture and fixtures	5,106,840	252,521	214,676	150,524	-	5,724,561	2,111,722	7,836,283
Construction in Progress	25,761,782	929,072	2,263,149	-	-	28,954,003	-	28,954,003
Less accumulated depreciation	<u>287,894,501</u>	<u>13,223,816</u>	<u>28,496,249</u>	<u>72,826</u>	<u>4,039,010</u>	<u>333,726,402</u>	<u>1,787,879</u>	<u>335,514,281</u>
Net property and Equipment	<u>\$ 227,816,686</u>	<u>\$21,418,294</u>	<u>\$ 36,101,300</u>	<u>\$ 120,555</u>	<u>\$12,445,871</u>	<u>\$297,902,706</u>	<u>\$ 323,843</u>	<u>\$298,226,549</u>

## 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, 2014, the Federal Low Rent Program fund and the Capital Projects fund had outstanding construction contract commitments to expend approximately \$8,017,000 and \$22,138,000, respectively, for the construction and renovation of housing projects.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 6. Commitments and Contingencies (continued)

### 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 \$2,432,000 of restricted cash recorded under the Central Office Cost Center as of June 30, 2014 is held in an approved escrow account.

### 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 lawsuit 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, 2014, the Authority has determined there is not a significant liability for workers' compensation claims.



# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 6. Commitments and Contingencies (continued)

### 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; accordingly, sick leave is not accrued in the accompanying statement of net position. 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, 2014 amounted to approximately \$4,834,000.

### 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.

### 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.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 6. Commitments and Contingencies (continued)

### h. Litigation (continued)

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

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

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.

Act 015, Session Law Hawaii 2012 signed into law on April 11, 2012, conveyed about 25 acres of lands controlled and managed by the Hawaii Community Development Authority to the Office of Hawaiian Affairs, to settle OHA’s past ceded land claims. The law took effect on July 1, 2012.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 6. Commitments and Contingencies (continued)

### h. Litigation (continued)

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, 2014, the USDC case has been settled with the plaintiffs for \$20,000. The settlement was requested from general funds from the 2014 Hawaii State Legislature. The State case has been settled with the plaintiffs for \$350,000. The settlement will be requested from general funds from the 2015 Hawaii State Legislature.

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 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.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 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.

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

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

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 7. Retirement Plan (continued)

### b. Funding Policy

Covered employees of the contributory plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 7.8% or 9.8% of their salary, respectively. Police officers, firefighters, investigators or the departments of the country prosecuting attorney and the attorney general, narcotics enforcement investigators and public safety investigators who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 12.2% or 14.2% of their salary, respectively. Covered employees of the hybrid plan who became members as of June 30, 2012 or after June 30, 2012 are required to contribute 6% or 8% of their salary, respectively. The funding method used to calculate the total employer contribution requirement 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, 2014, 2013 and 2012 were approximately \$1,965,000, \$1,789,000, and \$1,571,000, respectively.

## 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 less than 10 years of service, the Authority makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the Authority pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the Authority pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the Authority pays 100% of the base monthly contribution. Retirees in this category can elect family plan to cover dependents.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 8. Other Post Retirement Employee Benefits (continued)

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

### Annual OPEB Cost and Net OPEB Obligation

It is the State's policy that measurement of the actuarial valuation and the annual required contribution (ARC) for postretirement healthcare and life are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Authority. The state allocates the ARC to the various departments and agencies based upon a systematic methodology. The Authority's contribution for the year ended June 30, 2014, was approximately \$1,273,000, which represented 32% of the Authority's share of the ARC for postretirement healthcare and life insurance benefits of approximately \$4,004,000. The Authority's contribution for the years ended June 30, 2013 and 2012 were approximately \$1,176,000 and \$834,000, respectively.

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2014:

Balance at June 30, 2013	\$ 12,414,720
Additions	4,003,919
Deletions	<u>(1,272,924)</u>
Balance at June 30, 2014	<u>\$ 15,145,715</u>

As of June 30, 2014, the postretirement liability balance 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, 2014

## 9. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2014 is as follows:

<b>Current</b> Due from	General Fund	Housing Choice Voucher	Section 8 Contract Admin	Housing Revolving Fund	Housing for Elders Revolving Fund	Federal Low-Rent Program	Central Office Cost Center Fund	Internal Services Fund	Non-major Enterprise
General Fund	\$ -	\$ 475,268	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Housing Choice Voucher	-	-	-	-	-	-	2,061,612	-	97,787
Section 8 Contract Admin	-	-	-	-	-	-	-	-	156,391
Federal Low Rent Program	-	52,133	-	3,095	-	-	-	93	524,941
Housing Revolving Fund	-	-	-	-	43,812	-	-	-	971,704
Housing for Elders Revolving Fund	-	-	-	-	-	-	412,541	-	228,222
Central Office Cost Center	1,329	-	-	299,087	-	304,210	-	1,827	-
Nonmajor – Enterprise	486,134	178,138	126,337	178,232	130,667	2,101,827	1,561,304	5,121	115,614
<b>Total</b>	<u>\$ 487,463</u>	<u>\$ 705,539</u>	<u>\$ 126,337</u>	<u>\$ 480,414</u>	<u>\$ 174,479</u>	<u>\$ 2,406,037</u>	<u>\$ 4,035,457</u>	<u>\$ 7,041</u>	<u>\$ 2,094,659</u>
		<b>Noncurrent</b> Due to		General	Housing Choice Voucher	Federal Low-Rent Program	Housing Revolving Fund		
		Central Office Cost Center		\$ 69,097	\$ 305,942	\$ 1,197,862	\$ 605,654		

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, 2014

## 10. Net Transfers

The composition of net transfer balances reflected in the financial statements as of June 30, 2014 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	\$ 1,504,534	\$ 769,376	\$ 1,521,262	\$ 198,032	\$ 277,317
Capital Projects	2,047,290	110,196	44,443	-	-
Section 8 Contract					
Administration	-	-	-	-	209,611
Federal Low Rent Program	-	2,564	-	-	-
Housing Elders Revolving Fund	-	-	-	226,944	-
Central Office Cost Center	<u>522,261</u>	<u>27,774</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 4,074,085</u>	<u>\$ 909,910</u>	<u>\$ 1,565,705</u>	<u>\$ 424,976</u>	<u>\$ 486,928</u>

The following describes the transfers noted above:

General Fund: The General Fund expended approximately \$4,271,000 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 \$210,000 to pay for Non-Major Enterprise service shortfalls.

Capital Projects: The Capital Projects Fund expended approximately \$2,202,000 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.

Federal Low Rent Program: The Federal Low Rent Program expended approximately \$2,600 to pay for repairs and maintenance for certain enterprise funds.

Central Office Cost Center: The Central Office Cost Center expended approximately \$550,000 to pay for repairs and maintenance for certain enterprise funds.



# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2014

## 10. Net Transfers (continued)

Housing for Elders Revolving Fund: The Housing for Elders Revolving Fund expended approximately \$227,000 to pay for administrative expenses under the Central Office Cost Center fund.

## 11. Capital Contributions

During 2014, the Capital Projects Fund expended approximately \$14,479,000 from the current year annual State of Hawaii appropriations to pay for capital outlays that were contributed to enterprise funds. The composition of capital contribution balances reflected in the financial statements as of June 30, 2014 is as follows:

<u>Contributed From</u>	<u>Federal Low Rent Program</u>	<u>Housing Revolving Fund</u>	<u>Housing For Elders Revolving Fund</u>	<u>Total</u>
Capital Projects Fund	\$ 12,797,748	\$ 1,561,671	\$ 119,348	\$ 14,478,767

**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, 2014

	General Fund		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
State allotted appropriations	<u>\$ 5,359,352</u>	<u>\$ 5,359,352</u>	<u>\$ 5,359,352</u>
Expenditures -			
Rental housing and assistance program	<u>5,359,352</u>	<u>5,359,352</u>	<u>5,031,490</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 327,862</u>
	Housing Choice Voucher Program		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>\$ 23,361,461</u>	<u>\$ 23,361,461</u>	<u>\$ 23,361,461</u>
Expenditures -			
Rental housing and assistance program	<u>23,361,461</u>	<u>23,361,461</u>	<u>25,435,899</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (2,074,438)</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, 2014

	<u>Section 8 Contract Administration</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>\$ 28,800,635</u>	<u>\$ 28,800,635</u>	<u>\$ 28,800,635</u>
Expenditures -			
Rental housing and assistance program	<u>28,800,635</u>	<u>28,800,635</u>	<u>28,592,374</u>
 EXCESS OF REVENUES OVER EXPENDITURES	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 208,261</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, 2014

	<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	\$ 327,862	\$ (2,074,438)	\$ 208,261
Reserve for encumbrance at year end*	1,240,182	-	-
Expenditures for liquidation of prior year's encumbrances	(1,025,534)	-	-
Reversion of prior year's allotments	(327,862)	-	-
Accrual adjustments, operating transfers and other	<u>(542,069)</u>	<u>499,374</u>	<u>(249,430)</u>
<b>DEFICIENCY OF REVENUES UNDER EXPENDITURES AND OTHER USES - US GAAP BASIS</b>	<u><u>\$ (327,421)</u></u>	<u><u>\$ (1,575,064)</u></u>	<u><u>\$ (41,169)</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, 2014

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	\$ 28,841,995
Public and Indian Housing	14.850	20,358,082
Section 8 Housing Choice Vouchers	14.871	25,436,116
Public Housing Capital Fund	14.872	13,868,576
Total federal expenditures		\$ 88,504,769

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, 2014

### **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  
June 30, 2014

Line Item Number	Description	Section 8		Section 8		Business Activities	Internal Service	Central Office Cost Center	Elimination	Total
		Federal Low Rent Program	Housing Assistance Payments 14.195	Housing Choice Voucher Program 14.871	State/Local					
111	Cash - Unrestricted	20,786,527	1,965,158	1,363,845	-	7,114,155	998,571	31,960,728	-	64,188,984
113	Cash - Other Restricted	-	-	886,078	-	-	-	2,432,164	-	3,318,242
114	Cash - Tenant Security Deposits	602,464	-	-	-	227,674	-	-	-	830,138
<b>100</b>	<b>Total Cash</b>	<b>21,388,991</b>	<b>1,965,158</b>	<b>2,249,923</b>	<b>-</b>	<b>7,341,829</b>	<b>998,571</b>	<b>34,392,892</b>	<b>-</b>	<b>68,337,364</b>
121	Accounts Receivable - PHA Projects	-	-	20,686	-	-	-	-	-	20,686
122	Accounts Receivable - HUD Other Projects	1,131,690	95,745	-	-	-	-	-	-	1,227,435
124	Accounts Receivable - Other Government	-	-	-	125,128,276	139,852	-	33,374	-	125,301,502
125	Accounts Receivable - Miscellaneous	-	-	5,659	-	45,513	-	-	-	51,172
126	Accounts Receivable - Tenants	973,165	-	-	-	872,205	-	-	-	1,845,370
126.1	Allowance for Doubtful Accounts - Tenants	(589,374)	-	-	-	(834,254)	-	-	-	(1,423,628)
129	Accrued Interest Receivable	-	-	-	-	804	279	-	-	1,083
<b>120</b>	<b>Total Receivables, Net of Allowances for Doubtful Accounts</b>	<b>1,515,481</b>	<b>95,745</b>	<b>26,345</b>	<b>125,128,276</b>	<b>224,120</b>	<b>279</b>	<b>33,374</b>	<b>-</b>	<b>127,023,620</b>
142	Prepaid Expenses and Other Assets	-	-	2,034,914	35,217	-	-	10,244	-	2,080,375
143	Inventories	508,853	-	-	-	71,961	-	33,214	-	614,028
143.1	.1 Allowance for Obsolete Inventories	(50,428)	-	-	-	-	-	-	-	(50,428)
144	Inter Program Due From	2,406,037	126,337	705,539	487,463	2,749,552	7,041	6,214,013	(12,695,982)	-
	<b>Total Other Current Assets</b>	<b>2,864,462</b>	<b>126,337</b>	<b>2,740,453</b>	<b>522,680</b>	<b>2,821,513</b>	<b>7,041</b>	<b>6,257,471</b>	<b>(12,695,982)</b>	<b>2,643,975</b>
<b>150</b>	<b>Total Current Assets</b>	<b>25,768,934</b>	<b>2,187,240</b>	<b>5,016,721</b>	<b>125,650,956</b>	<b>10,387,462</b>	<b>1,005,891</b>	<b>40,683,737</b>	<b>(12,695,982)</b>	<b>198,004,959</b>
161	Land	13,093,629	-	-	2,373,410	9,872,571	-	-	-	25,339,610
162	Buildings	471,748,936	-	-	15,325,444	102,192,540	-	42,857	-	589,309,777
163	Furniture, Equipment & Machinery - Dwellings	3,329,340	-	-	-	99,089	-	-	-	3,428,429
164	Furniture, Equipment & Machinery - Administration	1,777,500	-	-	1,291,869	368,106	2,111,723	150,524	-	5,699,722
166	Accumulated Depreciation	(287,894,501)	-	-	(14,293,307)	(45,759,063)	(1,787,880)	(72,826)	-	(349,807,577)
167	Construction in Progress	25,761,782	-	-	22,543	3,192,222	-	-	-	28,976,547
<b>160</b>	<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<b>227,816,686</b>	<b>-</b>	<b>-</b>	<b>4,719,959</b>	<b>69,965,465</b>	<b>323,843</b>	<b>120,555</b>	<b>-</b>	<b>302,946,508</b>
171	Notes, Loans and Mortgages Receivable - Non-Current	8,716,630	-	-	-	-	-	-	-	8,716,630
	<b>Total Other Non-Current Assets</b>	<b>8,716,630</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,716,630</b>
<b>180</b>	<b>Total Non-Current Assets</b>	<b>236,533,316</b>	<b>-</b>	<b>-</b>	<b>4,719,959</b>	<b>69,965,465</b>	<b>323,843</b>	<b>120,555</b>	<b>-</b>	<b>311,663,138</b>
<b>190</b>	<b>Total Assets</b>	<b>262,302,250</b>	<b>2,187,240</b>	<b>5,016,721</b>	<b>130,370,915</b>	<b>80,352,927</b>	<b>1,329,734</b>	<b>40,804,292</b>	<b>(12,695,982)</b>	<b>509,668,097</b>
312	Accounts Payable <= 90 Days	1,376,658	5,506	65,703	528,732	130,645	-	221,908	-	2,329,152
313	Accounts Payable >90 Days Past Due	-	-	-	-	37,136	-	-	-	37,136
321	Accrued Wage/Payroll Taxes Payable	336,138	3,060	37,736	2,055	25,970	-	361,103	-	766,062
322	Accrued Compensated Absences - Current Portion	291,553	-	30,279	4,532	24,890	-	254,275	-	605,529
331	Accounts Payable - HUD PHA Programs	-	22	-	-	-	-	-	-	22
333	Accounts Payable - Other Government	48,148	-	527	-	571,402	-	-	-	620,077
341	Tenant Security Deposits	602,464	-	-	-	227,674	-	-	-	830,138
342	Deferred Revenues	667,910	-	-	-	47,491	-	9,523	-	724,924
345	Other Current Liabilities	753,491	-	39,723	894,733	-	-	154,206	-	1,842,153
346	Accrued Liabilities - Other	452,466	216,000	36,000	1,247,444	180,413	-	-	-	2,132,323
347	Inter Program - Due To	1,778,130	156,391	2,159,399	475,268	6,539,653	-	606,447	(11,715,288)	-
<b>310</b>	<b>Total Current Liabilities</b>	<b>6,306,958</b>	<b>380,979</b>	<b>2,369,367</b>	<b>3,152,764</b>	<b>7,785,274</b>	<b>-</b>	<b>1,607,462</b>	<b>(11,715,288)</b>	<b>9,887,516</b>
353	Non-current Liabilities - Other	-	-	65,889	-	12,189	-	-	-	78,078
354	Accrued Compensated Absences - Non Current	744,111	-	-	88,821	63,467	-	658,515	-	1,554,914
357	Accrued Pension and OPEB Liabilities	-	-	305,942	69,097	605,654	-	15,145,116	(980,694)	15,145,115
<b>350</b>	<b>Total Non-Current Liabilities</b>	<b>744,111</b>	<b>-</b>	<b>371,831</b>	<b>157,918</b>	<b>681,310</b>	<b>-</b>	<b>15,803,631</b>	<b>(980,694)</b>	<b>16,778,107</b>
<b>300</b>	<b>Total Liabilities</b>	<b>7,051,069</b>	<b>380,979</b>	<b>2,741,198</b>	<b>3,310,682</b>	<b>8,466,584</b>	<b>-</b>	<b>17,411,093</b>	<b>(12,695,982)</b>	<b>26,665,623</b>
508.1	Invested in capital assets, net of related debt	227,816,686	-	-	4,719,959	69,965,465	323,843	120,555	-	302,946,508
511.1	Restricted Fund Balance	-	-	2,275,523	-	-	-	-	-	2,275,523
512.1	Unrestricted Net Assets	27,434,495	1,806,261	-	122,340,274	1,920,878	1,005,891	23,272,644	-	177,780,443
<b>513</b>	<b>Total Equity/Net Assets</b>	<b>255,251,181</b>	<b>1,806,261</b>	<b>2,275,523</b>	<b>127,060,233</b>	<b>71,886,343</b>	<b>1,329,734</b>	<b>23,393,199</b>	<b>-</b>	<b>483,002,474</b>
<b>600</b>	<b>Total Liabilities and Equity/Net Assets</b>	<b>262,302,250</b>	<b>2,187,240</b>	<b>5,016,721</b>	<b>130,370,915</b>	<b>80,352,927</b>	<b>1,329,734</b>	<b>40,804,292</b>	<b>(12,695,982)</b>	<b>509,668,097</b>

See accompanying independent auditor's report

Hawaii Public Housing Authority  
Financial Data Schedule  
Entity-Wide Revenue and Expense Summary  
June 30, 2014

Line Item Number	Description	Federal	Section 8	Section 8	State/Local	Business	Internal	Central Office	Elimination	Total
		Low Rent Program	Housing Assistance Payments 14.195	Housing Choice Voucher Program 14.871		Activities	Service	Cost Center		
70300	Net Tenant Rental Revenue	12,972,435	-	-	-	3,935,241	-	-	-	16,907,676
70400	Tenant Revenue - Other	224,401	-	-	-	38,593	-	-	-	262,994
<b>70500</b>	<b>Total Tenant Revenue</b>	<b>13,196,836</b>	-	-	-	<b>3,973,834</b>	-	-	-	<b>17,170,670</b>
70600	HUD PHA Operating Grants	31,195,200	28,800,635	23,423,962	-	-	-	-	-	83,419,797
70610	Capital Grants	5,118,416	-	-	-	-	-	-	-	5,118,416
70710	Management Fee	-	-	-	-	-	-	3,684,774	(3,684,774)	-
70720	Asset Management Fee	-	-	-	-	-	-	315,480	(315,480)	-
70730	Book Keeping Fee	-	-	-	-	-	-	660,226	(660,226)	-
70740	Front Line Service Fee	-	-	-	-	-	-	4,825,402	(4,825,402)	-
70750	Other Fees	-	-	-	-	-	-	1,683,853	-	1,683,853
<b>70700</b>	<b>Total Fee Revenue</b>	<b>36,313,616</b>	<b>28,800,635</b>	<b>23,423,962</b>	-	-	-	<b>11,169,735</b>	<b>(9,485,882)</b>	<b>90,222,066</b>
70800	Other Government Grants	-	-	-	49,629,893	-	-	-	-	49,629,893
71100	Investment Income - Unrestricted	4,088	191	217	-	8,288	3,016	27,020	-	42,820
71400	Fraud Recovery	-	-	12,928	-	-	-	-	-	12,928
71500	Other Revenue	229,940	-	423,945	-	194,121	40,875	-	-	888,881
	<b>Total Other Revenue</b>	<b>234,028</b>	<b>191</b>	<b>437,090</b>	<b>49,629,893</b>	<b>202,409</b>	<b>43,891</b>	<b>27,020</b>	-	<b>50,574,522</b>
<b>70000</b>	<b>Total Revenue</b>	<b>49,744,480</b>	<b>28,800,826</b>	<b>23,861,052</b>	<b>49,629,893</b>	<b>4,176,243</b>	<b>43,891</b>	<b>11,196,755</b>	<b>(9,485,882)</b>	<b>157,967,258</b>
91100	Administrative Salaries	3,066,323	39,652	485,112	300,088	253,273	-	5,752,038	-	9,896,486
91200	Auditing Fees	118,035	24,084	29,267	32,412	36,723	2,990	100,935	-	344,446
91300	Management Fee	3,008,433	-	274,092	6,810	395,439	-	-	(3,684,774)	-
91310	Book-keeping Fee	409,536	-	171,308	4,268	75,114	-	-	(660,226)	-
91400	Advertising and Marketing	5,421	-	-	-	-	-	14,256	-	19,677
91500	Employee Benefit contributions - Administration	730,414	20,414	121,134	75,858	66,350	-	1,821,034	-	2,835,204
91600	Office Expenses	462,551	15,360	35,587	23,682	63,058	-	428,839	-	1,029,077
91700	Legal Expense	103,526	544	245	119	14,934	-	258,472	-	377,840
91800	Travel	25,635	-	910	490	960	-	82,331	-	110,326
91900	Other	1,452,538	884,119	8,955	16,114	723,091	-	29,143	-	3,113,960
<b>91000</b>	<b>Total Operating - Administrative</b>	<b>9,382,412</b>	<b>984,173</b>	<b>1,126,610</b>	<b>459,841</b>	<b>1,628,942</b>	<b>2,990</b>	<b>8,487,048</b>	<b>(4,345,000)</b>	<b>17,727,016</b>
<b>92000</b>	<b>Asset Management Fee</b>	<b>315,480</b>	-	-	-	-	-	-	<b>(315,480)</b>	-
92200	Relocation Costs	19,515	-	-	-	-	-	-	-	19,515
92400	Tenant Services - Other	100,005	-	142,782	85,498	-	-	1,025	-	329,310
<b>92500</b>	<b>Total Tenant Services</b>	<b>119,520</b>	-	<b>142,782</b>	<b>85,498</b>	-	-	<b>1,025</b>	-	<b>348,825</b>
93100	Water	2,539,616	-	813	626	294,527	-	3,199	-	2,838,781
93200	Electricity	3,600,712	-	26,225	19,733	1,425,105	-	98,312	-	5,170,087
93300	Gas	1,914,273	-	-	-	187,691	-	-	-	2,101,964
93400	Fuel	-	-	-	-	-	-	1,451	-	1,451
93600	Sewer	3,676,377	-	1,344	835	710,965	-	11,192	-	4,400,713
93800	Other Utilities Expense	411	-	-	-	-	-	-	-	411
<b>93000</b>	<b>Total Utilities</b>	<b>11,731,389</b>	-	<b>28,382</b>	<b>21,194</b>	<b>2,618,288</b>	-	<b>114,154</b>	-	<b>14,513,407</b>

See accompanying independent auditor's report

Hawaii Public Housing Authority  
Financial Data Schedule  
Entity-Wide Revenue and Expense Summary  
June 30, 2014

Line Item Number	Description	Section 8		Section 8		Business Activities	Internal Service	Central Office Cost Center	Elimination	Total
		Federal Low Rent Program	Housing Assistance Payments 14.195	Housing Choice Voucher Program 14.871	State/Local					
94100	Ordinary Maintenance and Operations - Labor	3,655,302	-	-	-	368,311	-	1,366,740	-	5,390,353
94200	Ordinary Maintenance and Operations - Materials and Other	3,039,381	-	251	118	294,556	-	114,261	-	3,448,567
94300	Ordinary Maintenance and Operations Contracts	9,979,095	-	21,369	11,217	1,594,136	-	182,173	(4,825,402)	6,962,588
94500	Employee Benefit Contributions - Ordinary Maintenance	1,609,176	-	-	-	125,073	-	692,603	-	2,426,852
<b>94000</b>	<b>Total Maintenance</b>	<b>18,282,954</b>	<b>-</b>	<b>21,620</b>	<b>11,335</b>	<b>2,382,076</b>	<b>-</b>	<b>2,355,777</b>	<b>(4,825,402)</b>	<b>18,228,360</b>
95200	Protective Services - Other Contract Costs	2,169,107	-	-	-	206,748	-	3,970	-	2,379,825
95300	Protective Services - Other	1,925	-	437	235	516	-	9,122	-	12,235
<b>95000</b>	<b>Total Protective Services</b>	<b>2,171,032</b>	<b>-</b>	<b>437</b>	<b>235</b>	<b>207,264</b>	<b>-</b>	<b>13,092</b>	<b>-</b>	<b>2,392,060</b>
96110	Property Insurance	510,423	-	276	269	113,825	-	5,822	-	630,615
96120	Liability Insurance	49,711	-	1,413	859	33,411	-	8,675	-	94,069
96130	Workmen's Compensation	161,995	-	2,827	1,522	3,225	-	22,231	-	191,800
96140	All Other Insurance	34,086	-	1,212	652	44,445	-	5,788	-	86,183
<b>96100</b>	<b>Total insurance Premiums</b>	<b>756,215</b>	<b>-</b>	<b>5,728</b>	<b>3,302</b>	<b>194,906</b>	<b>-</b>	<b>42,516</b>	<b>-</b>	<b>1,002,667</b>
96200	Other General Expenses	3,596,317	2,554	57,785	31,067	31	-	69,234	-	3,756,988
96300	Payments in Lieu of Taxes	48,148	-	-	-	-	-	717	-	48,865
96400	Bad debt - Tenant Rents	223,252	-	-	-	32,701	-	53,371	-	309,324
96800	Severance Expense	58,719	-	17,822	4,810	236	-	40,298	-	121,885
<b>96000</b>	<b>Total Other General Expenses</b>	<b>3,926,436</b>	<b>2,554</b>	<b>75,607</b>	<b>35,877</b>	<b>32,968</b>	<b>-</b>	<b>163,620</b>	<b>-</b>	<b>4,237,062</b>
<b>96900</b>	<b>Total Operating Expenses</b>	<b>46,369,958</b>	<b>986,727</b>	<b>1,401,166</b>	<b>617,282</b>	<b>7,064,444</b>	<b>2,990</b>	<b>11,177,232</b>	<b>(9,170,402)</b>	<b>58,449,397</b>
<b>97000</b>	<b>Excess of Operating Revenue over Operating Expenses</b>	<b>3,374,522</b>	<b>27,814,099</b>	<b>22,459,886</b>	<b>49,012,611</b>	<b>(2,888,201)</b>	<b>40,901</b>	<b>19,523</b>	<b>(315,480)</b>	<b>99,517,861</b>
97100	Extraordinary Maintenance	22,989	-	-	-	1,239	-	-	-	24,228
97300	Housing Assistance Payments	16,809	27,645,657	23,635,995	456,380	-	-	-	-	51,754,841
97350	HAP Portability-In	-	-	398,955	-	-	-	-	-	398,955
97400	Depreciation Expense	13,646,646	-	-	222,818	2,849,771	67,339	21,526	-	16,808,100
<b>Subtotal</b>		<b>13,686,444</b>	<b>27,645,657</b>	<b>24,034,950</b>	<b>679,198</b>	<b>2,851,010</b>	<b>67,339</b>	<b>21,526</b>	<b>-</b>	<b>68,986,124</b>
<b>90000</b>	<b>Total Expenses</b>	<b>60,056,402</b>	<b>28,632,384</b>	<b>25,436,116</b>	<b>1,296,480</b>	<b>9,915,454</b>	<b>70,329</b>	<b>11,198,758</b>	<b>(9,170,402)</b>	<b>127,435,521</b>
10010	Operating Transfer In	4,071,521	-	-	52,619	2,735,848	-	424,976	(7,284,964)	-
10020	Operating transfer Out	-	(209,611)	-	(6,525,069)	(249)	-	(550,035)	7,284,964	-
10030	Operating Transfers from/to Primary Government	-	-	-	401,394	-	-	-	-	401,394
10091	Inter Project Excess Cash Transfer In	3,700,000	-	-	-	-	-	-	-	3,700,000
10092	Inter Project Excess Cash Transfer Out	(3,700,000)	-	-	-	-	-	-	-	(3,700,000)
<b>10100</b>	<b>Total Other financing Sources (Uses)</b>	<b>4,071,521</b>	<b>(209,611)</b>	<b>-</b>	<b>(6,071,056)</b>	<b>2,735,599</b>	<b>-</b>	<b>(125,059)</b>	<b>-</b>	<b>401,394</b>
<b>10000</b>	<b>Excess (deficiency) of total revenue over (under) total expenses</b>	<b>(6,240,401)</b>	<b>(41,169)</b>	<b>(1,575,064)</b>	<b>42,262,357</b>	<b>(3,003,612)</b>	<b>(26,438)</b>	<b>(127,062)</b>	<b>(315,480)</b>	<b>30,933,131</b>
11030	Beginning 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
1040-070	Equity transfer of capital contributions from capital projects fund	12,797,748	-	-	(14,626,430)	1,681,019	-	-	-	(147,663)
	<b>Ending Equity</b>	<b>255,566,661</b>	<b>1,806,261</b>	<b>2,275,523</b>	<b>127,060,233</b>	<b>71,886,343</b>	<b>1,329,734</b>	<b>23,393,199</b>	<b>(315,480)</b>	<b>483,002,474</b>

See accompanying independent auditor's report

Hawaii Public Housing Authority  
Financial Data Schedule  
Project Balance Sheet  
June 30, 2014

Line Item																	Total		
Number	Description	HI001000030	HI001000031	HI001000032	HI001000033	HI001000034	HI001000035	HI001000037	HI001000038	HI001000039	HI001000040	HI001000043	HI001000044	HI001000045	HI001000046	HI001000049	HI001000050	HI001000052	Project
111	Cash - Unrestricted	1,956,924	1,399,100	2,601,732	1,299,877	2,012,810	1,949,290	1,031,638	1,098,958	799,063	821,882	870,533	1,103,218	1,759,355	322,122	553,634	1,206,391	-	20,786,527
114	Cash - Tenant Security Deposits	46,620	52,065	51,164	49,945	74,159	79,811	35,000	36,121	23,766	23,218	25,867	30,573	31,169	13,160	17,880	11,946	-	602,464
<b>100</b>	<b>Total Cash</b>	<b>2,003,544</b>	<b>1,451,165</b>	<b>2,652,896</b>	<b>1,349,822</b>	<b>2,086,969</b>	<b>2,029,101</b>	<b>1,066,638</b>	<b>1,135,079</b>	<b>822,829</b>	<b>845,100</b>	<b>896,400</b>	<b>1,133,791</b>	<b>1,790,524</b>	<b>335,282</b>	<b>571,514</b>	<b>1,218,337</b>	-	<b>21,388,991</b>
122	Accounts Receivable - HUD Other Projects	121,966	282	4,134	564	24,671	5,957	460,800	83,550	1,692	564	1,410	65,118	2,652	68,285	13,795	276,250	-	1,131,690
126	Accounts Receivable - Tenants	104,256	92,275	28,153	27,323	73,029	54,887	5,936	141,340	145,749	33,430	54,022	123,736	23,791	33,818	22,867	8,553	-	973,165
126.1	.1 Allowance for Doubtful Accounts - Tenants	(96,762)	(48,277)	(14,338)	(9,719)	(46,173)	(42,525)	(2,133)	(62,569)	(89,809)	(17,110)	(32,413)	(75,773)	(14,493)	(18,420)	(13,992)	(4,868)	-	(589,374)
<b>120</b>	<b>Total Receivables, Net of Allowances for Doubtful Accounts</b>	<b>129,460</b>	<b>44,280</b>	<b>17,949</b>	<b>18,168</b>	<b>51,527</b>	<b>18,319</b>	<b>464,603</b>	<b>162,321</b>	<b>57,632</b>	<b>16,884</b>	<b>23,019</b>	<b>113,081</b>	<b>11,950</b>	<b>83,683</b>	<b>22,670</b>	<b>279,935</b>	-	<b>1,515,481</b>
143	Inventories	45,987	61,162	10,542	7,242	77,013	60,864	3,802	59,404	10,371	35,075	12,971	25,213	56,458	9,523	9,034	24,192	-	508,853
143.1	.1 Allowance for Obsolete Inventories	(4,557)	(6,061)	(1,045)	(7,18)	(7,632)	(6,032)	(377)	(5,887)	(1,028)	(3,476)	(1,285)	(2,499)	(5,595)	(944)	(895)	(2,397)	-	(50,428)
144	Inter Program Due From	171,636	156,331	153,966	158,198	239,758	242,745	155,615	134,100	89,968	354,774	104,130	110,697	101,620	66,954	84,613	80,932	-	2,406,037
	<b>Total Other Current Assets</b>	<b>213,066</b>	<b>211,432</b>	<b>163,463</b>	<b>164,722</b>	<b>309,139</b>	<b>297,577</b>	<b>159,040</b>	<b>187,617</b>	<b>99,311</b>	<b>386,373</b>	<b>115,816</b>	<b>133,411</b>	<b>152,483</b>	<b>75,533</b>	<b>92,752</b>	<b>102,727</b>	-	<b>2,864,462</b>
<b>150</b>	<b>Total Current Assets</b>	<b>2,346,070</b>	<b>1,706,877</b>	<b>2,834,308</b>	<b>1,532,712</b>	<b>2,447,635</b>	<b>2,344,997</b>	<b>1,690,281</b>	<b>1,485,017</b>	<b>979,772</b>	<b>1,248,357</b>	<b>1,035,235</b>	<b>1,380,283</b>	<b>1,954,957</b>	<b>494,498</b>	<b>686,936</b>	<b>1,600,999</b>	-	<b>25,776,934</b>
161	Land	2,534,474	550,848	207,679	319,507	297,702	1,953,866	1,707,058	548,446	512,658	419,374	955,313	815,673	125,890	192,885	1,639,118	313,138	-	13,093,629
162	Buildings	36,281,260	53,531,406	21,519,494	37,991,570	30,811,264	30,558,905	59,247,704	31,613,064	26,296,902	10,654,323	33,052,574	33,647,137	29,242,371	16,644,977	16,719,579	3,936,406	-	471,748,936
163	Furniture, Equipment & Machinery - Dwellings	72,608	105,792	1,211,821	338,439	234,607	262,283	276,575	154,490	116,727	42,624	55,005	159,476	103,545	89,639	34,187	71,522	-	3,329,340
164	Furniture, Equipment & Machinery - Administration	397,847	157,071	187,717	98,483	91,492	131,120	232,946	164,450	79,008	69,064	19,048	40,821	13,654	7,734	5,989	81,056	-	1,777,500
166	Accumulated Depreciation	(30,218,850)	(26,850,196)	(16,804,679)	(21,796,301)	(19,586,708)	(17,628,480)	(26,788,529)	(20,642,811)	(14,082,771)	(10,291,786)	(16,272,912)	(21,484,089)	(23,147,250)	(6,494,062)	(12,174,718)	(3,630,359)	-	(287,894,501)
167	Construction in Progress	3,544,527	807,907	297,669	304,108	3,641,713	23,267	1,380,114	3,154,805	458,177	202,877	-	191,181	1,322,037	225,158	685,241	9,523,001	-	25,761,782
<b>160</b>	<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<b>12,611,866</b>	<b>28,302,828</b>	<b>6,619,701</b>	<b>17,255,806</b>	<b>15,490,070</b>	<b>15,300,961</b>	<b>36,055,868</b>	<b>14,992,444</b>	<b>13,380,701</b>	<b>1,096,476</b>	<b>17,809,028</b>	<b>13,370,199</b>	<b>7,660,247</b>	<b>10,666,331</b>	<b>6,909,396</b>	<b>10,294,764</b>	-	<b>227,816,686</b>
171	Notes, Loans and Mortgages Receivable - Non-Current	-	-	-	-	-	-	-	-	-	8,716,630	-	-	-	-	-	-	-	8,716,630
	<b>Total Other Non-Current Assets</b>	-	-	-	-	-	-	-	-	-	<b>8,716,630</b>	-	-	-	-	-	-	-	<b>8,716,630</b>
<b>180</b>	<b>Total Non-Current Assets</b>	<b>12,611,866</b>	<b>28,302,828</b>	<b>6,619,701</b>	<b>17,255,806</b>	<b>15,490,070</b>	<b>15,300,961</b>	<b>36,055,868</b>	<b>14,992,444</b>	<b>13,380,701</b>	<b>9,813,106</b>	<b>17,809,028</b>	<b>13,370,199</b>	<b>7,660,247</b>	<b>10,666,331</b>	<b>6,909,396</b>	<b>10,294,764</b>	-	<b>236,533,316</b>
<b>190</b>	<b>Total Assets</b>	<b>14,957,936</b>	<b>30,009,705</b>	<b>9,454,009</b>	<b>18,788,518</b>	<b>17,937,705</b>	<b>17,645,958</b>	<b>37,746,149</b>	<b>16,477,461</b>	<b>14,360,473</b>	<b>11,061,463</b>	<b>18,844,263</b>	<b>14,750,482</b>	<b>9,615,204</b>	<b>11,160,829</b>	<b>7,596,332</b>	<b>11,895,763</b>	-	<b>262,302,250</b>
312	Accounts Payable <= 90 Days	75,138	62,113	37,177	24,338	21,380	11,413	480,457	89,159	37,540	64,083	96,570	73,510	203,580	35,792	30,268	34,140	-	1,376,658
321	Accrued Wage/Payroll Taxes Payable	53,561	34,978	28,165	28,861	49,912	47,434	35,970	32,325	24,932	-	-	-	-	-	-	-	-	336,138
322	Accrued Compensated Absences - Current Portion	46,387	38,442	23,166	24,112	42,392	41,444	28,119	24,492	22,999	-	-	-	-	-	-	-	-	291,553
333	Accounts Payable - Other Government	-	-	-	-	-	-	30,873	7,453	6,765	-	-	-	3,057	-	-	-	-	48,148
341	Tenant Security Deposits	46,620	52,065	51,164	49,945	74,159	79,811	35,000	36,121	23,766	23,218	25,867	30,573	31,169	13,160	17,880	11,946	-	602,464
342	Deferred Revenues	15,764	47,823	13,891	27,288	99,936	24,148	9,670	75,369	79,824	116,797	24,398	88,081	19,045	4,635	8,486	12,755	-	667,910
345	Other Current Liabilities	139,970	7,732	6,056	6,857	25,952	6,454	7,478	89,271	6,455	7,163	7,469	67,918	9,466	71,666	16,100	277,484	-	753,491
346	Accrued Liabilities - Other	55,828	32,264	39,066	24,929	17,118	43,423	25,712	49,509	11,674	46,756	19,296	45,875	7,867	10,847	13,638	8,664	-	452,466
347	Inter Program - Due To	184,396	143,813	373,135	144,530	340,601	207,087	144,633	127,188	112,747	-	-	-	-	-	-	-	-	1,778,130
<b>310</b>	<b>Total Current Liabilities</b>	<b>617,664</b>	<b>419,230</b>	<b>571,820</b>	<b>330,860</b>	<b>671,450</b>	<b>461,214</b>	<b>797,912</b>	<b>530,887</b>	<b>326,702</b>	<b>258,017</b>	<b>173,600</b>	<b>305,957</b>	<b>271,127</b>	<b>139,157</b>	<b>86,372</b>	<b>344,989</b>	-	<b>6,306,958</b>
354	Accrued Compensated Absences - Non Current	118,305	98,034	59,097	61,508	108,160	105,727	71,734	62,664	58,882	-	-	-	-	-	-	-	-	744,111
<b>350</b>	<b>Total Non-Current Liabilities</b>	<b>118,305</b>	<b>98,034</b>	<b>59,097</b>	<b>61,508</b>	<b>108,160</b>	<b>105,727</b>	<b>71,734</b>	<b>62,664</b>	<b>58,882</b>	-	-	-	-	-	-	-	-	<b>744,111</b>
<b>300</b>	<b>Total Liabilities</b>	<b>735,969</b>	<b>517,264</b>	<b>630,917</b>	<b>392,368</b>	<b>779,610</b>	<b>566,941</b>	<b>869,646</b>	<b>593,551</b>	<b>385,584</b>	<b>258,017</b>	<b>173,600</b>	<b>305,957</b>	<b>271,127</b>	<b>139,157</b>	<b>86,372</b>	<b>344,989</b>	-	<b>7,051,069</b>
508.1	Invested in capital assets, net of related debt	12,611,866	28,302,828	6,619,701	17,255,806	15,490,070	15,300,961	36,055,868	14,992,444	13,380,701	1,096,476	17,809,028	13,370,199	7,660,247	10,666,331	6,909,396	10,294,764	-	227,816,686
512.1	Unrestricted Net Assets	1,610,101	1,189,613	2,203,391	1,140,344	1,668,025	1,778,056	820,635	891,466	594,188	9,706,970	861,635	1,074,326	1,683,830	355,341	600,564	1,256,010	-	27,434,495
<b>513</b>	<b>Total Equity/Net Assets</b>	<b>14,221,967</b>	<b>29,492,441</b>	<b>8,823,092</b>	<b>18,396,150</b>	<b>17,158,095</b>	<b>17,079,017</b>	<b>36,876,503</b>	<b>15,883,910</b>	<b>13,974,889</b>	<b>10,803,446</b>	<b>18,670,663</b>	<b>14,444,525</b>	<b>9,344,077</b>	<b>11,021,672</b>	<b>7,509,960</b>	<b>11,550,774</b>	-	<b>255,251,181</b>
<b>600</b>	<b>Total Liabilities and Equity/Net Assets</b>	<b>14,957,936</b>	<b>30,009,705</b>	<b>9,454,009</b>	<b>18,788,518</b>	<b>17,937,705</b>	<b>17,645,958</b>	<b>37,746,149</b>	<b>16,477,461</b>	<b>14,360,473</b>	<b>11,061,463</b>	<b>18,844,263</b>	<b>14,750,482</b>	<b>9,615,204</b>	<b>11,160,829</b>	<b>7,596,332</b>	<b>11,895,763</b>	-	<b>262,302,250</b>

Hawaii Public Housing Authority  
Financial Data Schedule  
Project Revenue and Expense Summary  
June 30, 2014

Line Item																			Total
Number	Description	HI001000030	HI001000031	HI001000032	HI001000033	HI001000034	HI001000035	HI001000037	HI001000038	HI001000039	HI001000040	HI001000043	HI001000044	HI001000045	HI001000046	HI001000049	HI001000050	HI001000052	Project
70300	Net Tenant Rental Revenue	1,554,448	904,993	1,124,698	822,230	1,549,387	1,806,988	678,819	910,002	653,453	690,096	389,672	553,214	485,376	205,056	426,427	217,576	-	12,972,435
70400	Tenant Revenue - Other	29,739	58,404	10,081	4,091	11,443	16,613	8,011	2,341	5,695	23,280	20,660	10,925	4,841	13,521	75	4,681	-	224,401
<b>70500</b>	<b>Total Tenant Revenue</b>	<b>1,584,187</b>	<b>963,397</b>	<b>1,134,779</b>	<b>826,321</b>	<b>1,560,830</b>	<b>1,823,601</b>	<b>686,830</b>	<b>912,343</b>	<b>659,148</b>	<b>713,376</b>	<b>410,332</b>	<b>564,139</b>	<b>490,217</b>	<b>218,577</b>	<b>426,502</b>	<b>222,257</b>	-	<b>13,196,836</b>
70600	HUD PHA Operating Grants	3,091,711	2,127,762	2,201,601	1,786,009	2,697,977	2,744,195	2,056,760	1,727,025	2,241,483	1,845,948	1,642,032	1,418,632	955,009	975,563	788,477	808,058	2,086,958	31,195,200
70610	Capital Grants	390,379	158,354	-	-	-	-	467,620	2,358,742	-	559,679	-	746,090	129,697	54,596	144,161	109,098	-	5,118,416
<b>70700</b>	<b>Total Fee Revenue</b>	<b>3,482,090</b>	<b>2,286,116</b>	<b>2,201,601</b>	<b>1,786,009</b>	<b>2,697,977</b>	<b>2,744,195</b>	<b>2,524,380</b>	<b>4,085,767</b>	<b>2,241,483</b>	<b>2,405,627</b>	<b>1,642,032</b>	<b>2,164,722</b>	<b>1,084,706</b>	<b>1,030,159</b>	<b>932,638</b>	<b>917,156</b>	<b>2,086,958</b>	<b>36,313,616</b>
71100	Investment Income - Unrestricted	287	287	864	486	179	435	78	287	76	121	146	197	320	29	125	171	-	4,088
71500	Other Revenue	6,700	911	14	-	47,511	49,414	17,999	13,938	4,819	402	26,957	22,334	11,040	17,085	10,816	-	-	229,940
	<b>Total Other Revenue</b>	<b>6,987</b>	<b>1,198</b>	<b>878</b>	<b>486</b>	<b>47,690</b>	<b>49,849</b>	<b>18,077</b>	<b>14,225</b>	<b>4,895</b>	<b>523</b>	<b>27,103</b>	<b>22,531</b>	<b>11,360</b>	<b>17,114</b>	<b>10,941</b>	<b>171</b>	-	<b>234,028</b>
<b>70000</b>	<b>Total Revenue</b>	<b>5,073,264</b>	<b>3,250,711</b>	<b>3,337,258</b>	<b>2,612,816</b>	<b>4,306,497</b>	<b>4,617,645</b>	<b>3,229,287</b>	<b>5,012,335</b>	<b>2,905,526</b>	<b>3,119,526</b>	<b>2,079,467</b>	<b>2,751,392</b>	<b>1,586,283</b>	<b>1,265,850</b>	<b>1,370,081</b>	<b>1,139,584</b>	<b>2,086,958</b>	<b>49,744,480</b>
91100	Administrative Salaries	461,156	272,181	237,803	243,664	457,825	415,814	431,046	287,150	259,684	-	-	-	-	-	-	-	-	3,066,323
91200	Auditing Fees	7,377	7,377	7,377	7,377	7,377	7,378	7,376	7,378	7,377	7,378	7,378	7,377	7,376	7,135	7,620	7,377	-	118,035
91300	Management Fee	255,854	275,107	269,793	277,295	433,632	438,258	223,162	232,099	133,334	68,894	75,741	106,174	106,559	29,510	46,928	36,093	-	3,008,433
91310	Book-keeping Fee	30,699	33,008	32,370	33,271	52,028	52,584	26,778	27,852	15,999	15,031	17,814	22,426	20,229	9,114	11,948	8,385	-	409,536
91400	Advertising and Marketing	-	5,256	-	-	-	-	165	-	-	-	-	-	-	-	-	-	-	5,421
91500	Employee Benefit contributions - Administration	117,596	66,285	46,550	47,577	93,492	67,931	123,364	82,213	85,406	-	-	-	-	-	-	-	-	730,414
91600	Office Expenses	33,483	25,663	47,000	16,558	44,669	27,743	38,636	38,718	31,899	21,313	46,195	20,177	10,469	16,754	35,299	7,975	-	462,551
91700	Legal Expense	82	1,125	80,288	1,203	140	8,180	428	82	83	6,950	82	83	4,554	83	81	82	-	103,526
91800	Travel	349	-	-	-	-	-	7,643	5,406	11,272	-	965	-	-	-	-	-	-	25,635
91900	Other	36,552	33,292	26,579	27,359	36,685	66,958	(29,561)	12,105	19,301	153,770	170,920	194,461	305,925	137,013	131,772	129,407	-	1,452,538
<b>91000</b>	<b>Total Operating - Administrative</b>	<b>943,148</b>	<b>719,294</b>	<b>747,760</b>	<b>654,304</b>	<b>1,125,848</b>	<b>1,084,846</b>	<b>829,037</b>	<b>693,003</b>	<b>564,355</b>	<b>273,336</b>	<b>319,095</b>	<b>350,698</b>	<b>455,112</b>	<b>199,609</b>	<b>233,648</b>	<b>189,319</b>	-	<b>9,382,412</b>
<b>92000</b>	<b>Asset Management Fee</b>	<b>(87,120)</b>	<b>44,760</b>	<b>43,680</b>	<b>44,760</b>	<b>69,960</b>	<b>70,440</b>	-	<b>38,520</b>	-	-	-	<b>31,200</b>	<b>27,120</b>	-	<b>18,000</b>	<b>14,160</b>	-	<b>315,480</b>
92200	Relocation Costs	10,712	-	-	-	-	-	-	-	-	-	-	-	-	-	-	8,803	-	19,515
92400	Tenant Services - Other	37,005	12,962	3,919	7,060	7,173	135	1,952	-	-	3,935	-	2,661	15,389	-	3,935	3,879	-	100,005
<b>92500</b>	<b>Total Tenant Services</b>	<b>47,717</b>	<b>12,962</b>	<b>3,919</b>	<b>7,060</b>	<b>7,173</b>	<b>135</b>	<b>1,952</b>	-	-	<b>3,935</b>	-	<b>2,661</b>	<b>15,389</b>	-	<b>3,935</b>	<b>12,682</b>	-	<b>119,520</b>
93100	Water	163,892	264,692	261,646	169,638	160,414	151,683	113,042	299,331	115,087	219,622	124,573	154,752	157,298	45,245	68,250	70,451	-	2,539,616
93200	Electricity	1,026,429	76,538	97,877	54,987	509,618	590,589	140,464	172,020	271,996	138,670	159,883	62,331	44,018	55,987	178,622	20,683	-	3,600,712
93300	Gas	20,938	-	395,516	154,108	143,823	252,421	38,688	232,824	75,162	253,981	130,221	47,999	34,685	38,011	65,114	30,782	-	1,914,273
93600	Sewer	324,681	342,008	364,109	352,317	431,808	466,723	60,394	127,797	123,553	249,027	45,395	277,899	252,614	35,241	103,853	118,958	-	3,676,377
93800	Other Utilities Expense	-	-	-	-	-	-	21	-	390	-	-	-	-	-	-	-	-	411
<b>93000</b>	<b>Total Utilities</b>	<b>1,535,940</b>	<b>683,238</b>	<b>1,119,148</b>	<b>731,050</b>	<b>1,245,663</b>	<b>1,461,416</b>	<b>352,609</b>	<b>831,972</b>	<b>586,188</b>	<b>861,300</b>	<b>460,072</b>	<b>542,981</b>	<b>488,615</b>	<b>174,484</b>	<b>415,839</b>	<b>240,874</b>	-	<b>11,731,389</b>
94100	Ordinary Maintenance and Operations - Labor	539,142	361,412	350,336	358,999	582,638	551,821	321,290	362,479	227,185	-	-	-	-	-	-	-	-	3,655,302
94200	Ordinary Maintenance and Operations - Materials & Other	277,094	245,848	588,355	434,412	199,735	109,220	115,921	101,400	80,181	141,167	238,277	210,965	139,376	35,562	88,368	33,500	-	3,039,381
94300	Ordinary Maintenance and Operations Contracts	569,437	306,843	1,185,778	786,802	649,486	87,076	410,626	494,783	451,370	758,794	786,286	1,335,162	678,612	341,445	582,676	553,919	-	9,979,095
94500	Employee Benefit Contributions - Ordinary Maintenance	229,323	156,146	158,844	162,772	246,422	253,244	134,274	161,128	107,023	-	-	-	-	-	-	-	-	1,609,176
<b>94000</b>	<b>Total Maintenance</b>	<b>1,614,996</b>	<b>1,070,249</b>	<b>2,283,313</b>	<b>1,742,985</b>	<b>1,678,281</b>	<b>1,001,361</b>	<b>982,111</b>	<b>1,119,790</b>	<b>865,759</b>	<b>899,961</b>	<b>1,024,563</b>	<b>1,546,127</b>	<b>817,988</b>	<b>377,007</b>	<b>671,044</b>	<b>587,419</b>	-	<b>18,282,954</b>
95200	Protective Services - Other Contract Costs	287,050	543,743	574,650	138,432	89,366	258,974	-	-	-	276,892	-	-	-	-	-	-	-	2,169,107
95300	Protective Services - Other	-	119	-	-	478	1,328	-	-	-	-	-	-	-	-	-	-	-	1,925
<b>95000</b>	<b>Total Protective Services</b>	<b>287,050</b>	<b>543,862</b>	<b>574,650</b>	<b>138,432</b>	<b>89,366</b>	<b>259,452</b>	<b>1,328</b>	-	-	<b>276,892</b>	-	-	-	-	-	-	-	<b>2,171,032</b>
96110	Property Insurance	33,496	35,452	34,608	35,459	55,504	55,855	37,700	30,472	18,596	71,729	9,684	34,618	21,672	9,878	14,385	11,315	-	510,423
96120	Liability Insurance	7,321	2,067	1,464	1,524	1,967	2,137	1,352	1,526	1,004	1,500	9,069	1,800	3,645	3,936	9,399	-	-	49,711
96130	Workmen's Compensation	4,592	4,436	3,670	3,820	4,833	5,558	3,819	2,235	2,233	34,093	-	56,397	21,330	-	-	14,979	-	161,995
96140	All Other Insurance	1,544	2,400	977	496	487	730	1,619	742	853	4,772	-	11,837	4,565	124	-	2,940	-	34,086
<b>96100</b>	<b>Total insurance Premiums</b>	<b>46,953</b>	<b>44,355</b>	<b>40,719</b>	<b>41,299</b>	<b>62,791</b>	<b>64,280</b>	<b>44,490</b>	<b>34,975</b>	<b>22,686</b>	<b>112,094</b>	<b>18,753</b>	<b>104,652</b>	<b>51,212</b>	<b>13,938</b>	<b>23,784</b>	<b>29,234</b>	-	<b>756,215</b>

See accompanying independent auditor's report

Hawaii Public Housing Authority  
Financial Data Schedule  
Project Revenue and Expense Summary  
June 30, 2014

Line Item Number	Description	HI001000030	HI001000031	HI001000032	HI001000033	HI001000034	HI001000035	HI001000037	HI001000038	HI001000039	HI001000040	HI001000043	HI001000044	HI001000045	HI001000046	HI001000049	HI001000050	HI001000052	Total Project
96200	Other General Expenses	104,611	50,065	26,774	41,843	62,766	111,437	233,143	209,223	125,534	41,841	104,607	104,609	125,531	83,682	62,771	20,922	2,086,958	3,596,317
96300	Payments in Lieu of Taxes	-	-	-	-	-	-	30,873	7,453	6,765	-	-	-	-	3,057	-	-	-	48,148
96400	Bad debt - Tenant Rents	58,642	39,656	(10,788)	(49,159)	10,385	16,799	(1,603)	28,252	48,693	309	19,679	46,562	10,492	6,074	(2,611)	1,870	-	223,252
96800	Severance Expense	1,075	9,821	-	-	23,925	17,759	-	-	6,139	-	-	-	-	-	-	-	-	58,719
<b>96000</b>	<b>Total Other General Expenses</b>	<b>164,328</b>	<b>99,542</b>	<b>15,986</b>	<b>(7,316)</b>	<b>97,076</b>	<b>145,995</b>	<b>262,413</b>	<b>244,928</b>	<b>187,131</b>	<b>42,150</b>	<b>124,286</b>	<b>151,171</b>	<b>136,023</b>	<b>92,813</b>	<b>60,160</b>	<b>22,792</b>	<b>2,086,958</b>	<b>3,926,436</b>
<b>96900</b>	<b>Total Operating Expenses</b>	<b>4,553,012</b>	<b>3,218,262</b>	<b>4,829,175</b>	<b>3,352,574</b>	<b>4,376,158</b>	<b>4,087,925</b>	<b>2,473,940</b>	<b>2,963,188</b>	<b>2,226,119</b>	<b>2,469,668</b>	<b>1,946,769</b>	<b>2,729,490</b>	<b>1,991,459</b>	<b>857,851</b>	<b>1,426,410</b>	<b>1,096,480</b>	<b>2,086,958</b>	<b>46,685,438</b>
	<b>Excess of Operating Revenue over</b>																		
<b>97000</b>	<b>Operating Expenses</b>	<b>520,252</b>	<b>32,449</b>	<b>(1,491,917)</b>	<b>(739,758)</b>	<b>(69,661)</b>	<b>529,720</b>	<b>755,347</b>	<b>2,049,147</b>	<b>679,407</b>	<b>649,858</b>	<b>132,698</b>	<b>21,902</b>	<b>(405,176)</b>	<b>407,999</b>	<b>(56,329)</b>	<b>43,104</b>	<b>-</b>	<b>3,059,042</b>
97100	Extraordinary Maintenance	-	-	4,354	4,532	-	-	-	14,103	-	-	-	-	-	-	-	-	-	22,989
97300	Housing Assistance Payments	12,006	-	-	2,097	-	-	-	-	-	-	-	-	1,592	-	770	344	-	16,809
97400	Depreciation Expense	1,123,889	2,554,973	308,096	746,925	756,091	876,410	2,034,726	575,636	693,366	29,976	894,648	1,119,075	772,558	522,882	605,460	31,935	-	13,646,646
	<b>Subtotal</b>	<b>1,135,895</b>	<b>2,554,973</b>	<b>312,450</b>	<b>753,554</b>	<b>756,091</b>	<b>876,410</b>	<b>2,034,726</b>	<b>589,739</b>	<b>693,366</b>	<b>29,976</b>	<b>894,648</b>	<b>1,119,075</b>	<b>774,150</b>	<b>522,882</b>	<b>606,230</b>	<b>32,279</b>	<b>-</b>	<b>13,686,444</b>
<b>90000</b>	<b>Total Expenses</b>	<b>5,688,907</b>	<b>5,773,235</b>	<b>5,141,625</b>	<b>4,106,128</b>	<b>5,132,249</b>	<b>4,964,335</b>	<b>4,508,666</b>	<b>3,552,927</b>	<b>2,919,485</b>	<b>2,499,644</b>	<b>2,841,417</b>	<b>3,848,565</b>	<b>2,765,609</b>	<b>1,380,733</b>	<b>2,032,640</b>	<b>1,128,759</b>	<b>2,086,958</b>	<b>60,371,882</b>
10010	Operating Transfer In	507,706	361,077	510,280	206,901	487,453	416,674	183,065	431,203	40,055	203,493	119,785	352,400	164,372	-	78,800	8,257	-	4,071,521
10091	Inter Project Excess Cash Transfer In	1,600,000	-	-	-	-	-	550,000	-	150,000	600,000	500,000	-	-	150,000	150,000	-	-	3,700,000
10092	Inter Project Excess Cash Transfer Out	-	(300,000)	-	-	(750,000)	(950,000)	-	(500,000)	-	-	-	(500,000)	(700,000)	-	-	-	-	(3,700,000)
<b>10100</b>	<b>Total Other financing Sources (Uses)</b>	<b>2,107,706</b>	<b>61,077</b>	<b>510,280</b>	<b>206,901</b>	<b>(262,547)</b>	<b>(533,326)</b>	<b>733,065</b>	<b>(68,797)</b>	<b>190,055</b>	<b>803,493</b>	<b>619,785</b>	<b>(147,600)</b>	<b>(535,628)</b>	<b>150,000</b>	<b>228,800</b>	<b>8,257</b>	<b>-</b>	<b>4,071,521</b>
<b>10000</b>	<b>over (under) total expenses</b>	<b>1,492,063</b>	<b>(2,461,447)</b>	<b>(1,294,087)</b>	<b>(1,286,411)</b>	<b>(1,088,299)</b>	<b>(880,016)</b>	<b>(546,314)</b>	<b>1,390,611</b>	<b>176,096</b>	<b>1,423,375</b>	<b>(142,165)</b>	<b>(1,244,773)</b>	<b>(1,714,954)</b>	<b>35,117</b>	<b>(433,759)</b>	<b>19,082</b>	<b>-</b>	<b>(6,555,881)</b>
11030	Beginning Equity	11,792,751	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
10000	Excess (deficiency) of total revenue	1,492,063	(2,461,447)	(1,294,087)	(1,286,411)	(1,088,299)	(880,016)	(546,314)	1,390,611	176,096	1,423,375	(142,165)	(1,244,773)	(1,714,954)	35,117	(433,759)	19,082	-	(6,555,881)
11040-070	Equity transfer of capital contributions	937,153	582,276	410,651	466,102	352,845	747,391	757,720	2,813,321	278,218	118,571	1,707	123,304	1,217,574	1,633,493	479,956	1,877,466	-	12,797,748
	<b>Ending Equity</b>	<b>14,221,967</b>	<b>29,492,441</b>	<b>8,823,092</b>	<b>18,396,150</b>	<b>17,158,095</b>	<b>17,079,017</b>	<b>36,876,503</b>	<b>15,883,910</b>	<b>13,974,889</b>	<b>10,803,446</b>	<b>18,670,663</b>	<b>14,444,525</b>	<b>9,344,077</b>	<b>11,021,672</b>	<b>7,509,960</b>	<b>11,550,774</b>	<b>-</b>	<b>255,251,181</b>

See accompanying independent auditor's report

**Hawaii Public Housing Authority**  
**Financial Data Schedule**  
**GASBS NO. 54 Supplemental Reporting Schedule**  
**June 30, 2014**

<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>\$ 2,275,523</u>	<u>\$ 1,806,261</u>	<u>\$ 127,060,232</u>	<u>\$ 131,142,016</u>
508.3	Nonspendable Fund Balance	\$ -	\$ -	\$ 4,719,958	\$ 4,719,958
509.3	Restricted Fund Balance	2,275,523	-	-	2,275,523
510.3	Committed Fund Balance	-	-	22,137,718	22,137,718
511.3	Assigned Fund Balance	-	1,806,261	100,202,556	102,008,817
512.3	Unassigned Fund Balance	-	-	-	-
	Total Equity as Calculated	<u>\$ 2,275,523</u>	<u>\$ 1,806,261</u>	<u>\$ 127,060,232</u>	<u>\$ 131,142,016</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**





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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, 2014, and the related notes to the financial statements, which collectively comprise the HPHA's basic financial statements, and have issued our report thereon dated February 23, 2015.

**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. 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 a certain deficiency in internal

control, described in the accompany *Schedule of Findings and Questioned Costs*, item 2014-01, that we consider to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the HPHA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Findings and Questioned Costs* as items 2014-02 and 2014-03.

### **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  
February 23, 2015

**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**



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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, 2014. 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 Section 8 Housing Choice Vouchers and Public and Indian Housing**

As described in items 2014-02 and 2014-03 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>
2014-02	14.871	Section 8 Housing Choice Vouchers	Eligibility, Reporting, Special Tests and Provisions
2014-03	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 Section 8 Housing Choice Vouchers and 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 Section 8 Housing Choice Vouchers and Public and Indian Housing for the year ended June 30, 2014.

### **Unmodified on Public Housing Capital Fund**

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 Public Housing Capital Fund for the year ended June 30, 2014.

### **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.

*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. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as items 2014-02 and 2014-03 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.

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. We identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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, 2014, and have issued our report thereon dated February 23, 2015, 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  
February 23, 2015

**PART IV**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**



# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2014

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## Section I – Summary of Auditor’s Results

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### 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

Dollar threshold used to distinguish between type A and type B programs: \$2,655,143 (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, 2014

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## Section II – Financial Statement Findings

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### **Finding No.: 2014-01 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 2014 audit, we noted significant improvements in the performance of timely reconciliations for a number of funds, including the reconciliation of fixed assets for the Federal Low Rent Program and Housing for Elders Revolving Fund. With the exception of the 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 interfund balances continues to have challenges in the accounting and reporting of transactions due to the lack of timely account reconciliations. Consequently, the interfund balances were not reconciled until late into the audit.

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

**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 interfund balances.

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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### Section II – Financial Statement Findings (continued)

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***PHA Reply (Corrective Action Plan):***

To strengthen the internal control mechanism and promote operational effectiveness and efficiency, HPHA has been focusing on three areas:

- 1) Standard operating procedures: the responsible office has been in the process of reviewing, analysis and streamlining the operating processes and procedures to maximize operational effectiveness and efficiency. In the process, critical systems and schedules have been developed to facilitate execution of the functions and responsibilities of the office, while the knowledge and expertise gained are to be passed onto staff.
- 2) Staffing and training: The HPHA has recruited qualified professional accountants to fill vacant positions. HPHA continues to train its staff on accounting principles, operating procedures, enterprise software, and Excel skills, through general training sessions, case studies, one-to-one tutoring, and follow-up on detected errors.
- 3) Institutionalization of sound organizational structure through office re-organization incorporating adequate division of duties, check and balances, accountability of staff assigned with fund accounting, proper and timely review, correction and control by supervisors, in pursuing an environment of professional development.

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

***Target Date:*** Effective immediately, with ongoing review and monitoring.

# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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## Section III – Federal Award Findings and Questioned Costs

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### Section 8 Housing Choice Vouchers CFDA No. 14.871

#### Finding No.: 2014-02 Eligibility, Reporting, Special Tests and Provisions (Reasonable Rent, Housing Assistance Payments, HQS Inspections & HQS Enforcement) – 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.

24 CFR section 982.405(a) requires the HPHA to inspect the unit leased to a family prior to the initial term of the lease, at least annually during assisted occupancy, and at other times as needed, to determine if the unit meets the HQS.

24 CFR section 982.405(b) requires the HPHA to conduct supervisory quality control HQS inspections.

# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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

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

#### Finding No.: 2014-02 Eligibility, Reporting, Special Tests and Provisions (Reasonable Rent, Housing Assistance Payments, HQS Inspections & HQS Enforcement) – Material Weakness (continued)

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

- 1) For 1 out of 60 tenant files tested, we noted that an annual re-examination was not performed within the most recent 12 months.
- 2) For 2 out of 60 tenant files tested, we noted no HQS inspection report.
- 3) For 2 out of 60 tenant files tested, we noted that the adjusted gross income was incorrectly calculated.
- 4) For 6 out of 60 tenant files tested, we noted that the assets and/or exempt income per the Form 50058 did not agree to the support in the file or the incorrect payment standard was used on the Form 50058.
- 5) For 1 out of 60 tenant files tested, we noted no income verification for one of the adult family members.

During our review of supervisory quality control HQS inspections, we noted the following:

- 1) For 4 out of 40 HQS enforcement samples tested, we noted that the re-inspection date and correction of the failed portion of the HQS inspection was not completed within the designated time frame.
- 2) For 4 out of 40 HQS enforcement samples tested, we noted that Housing Assistance Payments were not stopped in a timely manner upon HQS inspection failure.
- 3) For 1 out of 40 HQS enforcement samples tested, we noted no supporting documents for re-inspection.

*Effect:* Failure to properly monitor eligibility determination, HUD 50058 reporting requirements, reasonable rent, HQS inspections, HQS enforcement and housing assistance payments can lead to non-compliance with program requirements and potential disallowed costs.

*Questioned costs:* None

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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

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

#### Finding No.: 2014-02 Eligibility, Reporting, Special Tests and Provisions (Reasonable Rent, Housing Assistance Payments, HQS Inspections & HQS Enforcement) – Material Weakness (continued)

**Recommendation:** We recommend that the HPHA enforce proper implementation of its eligibility policy and procedures and complete regular quality control review of HQS inspections.

**PHA Reply (Corrective Action Plan):**

The HPHA will take the following actions.

- 1) Conduct an annual review of existing policies and procedures with staff to evaluate whether existing processes are hampering HPHA from becoming fully compliant, including conducting follow up training on existing procedures that may not be followed.
- 2) Continue personnel recruitment for currently vacant positions and implement the Section 8 annual training plan and quality control checks over a reasonable sample of files.
- 3) Improve documentation of activities. For example, the HQS staff will keep a log of all calls and document when the landlord or tenant reported that the repair was completed an extension will be granted if a re-inspection can't be done before the 30 day remedy period.

The HPHA will continue to provide and support training opportunities for staff that require refresher training, and to keep abreast of changes in the federal rules.

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

**Target Date:** Monitoring and quality control reviews will occur on a regular ongoing basis.

# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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

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### Public and Indian Housing CFDA No. 14.850

#### Finding No.: 2014-03 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 4 out of 60 tenant files tested, we noted that income after exclusions was miscalculated, incorrectly input into the Form 50058 or not properly verified.
- 2) For 4 out of 60 tenant files tested, we noted no verification of social security numbers, disability certificate or citizenship declaration form.
- 3) For 1 out of 60 tenant files tested, we noted that the annual re-examination was not performed in a timely basis.
- 4) For 2 out of 60 tenant files tested, we noted no supporting documents for childcare costs or medical expenses or income and/or assets.
- 5) For 3 out 60 tenant files tested, we noted that the assets reported on the Form 50058 did not agree to the supporting documents.

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2014

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

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

#### Finding No.: 2014-03 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.

#### *PHA Reply (Corrective Action Plan):*

PMMSB and the Compliance Office completed the revamping of the monthly monitoring form which the agency has been utilizing during the 10% quality review of all annual recertification and placement tenant files. To eliminate further errors and missing documentations, PMMSB updated the Uniformity of Tenant File Checklist as a check and balance for the specialist staff. PMMSB has continued to provide guidance; training and adoption of rules from HUD published PIH Notices that has helped streamline the eligibility process.

The HPHA will continue to have one-on-one discussions with the specialist staff on the Supervisor's Discussion Notes (SDN) in accordance with the performance appraisal system to improve performance. For the contracted properties, the monthly review is being used to enforce the contract provisions relating to performance.

The HPHA will continue to provide and support training opportunities for staff who require refresher training, and to keep abreast of changes in the federal rules.

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

*Target Completion Date:* Monitoring and quality control reviews will occur on a regular ongoing basis.



**PART V**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

# Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings  
Year Ended June 30, 2014

## Section 8 Housing Choice Vouchers Program CFDA No. 14.871

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

***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.

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 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 signed by the Housing Specialist

***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.

***Status:*** The comment is still applicable. See finding 2014-02.

# Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings  
Year Ended June 30, 2014

## Public Housing Capital Fund CFDA No. 14.872

### **Finding No.: 2013-04 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 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.

***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.

***Status:*** The comment is no longer applicable.

# Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings  
Year Ended June 30, 2014

## Public and Indian Housing CFDA No. 14.850

### Finding No.: 2013-05 Eligibility – Material Weakness

*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 an 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.

**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 2014-03.

## **Hawaii Public Housing Authority**

Summary Schedule of Prior-Year Audit Findings  
Year Ended June 30, 2014

### **Public and Indian Housing CFDA No. 14.850 (continued)**

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

***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 Teams 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.

***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.

***Status:*** The comment is no longer applicable.