

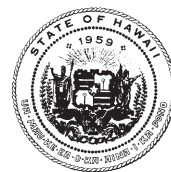
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# Financial Audit of the Hawaii Housing Authority

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawai'i

Report No. 95-2  
January 1995



**THE AUDITOR**  
STATE OF HAWAI'I

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## Office of the Auditor

The missions of the Office of the Auditor are assigned by the Hawai'i State Constitution (Article VII, Section 10). The primary mission is to conduct post audits of the transactions, accounts, programs, and performance of public agencies. A supplemental mission is to conduct such other investigations and prepare such additional reports as may be directed by the Legislature.

Under its assigned missions, the office conducts the following types of examinations:

1. Financial audits attest to the fairness of the financial statements of agencies. They examine the adequacy of the financial records and accounting and internal controls, and they determine the legality and propriety of expenditures.
2. Management audits, which are also referred to as performance audits, examine the effectiveness of programs or the efficiency of agencies or both. These audits are also called program audits, when they focus on whether programs are attaining the objectives and results expected of them, and operations audits, when they examine how well agencies are organized and managed and how efficiently they acquire and utilize resources.
3. Sunset evaluations evaluate new professional and occupational licensing programs to determine whether the programs should be terminated, continued, or modified. These evaluations are conducted in accordance with criteria established by statute.
4. Sunrise analyses are similar to sunset evaluations, but they apply to proposed rather than existing regulatory programs. Before a new professional and occupational licensing program can be enacted, the statutes require that the measure be analyzed by the Office of the Auditor as to its probable effects.
5. Health insurance analyses examine bills that propose to mandate certain health insurance benefits. Such bills cannot be enacted unless they are referred to the Office of the Auditor for an assessment of the social and financial impact of the proposed measure.
6. Analyses of proposed special funds and existing trust and revolving funds determine if proposals to establish these funds are existing funds meet legislative criteria.
7. Procurement compliance audits and other procurement-related monitoring assist the Legislature in overseeing government procurement practices.
8. Fiscal accountability reports analyze expenditures by the state Department of Education in various areas.
9. Special studies respond to requests from both houses of the Legislature. The studies usually address specific problems for which the Legislature is seeking solutions.

Hawai'i's laws provide the Auditor with broad powers to examine all books, records, files, papers, and documents and all financial affairs of every agency. The Auditor also has the authority to summon persons to produce records and to question persons under oath. However, the Office of the Auditor exercises no control function, and its authority is limited to reviewing, evaluating, and reporting on its findings and recommendations to the Legislature and the Governor.



### THE AUDITOR

STATE OF HAWAII

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# OVERVIEW

THE AUDITOR  
STATE OF HAWAII

## Financial Audit of the Hawaii Housing Authority

### Summary

The Office of the Auditor and the certified public accounting firm of KPMG Peat Marwick LLP conducted a financial audit of the Hawaii Housing Authority for the fiscal year July 1, 1993 to June 30, 1994. The audit examined the authority's financial records and its systems of accounting and internal controls and tested these for compliance with applicable laws and regulations.

In the opinion of KPMG Peat Marwick LLP, the authority's financial statements present fairly its combined financial position and the combined results of its operations for the fiscal year ended June 30, 1994. All are in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP noted no matters involving the internal control structure and its operation that they considered to be material weaknesses as defined in the report on the internal control structure. They also noted, with respect to items tested, that the authority has complied, in all material respects, with laws and regulations applicable to the authority.

We found that the authority continues to accumulate Section 8 unrestricted funds instead of using them for needed maintenance. We also found that the authority had not adequately maintained inventory records for its general fixed assets account group which resulted in a reportable condition for its internal control structure. Further, the statutory audit requirements for the authority's homeless program are too stringent. In addition, we found that improvements are needed in the authority's working relationships with developers of low-income housing.

### Recommendations and Response

We recommend the authority use its unrestricted Section 8 funds for needed maintenance programs at its housing projects. We also recommend that the authority maintain a complete listing of property included in the general fixed assets account group and file all necessary documents with the state comptroller. It should also enforce management agreements that require maintenance of adequate detailed fixed asset records at two of its properties. We also recommend that the Legislature consider revising Chapter 358D, HRS, to allow compliance audits of providers of homeless programs to be conducted on a rotating basis and to allow interviews with program participants to be

conducted by staff during periodic site visits instead of requiring auditors to conduct the interviews. In addition we recommend that the operating staff of the authority be involved in future development projects of the authority and that the authority continue its follow-up of a developer's cash withdrawal from a low-income housing project.

The authority does not dispute our findings and has begun to take steps to implement our recommendations. It provided updated information on expenditures of the homeless programs which is incorporated in the report. It also provided additional background information on the development project that it now manages and says its property management section is monitoring the project monthly.

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# Financial Audit of the Hawaii Housing Authority

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A Report to the  
Governor  
and the  
Legislature of  
the State of  
Hawaii

Conducted by

The Auditor  
State of Hawaii  
and  
KPMG Peat  
Marwick LLP

Submitted by

**THE AUDITOR**  
STATE OF HAWAII

Report No. 95-2  
January 1995

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## Foreword

This is a report of the financial audit of the Hawaii Housing Authority for the fiscal year July 1, 1993 to June 30, 1994. The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes, which requires the State Auditor to conduct post audits of all departments, offices, and agencies of the State. The audit was conducted by the Office of the Auditor and the certified public accounting firm of KPMG Peat Marwick LLP.

We wish to express our appreciation for the cooperation and assistance extended by officials and staff of the Hawaii Housing Authority.

Marion M. Higa  
State Auditor

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# Chapter 1

## Introduction

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This is a report of our financial audit of the State of Hawaii, Hawaii Housing Authority. The audit was conducted by the Office of the Auditor and the certified public accounting firm of KPMG Peat Marwick LLP (KPMG). The audit was conducted pursuant to Section 23-4, Hawaii Revised Statutes (HRS), which requires the State Auditor to conduct postaudits of the transactions, accounts, programs, and performance of all departments, offices, and agencies of the State of Hawaii and its political subdivisions.

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### Objectives of the Audit

1. Report on the fair presentation of the combined financial statements of the authority.
  2. Assess the adequacy, effectiveness, and efficiency of the systems and procedures relating to the financial accounting, internal controls, and financial reporting of the authority and to recommend improvements to such systems, procedures, and reports.
  3. Determine whether expenditures and other disbursements have been made and all revenues and other receipts have been collected and accounted for in accordance with federal and state laws, rules and regulations, and policies and procedures.
  4. Ascertain the extent to which recommendations Nos. 3(c) and 4 contained in Chapter 2 of the State Auditor's Report No. 91-14, "Review of the Hawaii Housing Authority's Repair and Maintenance Program," have been implemented.
- 

### Scope and Methodology

We audited the financial records and transactions and reviewed the related systems of accounting and internal controls of the authority for the fiscal year July 1, 1993 to June 30, 1994. Included in our audit were all fund types and account groups. We also reviewed the authority's transactions, systems, and procedures for compliance with applicable laws and regulations.

The audit included a review of the accounting, reporting, and internal control structures to identify deficiencies and weaknesses and to make appropriate recommendations for improvement. It also reviewed forms, records, accounting, and operational procedures. The audit reviewed the

extent to which recommendations Nos. 3(c) and 4 contained in Chapter 2 of the State Auditor's report No. 91-14 have been implemented. Additionally, the audit reviewed the contract and management practices of the Homeless Programs Branch of the authority, including the adequacy of the administration of contracts and the records maintained by contractors.

The independent auditor's opinion as to the fairness of the combined financial statements presented in Chapter 3 is that of KPMG. The audit was conducted from June 1994 through November 1994 in accordance with generally accepted government auditing standards.

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## Background

The authority was created pursuant to the provisions of Chapter 356, HRS. It is responsible for the state's housing projects and rent subsidy programs, the preservation and maintenance of housing projects, the delivery of management support services and housing opportunities to eligible families, and contract administration of housing projects that are federally subsidized but privately owned. The authority's mission is to provide decent, safe, and sanitary housing for families and individuals with low incomes, including elderly, handicapped, and homeless persons.

To accomplish its objectives, the authority assists low and moderate income families through rent supplement programs and the development and administration of state and federal rental housing projects.

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## Organization

The authority is administratively attached to the State of Hawaii, Department of Human Services. It reports to a Board of Commissioners comprised of eight members who are appointed by the governor and confirmed by the Senate. Commissioners are limited to two full consecutive terms with the exception of the Director of the Department of Human Services and the Governor's Special Assistant for Housing who serve as ex-officio voting members. The authority is comprised of the Office of the Executive Director, four staff offices and four branches. The primary responsibilities of these units are as follows:

### ***Office of the Executive Director***

The Office of the Executive Director is responsible for overall administration and management, policies and procedures, goals and objectives, central coordination, and evaluation and development.

**Staff offices**

Four staff offices provide support services to the authority.

- **The Planning Office** performs legislative planning and research and serves as the authority's liaison to the Legislature.
- **The Housing Compliance and Evaluation Office** ensures that all properties, programs, procedures, and operations are in compliance with state and federal laws and regulations.
- **The Hearing Office** represents the authority in resident eviction hearings before the Board of Commissioners, hearing boards, and courts.
- **The Administrative Services Office** provides program and staff support including accounting, budgeting, purchasing, and personnel services.

**Branches**

Four branches carry out the programs of the authority.

- **The Housing Management and Maintenance Branch** provides day-to-day operation and maintenance of state and federal housing complexes as well as contract administration for privately owned but federally-subsidized housing complexes.
- **The Resident Services Branch** serves as a "one-stop" office for applicants seeking housing and assists current residents in developing activities and programs.
- **The Engineering and Inspection Branch** contracts for and oversees design, construction, renovation, and repair of the authority's facilities.
- **The Homeless Programs Branch** oversees shelter construction and contracts with private providers for shelter, outreach services, and emergency grants.

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# Chapter 2

## Internal Control Practices

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Internal controls are steps instituted by management to ensure that objectives are met and resources are safeguarded. This chapter presents general findings and recommendations on the financial accounting and internal control practices and procedures of the State of Hawaii, Hawaii Housing Authority.

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### Summary of Findings

1. The authority continues to accumulate Section 8 unrestricted funds instead of using them for needed maintenance.
  2. The authority does not adequately maintain inventory records for its general fixed assets account group resulting in a reportable condition.
  3. The statutory audit requirements for the homeless program are too stringent.
  4. Improvements are needed in the authority's working relationships with developers of low-income housing.
- 

### The Authority Is Accumulating Section 8 Unrestricted Funds

The authority earns administrative fees for operating the federal Section 8 rent subsidy program for the U.S. Department of Housing and Urban Development (HUD). These fees may be used for any housing-related costs. It has been the authority's practice to set aside these fees and accumulate them in a reserve fund. It uses interest earnings from the reserve fund to purchase equipment and appliances for its housing projects. Table 2.1 illustrates the increasing operating reserve balances for the fiscal years ended June 30, 1992, 1993 and 1994.

**Table 2.1**  
**Operating Reserve Balances**

		As of June 30	
	1992	1993	1994
Beginning Balance	\$ 3,335,543	\$ 3,610,546	\$ 3,933,265
Earned fees	174,801	315,780	517,952
Interest income	274,658	141,057	135,441
Expenditures	<u>(174,456)</u>	<u>(134,118)</u>	<u>(119,350)</u>
Ending Balance	<u>\$ 3,610,546</u>	<u>\$ 3,933,265</u>	<u>\$ 4,467,308</u>

In a 1991 report, *Review of the Hawaii Housing Authority's Repair and Maintenance Program*, Report No. 91-14, the State Auditor recommended that the authority spend accumulated unrestricted funds for urgently needed extraordinary maintenance. Maintenance programs still have not addressed the housing projects' needs. A consultant surveyed 11 state low-income public housing projects in 1992 and noted probable improvement costs between \$25 and \$30 million.<sup>1</sup>

The authority has been saving the unrestricted operating reserve for shortages and contingencies, such as shortages in administrative fees to support the program and unbudgeted expenditures such as appliance acquisitions, emergency repairs and maintenance, vehicle and equipment purchases and any other housing-related projects.

In its February 20, 1991, response to our prior report, the authority stated it would "formulate plans to expend [the] unrestricted fund balance during the subsequent fiscal year." The authority only recently developed a plan for spending the unrestricted operating reserve—it now needs to implement those plans and use the unrestricted funds for badly needed maintenance.

---

### **Recommendation**

We recommend the authority use its unrestricted Section 8 funds for maintenance programs.

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### **Inventory Records Are Not Adequately Maintained**

KPMG has found the authority's failure to keep detailed fixed asset records to be a reportable condition in its internal control structure. A reportable condition involves a matter that could adversely affect the authority's ability to record, process, summarize and report financial data.

Chapter 106, Hawaii Revised Statutes (HRS), requires that a detailed listing of all property belonging to the State and in the possession, custody, control or use of the authority be filed with the state comptroller on or before September 15 of each year. This requirement enables the State to account for all property acquired with public funds. The authority has not filed a detailed listing of items included in the general fixed assets account group as of June 30, 1993 because it has not maintained a complete detailed listing. In response to our request, the authority was able to prepare such a detailed listing using various historical records.

We also noted that audit reports on the Banyan Street Manor and Wilikina Apartment Projects disclosed that the managing agents of the projects had not kept detailed fixed asset records as required by their

respective management agreements. The audits recommended that the managing agents be required to comply with the terms of the management agreements.

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**Recommendations**

We recommend that the authority maintain a complete listing of property included in the general fixed assets account group and file all necessary documents with the state comptroller. We also recommend that the authority enforce the Banyan Street Manor and Wilikina Apartment Projects management agreements which require maintenance of adequate detailed fixed asset records.

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**Statutory Audit  
Requirements  
Need to be Revised**

We reviewed the contract and management practices of the authority's Homeless Programs Branch, including a review of (1) the terms of the contract documents, (2) the adequacy of the administration of contracts, and (3) records maintained by provider agencies. We noted instances of technical noncompliance with state statutes in administering contracts. Generally, however, we found the branch's contract and management practices to be sound and effective.

**Background  
information**

The state's homeless programs strive to meet the needs of the homeless and to provide them with opportunities and services to achieve improved living conditions. Shelters for homeless individuals and families provide on-site social services such as needs assessment, goal identification and skills training and education. The State's homeless programs also include pilot programs focusing on outreach services, shelter services and emergency grants.

The Homeless Programs Branch administrator and a staff of five are responsible for developing, coordinating, administering and reporting on the programs. To meet the objectives of the programs, the branch contracts with providers, such as Catholic Community Services and the Institute for Human Services, for: (1) shelter and services to the eligible homeless, (2) intake and referral services and other services to the unsheltered homeless, and (3) eligible homeless families assistance to prevent, avoid, or remedy homelessness and its associated dangers.

In FY1993-94, the branch contracted with 29 providers for assistance to more than 17,700 homeless persons statewide. Expenditures for the Homeless Stipend Program, the State Homeless Outreach Program, and the Homeless Emergency Loan and Grants Program amounted to approximately \$3,058,776, \$600,000, and \$442,745 respectively for the fiscal year ended June 30, 1994.

The branch has adopted formal policies and procedures for: (1) evaluating and selecting potential provider agencies, (2) executing contracts, (3) monitoring and evaluating contract performance by provider agencies, and (4) disbursing payments. However, we found that provider audit requirements are not being followed.

***Compliance audit requirements are cost prohibitive***

Chapter 358D, HRS, requires an annual compliance audit to be performed by an independent auditing agency for all providers, including a representative number of interviews with program recipients. The branch has contracted with an independent auditing agency for audits of the providers' financial records; however, the audits are performed on a rotating basis, at least once every two years, and do not include interviews with program recipients. This is not entirely in compliance with state statutes, but we believe that performing audits annually for all provider agencies is cost prohibitive and that the current practice of performing audits on a rotating basis effectively meets the intent of the law. We also believe that branch staff could interview program recipients during their periodic site visits.

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***Recommendations***

We recommend that the Legislature consider revising Chapter 358D, HRS, to allow the branch to conduct compliance audits on a rotating basis (i.e., at least once every two years). We also recommend that the statute be modified to allow interviews with program participants to be conducted by branch staff during their periodic site visits.

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**Better Controls Are Needed When Working With Developers of Low-Income Housing Projects**

The authority manages a low-income housing project that it sub-leases from a developer. The authority recently became aware that: (1) it is now responsible for an undetermined amount of back-due sub-lease rent; (2) the project operating expenses were grossly underbudgeted; and (3) the project is faced with a tightened cash flow situation. This might have been avoided had HHA's involvement been better planned and operating costs been more carefully scrutinized. In addition, the executive director should have involved HHA staff during the project development phases.

The authority was involved with the development of, and is now sub-leasing, a 48-unit low-income housing project from a private developer. The project was completed in December 1993 and HHA took responsibility for the project in early 1994. The authority expected to pay annual sub-lease payments of \$184,965 from the project's cash flow. It now appears that actual cash flows may not be adequate to pay the sub-lease and all operating costs of the project. We also found that



prior to May 1994, the developer withdrew \$63,578 from the project without informing the authority. The authority was not aware of this until we brought it to management's attention.

The responsibility for project management was only recently turned over to the authority's property management section. Before that, the executive director handled all matters relating to the project. The HHA property management staff had no opportunity to review the operating budget of the project when the project was being developed.

The property management section now has found that annual sewer charges of more than \$20,000 had been excluded from the budget and electricity had been underestimated by about 40 percent. The section is developing a new operating budget. The property management section is also following up on the \$63,578 withdrawn by the developer. It was informed that the amount was for project insurance paid directly by the developer and for sub-lease rent payments due the developer. Had property management staff been able to review and analyze the project budget, it could have identified the budget's shortcomings and evaluated the project's ability to pay the sub-lease obligation of the authority. Also, had it been involved earlier in the management of the project, it might have better accounted for the cash withdrawn by the developer.

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### ***Recommendations***

We recommend that the operating staff of the authority be involved in future development projects of the authority. We also recommend the authority continue its follow-up on the developer's cash withdrawal from the project.

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# Chapter 3

## Financial Audit

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This chapter presents the results of the financial audit of the State of Hawaii, Hawaii Housing Authority as of and for the fiscal year ended June 30, 1994. It includes the independent auditors' report and reports on the internal control structure and tests of compliance with laws and regulations. It also displays financial statements of all fund types and account groups administered by the authority, together with explanatory notes.

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### Summary of Findings

In the opinion of KPMG, based on their audit, the combined financial statements present fairly, in all material respects, the financial position of the authority as of June 30, 1994, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

KPMG noted a matter involving the internal control structure and its operation that they considered to be a reportable condition. They also noted that their tests indicate that, with respect to items tested, the authority has complied, in all material respects, with laws and regulations applicable to the authority.

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### Independent Auditors' Report

The Auditor  
State of Hawaii:

We have audited the following combined financial statements of the State of Hawaii, Hawaii Housing Authority:

Combined Balance Sheet - All Fund Types and Account Groups, June 30, 1994;

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental and Fiduciary Fund Types, Year ended June 30, 1994;

Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) - General Fund, Year ended June 30, 1994;

Combined Statement of Revenues and Expenses - Proprietary Fund Types, Year ended June 30, 1994;

Combined Statement of Fund Equity - Proprietary Fund Types, Year ended June 30, 1994; and

Combined Statement of Cash Flows - Proprietary Fund Types, Year ended June 30, 1994.

These combined financial statements are the responsibility of the State of Hawaii, Hawaii Housing Authority's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in note 2, the combined financial statements of the State of Hawaii, Hawaii Housing Authority, are intended to present the combined financial position and combined results of operations and cash flows of its proprietary fund types of only that portion of the funds and account groups of the State of Hawaii that is attributable to the transactions of the State of Hawaii, Hawaii Housing Authority.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the State of Hawaii, Hawaii Housing Authority, as of June 30, 1994, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles.

As discussed in note 11 to the combined financial statements, the State of Hawaii, Hawaii Housing Authority, changed its method of accounting for revenues in the capital projects fund on July 1, 1993 to conform with the State's policy of recording revenues when funds are appropriated by the State Legislature and allotted by the governor.

Our audit was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining financial statements (Schedule I through Schedule X) are presented for purposes of additional analysis and are not a required part of the combined financial statements of the State of Hawaii, Hawaii Housing Authority. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements taken as a whole.

/s/KPMG Peat Marwick LLP

Honolulu, Hawaii  
September 29, 1994

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**Independent  
Auditors' Report  
on the Internal  
Control Structure  
Based on an Audit  
of the Combined  
Financial  
Statements  
Performed in  
Accordance with  
Government  
Auditing  
Standards**

The Auditor  
State of Hawaii:

We have audited the combined financial statements of the State of Hawaii, Hawaii Housing Authority, as of and for the year ended June 30, 1994, and have issued our report thereon dated September 29, 1994.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 revision), 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 combined financial statements are free of material misstatement.

In planning and performing our audit of the combined financial statements of the State of Hawaii, Hawaii Housing Authority, for the year ended June 30, 1994, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control structure.

The management of the State of Hawaii, Hawaii Housing Authority, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess

the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of combined financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Cycles of the authority's activities:

- Revenues and cash receipts
- Purchases and cash disbursements
- Payroll
- External financial reporting

Accounting applications:

- Billings and receivables
- Encumbrances
- Interfund transfers

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. A reportable condition involves a matter coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in

the combined financial statements. The matter involving the internal control structure and its operation that we consider to be a reportable condition is described in Chapter 2.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the combined financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control structure and its operations that we have reported to the Auditor, State of Hawaii, and the management of the State of Hawaii, Hawaii Housing Authority, which are described in Chapter 2.

This report is intended for the information of the Auditor, State of Hawaii, and management of the State of Hawaii, Hawaii Housing Authority. However, this report is a matter of public record and its distribution is not limited.

/s/KPMG Peat Marwick LLP

Honolulu, Hawaii  
September 29, 1994

**Independent  
Auditors' Report  
on Compliance  
Based on an Audit  
of the Combined  
Financial  
Statements  
Performed in  
Accordance with  
Government  
Auditing  
Standards**

The Auditor  
State of Hawaii:

We have audited the combined financial statements of the State of Hawaii, Hawaii Housing Authority, as of and for the year ended June 30, 1994, and have issued our report thereon dated September 29, 1994.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 revision), 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 combined financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the State of Hawaii, Hawaii Housing Authority, is the responsibility of the State of Hawaii, Hawaii Housing Authority's management. As part of obtaining reasonable assurance about whether the combined financial statements are free of material misstatement, we performed tests of the State of Hawaii, Hawaii Housing Authority's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the combined financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, the State of Hawaii, Hawaii Housing Authority, complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Hawaii, Hawaii Housing Authority, had not complied, in all material respects, with those provisions.

This report is intended for the information of the Auditor, State of Hawaii, and management of the State of Hawaii, Hawaii Housing Authority. However, this report is a matter of public record and its distribution is not limited.

/s/KPMG Peat Marwick LLP

Honolulu, Hawaii  
September 29, 1994



## Descriptions and Definitions

This section describes the combined financial statements, schedules and provides definitions of technical terms used in this chapter.

### *Descriptions of financial statements and schedules*

The following is a brief description of the combined financial statements audited by KPMG and schedules, which are attached at the end of this chapter.

**Combined Balance Sheet - All Fund Types and Account Groups (Exhibit A).** This statement presents assets, liabilities, and fund equity of all fund types and account groups used by the authority on an aggregate basis.

**Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental and Fiduciary Fund Types (Exhibit B).** This statement presents revenues, expenditures, and changes in fund balances for all governmental and fiduciary fund types used by the authority on an aggregate basis. Revenues include state appropriations authorized by the State Legislature through the General Appropriations Act of 1993 (Act 289, Sessions Laws of Hawaii 1993), as amended and supplemented by other specific appropriations acts. Revenues also include federal grant revenues.

**Combined Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis) - General Fund (Exhibit C).** This statement summarizes general fund revenues and expenditures by source on a budgetary basis and compares such amounts to the budget as adopted by the State Legislature.

**Combined Statement of Revenues and Expenses - Proprietary Fund Types (Exhibit D).** This statement summarizes revenues and expenses of the proprietary fund types used by the authority on an aggregate basis.

**Combined Statement of Fund Equity - Proprietary Fund Types (Exhibit E).** This statement summarizes the changes in the fund equity of the proprietary fund types used by the authority on an aggregate basis.

**Combined Statement of Cash Flows - Proprietary Fund Types (Exhibit F).** This statement summarizes cash flows of the proprietary fund types used by the authority on an aggregate basis.

**Combining Balance Sheet - Special Revenue Funds (Schedule I).** This schedule presents assets, liabilities, and fund balances of the special revenue funds of the authority.

**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Special Revenue Funds (Schedule II).** This schedule presents revenues, expenditures, and fund balances of the special revenue funds of the authority.

**Combining Balance Sheet - Enterprise Funds (Schedule III).** This schedule presents assets, liabilities, and fund equity of the enterprise funds of the authority.

**Combining Statement of Revenues and Expenses - Enterprise Funds (Schedule IV).** This schedule presents revenues and expenses of the enterprise funds of the authority.

**Combining Statement of Fund Equity - Enterprise Funds (Schedule V).** This schedule presents changes in fund equity of the enterprise funds of the authority.

**Combining Statement of Cash Flows - Enterprise Funds (Schedule VI).** This schedule presents cash flows of the enterprise funds of the authority.

**Combining Balance Sheet - Internal Service Funds (Schedule VII).** This schedule presents assets and fund equity of the internal service funds of the authority.

**Combining Statement of Revenues and Expenses - Internal Service Funds (Schedule VIII).** This schedule presents revenues and expenses of the internal service funds of the authority.

**Combining Statement of Fund Equity - Internal Service Funds (Schedule IX).** This schedule presents changes in fund equity of the internal service funds of the authority.

**Combining Statement of Cash Flows - Internal Service Funds (Schedule X).** This schedule presents cash flows of the internal service funds of the authority.

### ***Definition of terms***

Technical terms are used in the combined financial statements and in the notes to the combined financial statements. The more common terms and their definitions are as follows:

**Appropriation.** An authorization granted by the State Legislature permitting a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures.

**Allotment.** An authorization by the director of finance to a state agency to incur obligations and to make expenditures pursuant to the appropriation made by the State Legislature.

**Encumbrance.** An obligation in the form of a purchase order or contract which reserves a portion of an appropriation, the incurring of which sets aside the appropriation for the amount of the obligation.

**Expenditure.** The actual disbursement of funds for the payment of goods delivered or services rendered, the obligation to pay for such goods or services having been incurred against authorized funds.

**Reserve.** An account used to earmark a portion of the fund balance to indicate that it is not available for expenditure.

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## Notes to Combined Financial Statements

### *Note 1 - financial reporting entity*

Explanatory notes which are pertinent to an understanding of the combined financial statements and financial condition of the funds included in the scope of the audit are discussed in this section.

The State of Hawaii, Hawaii Housing Authority, is organized under the State of Hawaii, Department of Human Services pursuant to the provisions of Chapter 356, Hawaii Revised Statutes. The authority's mission is to provide safe and sanitary dwelling accommodations for low and moderate income residents of Hawaii.

To accomplish its objective, the authority provides assistance to low and moderate income families through rent supplement programs and the development and administration of state and federal rental housing projects.

For financial reporting purposes, the authority includes all funds and account groups that are controlled by or dependent on the authority's executive director. Control by or dependence on the authority was determined on the basis of statutory authority and moneys flowing through the authority to each fund or account group.

### **HUD subsidized programs**

The Federal Low-Rent Program and the various Section 8 funds are referred to collectively as the HUD Subsidized Programs and represent the contracts that the authority has entered into with the U.S. Department of Housing and Urban Development (HUD). The Federal Low-Rent Program is used to account for authority-owned housing projects which are rented to low-income families, and housing

development programs which are funded through notes and bonds. HUD provides the authority with grants and contributions for the payment of debt principal and the related interest.

HUD also provides contributions for the payment of principal and interest on debt incurred to finance the modernization of authority-owned housing projects.

HUD subsidized programs also include subsidized housing assistance payments. Under these programs, low-income tenants lease housing units directly from private landlords rather than from the authority. Rental payment subsidies are paid directly to the private landlords by the authority using operating subsidies obtained from HUD.

The Federal Low-Rent Program includes all property and equipment, principally structures and improvements, acquired with the proceeds from notes and bonds collateralized by HUD.

## ***Note 2 - Summary of significant accounting policies***

### **Basis of presentation**

The financial transactions of the authority are recorded in individual funds and account groups which are reported by type in the combined financial statements and are described in the following sections. Each fund and account group is considered a separate accounting entity, thus related operations are accounted for with a separate set of self-balancing accounts. Account groups are used to establish accounting control and accountability for the authority's general fixed assets and general long-term obligations. Account groups are not funds as they do not reflect available financial resources and related liabilities.

The authority accounts for and reports only its portion of those fund types and account groups maintained by the State. The State Comptroller maintains the central accounts for all state funds and account groups and publishes financial statements for the State annually. Governmental resources are allocated to and are accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The total columns on the accompanying combined financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Information in these columns do not purport to present financial position, results of operations or cash flows of the authority in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation. Interfund balances and transactions have not been eliminated.

The authority uses the following fund types, funds and account groups:

### **Governmental fund types:**

**General fund:** Accounts for all financial resources except those required to be accounted for in another fund. This fund includes the Rent Supplement, Security Beautification and Teacher Housing Fund and the Homeless Program.

**Special revenue funds:** Account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds include Section 8 Existing, New Construction Haili, Housing Voucher Program, New Construction and Drug Elimination/Trafficking Programs.

**Capital projects fund:** Accounts for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by the proprietary fund types.

### **Proprietary fund types:**

**Enterprise funds:** Account for operations that are financed and operated in a manner similar to private business enterprises - where the authority has decided that periodic determination of revenues earned, expenses incurred and net income is appropriate for management control and public accountability. These funds include Housing Revolving, Teacher Housing Revolving, Housing for Elders Revolving, Federal Low-Rent Program, Banyan Street Manor Project and Wilikina Apartment Project.

**Internal service funds:** Account for the financing of goods or services provided by these funds to other funds of the authority, or to other governmental units, on a cost-reimbursement basis. These funds include Equipment Rental and Vehicle Rental.

### **Fiduciary fund types:**

**Expendable trust fund:** Accounts for assets held by the authority in a trustee capacity. This fund includes the Weinberg Homeless Trust Fund.

**Agency fund:** Accounts for grants received for disbursement to other governmental units (secondary recipients). This fund includes the Emergency Shelter Grant Program.

### **Account groups:**

**General fixed assets account group:** Accounts for all fixed assets of the authority, other than those accounted for in the proprietary fund types.

**General long-term obligations account group:** Accounts for the long-term portion of accrued wages and employee benefits, other than the amounts that are specific liabilities of the proprietary fund types.

### **Basis of accounting**

#### **Governmental fund types and expendable trust and agency funds.**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the combined balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The authority uses the modified accrual basis of accounting for the general, special revenue, capital projects and expendable trust and agency funds. Under the modified accrual basis of accounting, revenues and related current assets are recognized in the accounting period when they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at year-end. Measurable means that the amount of the transaction can be determined. Available means that the amount is collected in the current fiscal year or soon enough after year-end to liquidate liabilities existing at the end of the fiscal year. Revenues susceptible to accrual include federal grants and funds appropriated by the State Legislature and allotted by the governor.

Effective July 1, 1993, the authority changed its method of accounting for revenues in the capital projects fund to conform with the State's policy of recording revenues when funds are appropriated by the State Legislature and allotted by the governor. Prior to July 1, 1993, the authority recorded revenues when funds were appropriated by the State Legislature. The authority has reported the cumulative effect of this change in accounting principle in the 1994 combined statement of revenues, expenditures and changes in fund balances - all governmental and fiduciary fund types.

**Proprietary fund types.** All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of those funds are included on the combined balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accounts of the proprietary fund types are reported under the

accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recorded when they are incurred.

### **Cash and short-term investments**

Cash and short-term investments reported in the combined balance sheet include cash in the State Treasury, cash in various Hawaii banks and certificates of deposit where maturities are three months or less.

### **Cash equivalents**

For purposes of the combined statement of cash flows - proprietary fund types, the authority considers all highly liquid debt instruments purchased with original maturities of three months or less to be cash equivalents.

### **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. HUD provides the annual debt service contributions used to meet principal and interest payments on notes and bonds. The debt service contributions related to principal and interest are recognized in the combined financial statements as contributed capital and nonoperating revenue, respectively. 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 upon notification of approval from HUD and are accounted for in the combined statement of revenues and expenses - proprietary fund types as nonoperating revenues - HUD operating subsidy. As explained in note 8, certain debt service contributions have been discontinued and the related debt has been forgiven or is subject to forgiveness.

### **Investment**

Investment in a U.S. government security is stated at amortized cost.

### **Inventory**

Inventory, principally supplies for authority-owned projects and administrative offices, is stated at the lower of cost (first-in, first-out method) or market.

### **Deferred costs**

Deferred costs represent costs incurred by the Banyan Street Manor Project in connection with obtaining the mortgage loan. Amortization is being provided on the effective interest method over the 40-year term of the mortgage loan.

### **Property and equipment**

Property and equipment reported in the authority's proprietary fund types are recorded at cost, net of accumulated depreciation. Interest costs incurred during construction are capitalized. Depreciation and amortization has been provided over the estimated useful lives of those assets using the straight-line method. The estimated useful lives are as follows:

Structures and improvements	10 - 40 years
Equipment, furniture and fixtures	3 - 10 years
Vehicles	7 1/2 years

Depreciation recognized on assets acquired or constructed from grants or contributions is transferred to and deducted from contributed capital, to the extent that contributed capital is available.

Property and equipment reported in the general fixed assets account group are recorded at cost. Those assets were acquired or constructed for general governmental purposes and were reported as expenditures in the funds that financed the assets at acquisition. No depreciation is provided on those assets.

### **Reservations of fund balances**

Portions of the general and capital projects fund balances are reserved for encumbrances outstanding at year-end. Those amounts are reserved for subsequent fiscal year expenditures. The expendable trust and agency fund balances are reserved for other specific purposes.

### **Encumbrances**

Commitments related to unfilled purchase orders and unperformed contracts are recorded as encumbrances in the general and capital projects funds. The authority records those encumbrances at the time the related purchase orders or contracts are executed or awarded, or the salary deferrals are identified. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during a subsequent fiscal year.



### **Vacation pay**

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. Such vacation credits are recorded as accrued wages and employee benefits payable in the general long-term obligations account group and the enterprise funds at the balance sheet date.

### **Cost allocation**

Costs for administrative services are allocated to the funds utilizing a cost allocation method based upon number of housing units.

### **Rental revenues**

Rental revenues in the enterprise funds are derived principally from the Federal Low-Rent Program. The Federal Low-Rent Program provides low rent dwelling units for qualified low income individuals. The units are rented on a month-to-month basis.

### ***Note 3 - Banyan Street Manor Project and Wilikina Apartment Project***

Banyan Street Manor Project (Banyan Street) is a low-income residential housing project. Banyan Street is located in the Honolulu district on Oahu, Hawaii and consists of 12 one-bedroom and 43 two-bedroom apartments, including a two-bedroom apartment being used as the resident manager's lodging. Since August 4, 1977, Banyan Street has been operating under the provisions of the HUD Section 8 Housing Assistance Payment Program. Banyan Street was acquired by the authority in November 1990 for \$3,700,000.

In accordance with the management agreement, Chaney, Brooks and Company has been designated as exclusive agent for the management of the operations of Banyan Street. The current management agreement is effective from December 1, 1993 and expires on November 30, 1995 with an option to extend for one additional year. The management agreement provides for a flat monthly fee of \$987 for the first year, \$1,036 for the second year and \$1,079 for the option year. Under the previous agreement, the management fee was based on 5.75 percent of monthly gross collections excluding interest. The total management fee for the year ended June 30, 1994 was \$18,885.

Wilikina Apartment Project (Wilikina) is a low-income residential housing project which also operates under the provisions of the HUD Section 8 Housing Assistance Payment Program. Wilikina is located in the Wahiawa district on Oahu, Hawaii and consists of 79 one-bedroom and 40 two bedroom apartments, including a two-bedroom apartment being used as the resident manager's lodging.

Wilikina's assets and liabilities were purchased by HHA Wilikina Apartment Project, Inc., a nonprofit corporation which is subject to oversight by the authority, on May 21, 1993 for \$10,631,000.

Wilikina was managed by Loyalty Enterprises, Ltd. until December 5, 1993, and then by Certified Management, Inc. until July 31, 1994. In accordance with their respective management agreements, Loyalty Enterprises, Ltd. received management fees equal to 5 percent of monthly gross collections, while Certified Management, Inc. received a flat fee of \$1,857 per month. The total management fee for the period from May 22, 1993 to June 30, 1994 was \$28,947. A new management agreement has been entered into with Chaney, Brooks and Company effective August 1, 1994.

Both projects have entered into a contract with HUD, effective under Section 8 of the United States Housing and Urban Act of 1937, to receive housing assistance payments on behalf of qualified tenants until August 1997 and January 1998 for Banyan Street and Wilikina, respectively.

#### ***Note 4 - Budgeting and budgetary control***

The authority's general, special revenue, capital projects, and enterprise funds are subject to a comprehensive appropriated budget. The remaining funds and account groups are unbudgeted.

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 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 combined statement of revenues and expenditures - budget and actual (budgetary basis) - general fund are those 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.

All 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 effected with certain executive and legislative branch approvals.

To the extent not expended or encumbered, 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 which may terminate the authorization for other appropriations. Known lapses occurring in the fiscal year of appropriation, if any, are included in the amended budgets, and are netted against revenues in the combined statement of revenues and expenditures - budget and actual (budgetary basis) - general fund.

A comparison of budgeted and actual revenues and expenditures of the general fund is presented in the combined statement of revenues and expenditures - budget and actual (budgetary basis) - general fund. Such a comparison has not been included for the special revenue funds, as it would not be meaningful. The budgeted amounts for the special revenue funds would include only those expenditures not paid for by HUD which account for over 90 percent of the expenditures for these funds.

Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with generally accepted accounting principles (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 summarization of the difference between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP for the general fund for the year ended June 30, 1994 is as follows:

Excess of revenues and other financing source over expenditures - actual (budgetary basis)	\$ -
Reserved for encumbrances	1,169,282
Expenditures for liquidation of prior fiscal year encumbrances and reservations	(897,751)
Accounts payable	39,218
Other liabilities	(209,654)
Excess of revenues and other financing source over expenditures - GAAP basis	<u>\$ 101,095</u>

**Note 5 - Cash and short-term investments**

Cash and short-term investments consist of the following at June 30, 1994:

Cash in State Treasury	\$ 24,915,325
Time certificates of deposit	750,000
Cash in banks	471,887
Cash on hand	<u>17,843</u>
	<u>\$ 26,155,055</u>

The State maintains a cash pool that is available for all funds. Each fund type's portion of this pool (reported as cash in State Treasury) is displayed on the combined balance sheet as cash and short-term investments. Those funds are pooled with funds from other state agencies and departments and deposited in approved financial institutions by the director of the Department of Budget and Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians.

The authority also maintains cash in banks which is held separately from cash in State Treasury. As of June 30, 1994, the carrying amount of total bank deposits was \$471,887 and the corresponding bank balances which are represented were \$533,690. Those deposits not covered by federal deposit insurance are also fully collateralized by government securities held in the name of the State by third party custodians.

**Note 6 - Note receivable**

The note receivable consists of a \$426,100 uncollateralized promissory note receivable from a developer bearing interest at 9 percent. The entire principal balance plus accrued interest are due on January 1, 2010. On January 1, 2010, the authority may be able to acquire certain improvements constructed by the developer. If the authority does not acquire the improvements, the entire principal balance and accrued interest as of January 1, 2010 shall be paid over a period of 15 years in monthly installments necessary to fully amortize the outstanding amount of this note.

**Note 7 - Property and equipment**

A summary of changes in general fixed assets for the year ended June 30, 1994 follows:

	Balance at July 1, 1993	Additions	Transfers	Balance at June 30, 1994
Land	\$ 578,210	\$ 2,472,500	\$ -	\$ 3,050,710
Structures and improvements	20,233,564	-	8,020,144	12,213,420
Equipment, furniture and fixtures	654,510	89,105	-	743,615
Vehicles	6,118	-	-	6,118
Construction in progress	15,708,264	5,692,381	7,280,984	14,119,661
	<u>\$ 37,180,666</u>	<u>\$ 8,253,986</u>	<u>\$ 15,301,128</u>	<u>\$ 30,133,524</u>

**Note 8 - HUD  
collateralized liabilities**

HUD collateralized liabilities consist of the following at June 30, 1994:

U. S. government loans, bearing interest at the existing rates charged to HUD by the U. S. Treasury (6.63% to 10% at June 30, 1994), maturing during the year ending June 30, 1995	\$ 42,185,078
Federal Financing Bank note, due in decreasing annual payments, maturing at various dates through 2016 and bearing interest at 6.6%	10,883,986
USGI, Inc. mortgage note, bearing interest at 7.5%, principal and interest due monthly, maturing January 1, 2018, collateralized by the Banyan Street Manor Project	1,507,248
State of Michigan Department of Treasury mortgage note, bearing interest at 7.5%, principal and interest due monthly, maturing September 2018, collateralized by the Wilikina Apartment Project	3,099,893
Housing bonds payable	<u>21,691,000</u>
	<u>\$ 79,367,205</u>

During the year ended June 30, 1987, the authority was notified by HUD that due to certain provisions of the "Consolidated Omnibus Budget Reconciliation Act of 1985," HUD would no longer be making annual contributions for debt service on the U. S. government loans in anticipation of the pending debt forgiveness described below.

On September 11, 1987, the authority adopted a resolution approving an amendment to its consolidated annual contributions contract with HUD in which outstanding U. S. government loans which meet certain criteria would be forgiven. On August 17, 1988, HUD issued a policy statement stating that debt meeting certain criteria would be forgiven.

As of June 30, 1994, approximately \$42,185,000 of outstanding U. S. government loans meet the criteria to be forgiven by HUD. The authority expects that this debt will be forgiven upon action by HUD.

The authority continues to recognize the outstanding principal balance due on U. S. government loans until such time that the debt is actually forgiven. Related interest is accrued and expensed in the period incurred. Accrued interest directly related to the outstanding U. S. government loans amounted to approximately \$26,658,000 as of June 30, 1994, of which approximately \$3,012,000 was incurred during the current fiscal year. The accrued interest is also expected to be forgiven; accordingly, HUD annual contributions receivable is being recognized to the extent of accrued interest payable at June 30, 1994.

The authority issued housing bonds pursuant to Chapter 356 of the Hawaii Revised Statutes to provide permanent financing for low-income housing projects. These bonds are the obligation of the authority and not of the Federal Low-Rent Program specifically or the State in general. The first five issues are callable after 10 years and the remaining issues are callable after 15 years from the date of issue. The housing bonds require annual level debt service payments and are collateralized by HUD's annual contribution for debt service and the excess of project revenues over related expenses. Housing bonds payable at June 30, 1994 consist of the following:

Bond issue	Issue date	Last Maturity date	Interest rate	Principal balance
3rd	8/1/55	8/1/96	2.375%	\$ 150,000
4th	8/1/57	8/1/98	3.000	221,000
5th	8/1/58	8/1/98	3.500	419,000
6th	8/1/59	8/1/98	3.500	426,000
7th	8/1/61	8/1/02	3.125	180,000
8th	8/1/64	8/1/05	3.375	3,610,000
9th	8/1/64	8/1/05	3.625	730,000
10th	8/1/65	8/1/06	3.625	1,655,000
11th	8/1/66	8/1/07	3.625	930,000
12th	8/1/66	8/1/07	4.500	1,955,000
13th	8/1/68	8/1/09	5.125	1,820,000
14th	8/1/70	8/1/09	5.750	9,595,000
				<u>\$ 21,691,000</u>

The approximate maturities of bonds and notes payable are as follows:

Year ending June 30:	
1995	\$ 43,916,000
1996	1,820,000
1997	1,924,000
1998	1,959,000
1999	2,001,000
Thereafter	<u>27,747,205</u>
	<u>\$ 79,367,205</u>

**Note 9 - Note payable**

The note payable consists of a \$171,327, unsecured promissory note payable to an individual (the former owner of Banyan Street). The entire principal balance plus accrued interest, which accrues at the same rate as the residual receipts funds held by USGI, Inc. (approximately 2.48 percent at June 30, 1994), is due within 45 days of full payment of the 7.5 percent USGI, Inc. mortgage note collateralized by HUD which matures on January 1, 2018 (see note 8).

**Note 10 - Contributed capital**

The contributed capital of the HUD Subsidized Programs in the enterprise funds includes HUD annual contributions for the payment of principal on debt incurred to finance development and modernization of authority-owned housing projects.

**Note 11 - Capital projects fund - revenue recognition**

As discussed in note 2, the authority changed its method of accounting for revenues in the capital projects fund to conform with the State's revenue recognition policy. Effective July 1, 1993, revenues are recognized when funds are appropriated by the State Legislature and allotted by the governor. The cumulative effect of this change in accounting principle of \$14,904,622 is determined as of July 1, 1993 and is reported separately in the capital projects fund in the 1994 combined statement of revenues, expenditures and changes in fund balances - all governmental and fiduciary fund types for the year ended June 30, 1994.

**Note 12 - Enterprise funds - net loss and accumulated deficit**

During the year ended June 30, 1994, the enterprise funds experienced a net loss of approximately \$7,082,000. To a certain extent, this loss is offset by the transfer of depreciation on assets acquired or constructed from grants and contributed capital as reflected in the combined statements of changes in fund equity - proprietary fund types. Depreciation on such assets has reduced contributed capital.

The accumulated deficit for the enterprise funds as of June 30, 1994 approximated \$7,264,000. At June 30, 1994, contributed capital net of the accumulated depreciation on assets acquired or constructed from grants and contributed capital approximated \$100,406,000. This amount is sufficient to offset the accumulated deficit in total fund equity at June 30, 1994.

### **Note 13 - Leases**

#### **Operating leases**

The authority leases land and improvements under sublease agreements expiring at various dates through the year 2040. Future minimum lease rentals under these noncancelable operating leases as of June 30, 1994 are as follows:

Year ending June 30:	
1995	\$ 242,400
1996	242,400
1997	261,500
1998	271,100
1999	271,100
Thereafter	8,033,300
	<u>\$ 9,321,800</u>

#### **Land lease**

Banyan Street entered into a lease agreement which commenced October 1973 with the City and County of Honolulu for the land on which the building is situated and all improvements thereon for a term of 55 years. Banyan Street has the option to purchase the fee simple interest in the land at any time after October 5, 1993 for a specified percentage of the fair market value at the time of purchase. Annual rentals are at a nominal amount for the entire term of the lease. Lease rent has been prepaid for the entire term.

### **Note 14 - Retirement benefits**

#### **Employees' Retirement System**

Substantially all eligible employees of the authority are members of the Employees' Retirement System of the State of Hawaii (system), a cost-sharing multiple-employer public employee retirement plan. The system provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the system who are also covered under social security. Persons employed in positions not covered by social security are precluded from the noncontributory option. The noncontributory option



provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new noncontributory option and receive a refund of previous employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively.

Required employer contributions to the system are based on actuarially determined rates that should provide sufficient resources to pay member pension benefits when due. The funding method used to calculate the total employer contribution required is the frozen initial liability method, and includes amortization of the accrued unfunded liability of pension benefits and post retirement benefits fixed at \$470 million over a period of 28 years beginning July 1, 1987. The State's policy is to fund its required contribution annually.

The authority's payroll for employees covered by the plan for the year ended June 30, 1994 was approximately \$10,648,000. The payroll for all the authority's employees for the same year was \$11,081,000. Contributions made to the system by the authority and employees for the year ended June 30, 1994 were \$979,000 and \$144,000, respectively. The contributions represented 9.2 percent and 1.4 percent of covered payroll, respectively.

Ten-year historical trend information showing the system's progress in accumulating sufficient assets to pay benefits when due is presented in the system's annual report.

Measurement of assets and actuarial valuations are made for the entire system and are not separately computed for individual participating employers such as the authority. The disclosures required by GASB Statement No. 5 are presented in the system's Comprehensive Annual Financial Report (CAFR). The following data are provided as of June 30, 1993 for the entire system from the disclosures contained in the CAFR for the year then ended, the most recent available information:

Pension benefit obligation	\$ 6,546,299,200
Net assets available for benefits (at cost)	<u>4,979,438,201</u>
Unfunded pension benefit obligation	<u>\$ 1,566,860,999</u>

The pension benefit obligation is a standardized measure of the present value of credited projected pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date.

The entire system's actuarially determined employer contribution requirements were met as of June 30, 1994.

#### **Post-retirement health care and life insurance benefits**

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired state employees. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued. The authority's general fund share of the post-retirement benefits expense for the year ended June 30, 1994 has not been separately computed and is not reflected in the authority's general fund financial statements. The authority's enterprise funds' and Section 8 special revenue funds' share of the post-retirement health care and life insurance benefits expense for the year ended June 30, 1994 was approximately \$229,000 and is included in those funds' financial statements.

#### ***Note 15 - Commitments and other contingencies***

##### **Accumulated sick leave pay**

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a state employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System. Accumulated sick leave at June 30, 1994 aggregated approximately \$3,407,000.

##### **Deferred compensation plan**

In 1983, the State established a deferred compensation plan which enables state employees to defer a portion of their compensation. The 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.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject to the claims of the State's general creditors. Participants' rights under the plan are equal to those of the State's general creditors in an amount equal to the fair market value of the deferred account balance for each participant.

### **Insurance**

The authority has taken out insurance policies for worker's compensation and general liability regarding tenants in projects. The authority is fully covered for workers' compensation claims and is covered up to \$1,000,000 for general liability claims for tenants in projects.

All other insurance coverages are maintained at the state level. The State is essentially self-insured for all insurance perils.

### **Litigation**

The State is the defendant in lawsuits seeking damages allegedly related to state housing projects and housing construction contracts. No provision for any liability which may result from these lawsuits has been made in the authority's combined financial statements since any such liabilities are normally paid from the State's General Fund, should the State be found liable.

### **Hurricane Iniki**

In September 1992, the authority's projects on the Island of Kauai suffered significant damage from Hurricane Iniki. The authority's management estimates that the total costs to repair these damages, including certain administrative and relocation costs, are approximately \$20,640,000. In the year ended June 30, 1994, the authority, which is insured under the State's \$150,000,000 property insurance policy covering all state properties (less a \$250,000 deductible), received approximately \$1,246,000 of insurance proceeds from the State. The authority also received approximately \$111,000 from the Federal Emergency Management Agency for reimbursement of hurricane related costs. HUD will reimburse approximately \$15,762,000 to the authority for the hurricane damages. The authority received approximately \$11,000,000 of this amount as of June 30, 1994, and has accrued the remaining \$4,762,000 as due from HUD on the combined balance sheet as of June 30, 1994. As of June 30, 1994, the authority had outstanding contract commitments with various consultants and general contractors in the amount of \$9,326,000.

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STATE OF HAWAII  
HAWAII HOUSING AUTHORITY  
Combined Balance Sheet - All Fund Types and Account Groups  
June 30, 1994

Assets	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Total (memorandum only)
	General	Special revenue	Capital projects	Enterprise	Internal service	Trust and agency	General fixed assets	General long-term obligations	
Cash and short-term investments (note 5)	\$ 1,378,936	\$ 4,301,211	\$ 7,623,915	\$ 10,703,335	\$ 559,796	\$ 1,587,862	\$ -	\$ -	\$ 26,155,055
Receivables:									
HUD annual contributions (note 8)	-	-	-	27,534,936	-	-	-	-	27,534,936
Tenant, net of allowance of \$1,123,900	-	-	-	376,870	-	-	-	-	376,870
Other	-	-	-	262,178	-	-	-	-	262,178
Due from other funds	1,229	1,530,068	-	3,771,389	-	-	-	-	5,302,686
Due from HUD (note 15)	-	376,556	-	4,761,587	-	-	-	-	5,138,143
Note receivable (note 6)	-	-	-	426,100	-	-	-	-	426,100
Investment	-	-	-	879,066	-	-	-	-	879,066
Tenant security deposits	-	-	-	30,653	-	-	-	-	30,653
Restricted deposits and funded reserves	-	-	-	2,829,890	-	-	-	-	2,829,890
Inventory	-	-	-	430,834	-	-	-	-	430,834
Prepayments to landlords	-	1,167,852	-	-	-	-	-	-	1,167,852
Deferred costs	-	-	-	128,749	-	-	-	-	128,749
Other	-	31,000	-	40,421	-	-	-	-	71,421
Property and equipment (note 7):									
Land	-	-	-	21,942,082	-	-	3,050,710	-	24,992,792
Structures and improvements	-	-	-	213,935,720	-	-	12,213,420	-	226,149,140
Equipment, furniture and fixtures	-	-	-	6,174,268	642,111	-	743,615	-	7,559,994
Vehicles	-	-	-	-	502,096	-	6,118	-	508,214
Construction in progress	-	-	-	27,697,289	-	-	14,119,661	-	41,816,950
Less accumulated depreciation and amortization	-	-	-	269,749,359	1,144,207	-	30,133,524	-	301,027,090
Net property and equipment	-	-	-	105,625,245	858,174	-	-	-	106,483,419
Amount to be provided for retirement of general long-term obligations	-	-	-	164,124,114	286,033	-	30,133,524	-	194,543,671
	-	-	-	-	-	-	-	269,145	269,145
	\$ 1,380,165	\$ 7,406,687	\$ 7,623,915	\$ 216,300,122	\$ 845,829	\$ 1,587,862	\$ 30,133,524	\$ 269,145	\$ 265,547,249

(Continued)

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combined Balance Sheet - All Fund Types and Account Groups, Continued

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Type	Account Groups		Total
	General	Special revenue	Capital projects	Enterprise	Internal service	Trust and agency	General fixed assets	long-term obligations	(memorandum only)
<b>Liabilities and Fund Equity</b>									
<b>Liabilities:</b>									
Accounts payable	\$ -	\$ 271,541	\$ -	\$ 684,955	\$ -	\$ -	\$ -	\$ -	\$ 956,496
Accrued expenses:									
Interest (note 8)	-	-	-	27,585,598	-	-	-	-	27,585,598
Wages and employee benefits	-	-	-	1,214,774	-	-	-	269,145	1,483,919
Other	-	-	-	435,272	-	-	-	-	435,272
Reserve for Hurricane Iniki repairs	-	-	-	8,052,091	-	-	-	-	8,052,091
Due to HUD	-	728,233	-	-	-	-	-	-	728,233
Due to other funds	-	1,573,426	-	3,729,260	-	-	-	-	5,302,686
Security deposits	-	-	-	840,364	-	-	-	-	840,364
HUD collateralized liabilities (note 8)	-	-	-	79,367,205	-	-	-	-	79,367,205
Note payable (note 9)	-	-	-	171,327	-	-	-	-	171,327
Other	209,654	-	333,243	1,078,070	-	1,520	-	-	1,622,487
<b>Total liabilities</b>	<b>209,654</b>	<b>2,573,200</b>	<b>333,243</b>	<b>123,158,916</b>	<b>-</b>	<b>1,520</b>	<b>-</b>	<b>269,145</b>	<b>126,545,678</b>
<b>Fund equity:</b>									
Investment in general fixed assets	-	-	-	-	-	-	30,133,524	-	30,133,524
Contributed capital (note 10):									
Federal	-	-	-	132,627,763	111,926	-	-	-	132,739,689
State of Hawaii	-	-	-	55,994,228	298,655	-	-	-	56,292,883
Other	-	-	-	423,900	-	-	-	-	423,900
<b>Less depreciation and amortization on property and equipment acquired or constructed from grants and contributions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>189,045,891</b>	<b>410,581</b>	<b>-</b>	<b>30,133,524</b>	<b>-</b>	<b>219,589,996</b>
<b>Retained earnings (accumulated deficit) (note 12)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7,264,401)</b>	<b>793,489</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6,470,912)</b>
<b>Fund balances:</b>									
Reserved for encumbrances	1,169,282	-	7,249,011	-	-	-	-	-	8,418,293
Reserved for homeless project expenditures	-	-	-	-	-	1,586,342	-	-	1,586,342
Unreserved	1,229	4,833,487	41,661	-	-	-	-	-	4,876,377
<b>Total fund equity</b>	<b>1,170,511</b>	<b>4,833,487</b>	<b>7,290,672</b>	<b>93,141,206</b>	<b>845,829</b>	<b>1,586,342</b>	<b>30,133,524</b>	<b>-</b>	<b>139,001,571</b>
<b>Commitments and contingencies (notes 13, 14 and 15)</b>									
	<b>\$ 1,380,165</b>	<b>\$ 7,406,687</b>	<b>\$ 7,623,915</b>	<b>\$ 216,300,122</b>	<b>\$ 845,829</b>	<b>\$ 1,587,862</b>	<b>\$ 30,133,524</b>	<b>\$ 269,145</b>	<b>\$ 265,547,249</b>

See accompanying notes to combined financial statements.

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combined Statement of Revenues, Expenditures and Changes in  
Fund Balances - All Governmental and Fiduciary Fund Types

Year ended June 30, 1994

	Governmental Fund Types			Fiduciary	Total
	General	Special revenue	Capital projects	Fund Type Expendable Trusts	(memorandum only)
<b>Revenues:</b>					
Intergovernmental - federal:					
HUD annual contributions	\$ -	\$ 20,013,369	\$ -	-	\$ 20,013,369
Other contributions	-	374,156	-	-	374,156
State allotted appropriations	9,256,058	-	6,002,642	-	15,258,700
Interest and other	-	148,280	-	-	148,280
<b>Total revenues</b>	<u>9,256,058</u>	<u>20,535,805</u>	<u>6,002,642</u>	<u>-</u>	<u>35,794,505</u>
Other financing source - operating transfer in	13,663	-	-	-	13,663
<b>Total revenues and other financing source</b>	<u>9,269,721</u>	<u>20,535,805</u>	<u>6,002,642</u>	<u>-</u>	<u>35,808,168</u>
<b>Expenditures:</b>					
Housing assistance payments	2,885,351	17,250,355	-	-	20,135,706
Capital outlays	45,987	-	6,460,967	-	6,506,954
Homeless services	3,908,387	-	-	-	3,908,387
Personal services	579,745	1,194,673	-	-	1,774,418
Security	475,365	801,037	-	-	1,276,402
Administration	672,678	164,064	-	-	836,742
Repairs and maintenance	585,621	251,074	-	-	836,695
Other	15,492	120,342	-	-	135,834
<b>Total expenditures</b>	<u>9,168,626</u>	<u>19,781,545</u>	<u>6,460,967</u>	<u>-</u>	<u>35,411,138</u>
Excess of revenues and other financing source over (under) expenditures	101,095	754,260	(458,325)	-	397,030
Cumulative effect at July 1, 1993 of change in accounting principle (note 11)	-	-	(14,904,622)	-	(14,904,622)
Excess of revenues and other financing source over (under) expenditures and cumulative effect of change in accounting principle	101,095	754,260	(15,362,947)	-	(14,507,592)
Fund balances at June 30, 1993	1,069,416	4,079,227	22,653,619	1,336,342	29,138,604
Residual equity transfer in from other state agency	-	-	-	250,000	250,000
Fund balances at June 30, 1994	<u>\$ 1,170,511</u>	<u>\$ 4,833,487</u>	<u>\$ 7,290,672</u>	<u>\$ 1,586,342</u>	<u>\$ 14,881,012</u>

See accompanying notes to combined financial statements.

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combined Statement of Revenues and Expenditures -  
Budget and Actual (Budgetary Basis)-General Fund

Year ended June 30, 1994

	<u>General Fund</u>		
	<u>Budget</u>	<u>Budgetary Actual</u>	<u>Variance favorable (unfavorable)</u>
Revenues - state allotted appropriations	\$ <u>9,484,152</u>	\$ <u>9,256,058</u>	\$ <u>(228,094)</u>
Expenditures:			
Homeless Services	4,966,531	4,889,309	77,222
Rental Assistance Services	3,370,621	3,248,137	122,484
Rental Housing Services	997,000	982,275	14,725
Teacher Housing	<u>150,000</u>	<u>150,000</u>	<u>-</u>
Total expenditures	<u>9,484,152</u>	<u>9,269,721</u>	<u>214,431</u>
Excess of expenditures over revenues	-	(13,663)	(13,663)
Other financing source - operating transfers in	<u>-</u>	<u>13,663</u>	<u>13,663</u>
Excess of revenues and other financing source over expenditures	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

See accompanying notes to combined financial statements.



STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combined Statement of Revenues and Expenses -  
Proprietary Fund Types

Year ended June 30, 1994

	Enterprise	Internal service	Total (memorandum only)
Operating revenues:			
Rental	\$ 18,804,702	\$ 134,341	\$ 18,939,043
Other	<u>1,170,256</u>	<u>8</u>	<u>1,170,264</u>
	<u>19,974,958</u>	<u>134,349</u>	<u>20,109,307</u>
Operating expenses:			
Personal services	8,845,138	-	8,845,138
Depreciation and amortization	8,405,976	100,992	8,506,968
Utilities	6,298,910	-	6,298,910
Repairs and maintenance	3,285,210	-	3,285,210
Insurance	816,370	-	816,370
Payments in lieu of taxes	551,333	-	551,333
Other	<u>2,438,458</u>	<u>193</u>	<u>2,438,651</u>
	<u>30,641,395</u>	<u>101,185</u>	<u>30,742,580</u>
Operating income (loss)	<u>(10,666,437)</u>	<u>33,164</u>	<u>(10,633,273)</u>
Nonoperating revenues and expenses:			
Interest expense (note 8)	(5,070,947)	-	(5,070,947)
HUD accrued contribution for interest (note 8)	4,646,586	-	4,646,586
HUD operating subsidy	3,669,238	-	3,669,238
Insurance proceeds	111,003	-	111,003
Interest income	<u>228,415</u>	<u>14,786</u>	<u>243,201</u>
	<u>3,584,295</u>	<u>14,786</u>	<u>3,599,081</u>
Net income (loss)	\$ <u>(7,082,142)</u>	\$ <u>47,950</u>	\$ <u>(7,034,192)</u>

See accompanying notes to combined financial statements.

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY  
Combined Statement of Fund Equity -  
Proprietary Fund Types

Year ended June 30, 1994

	Enterprise		Internal Service		Total
	Contributed capital	Accumulated deficit	Contributed capital	Retained earnings	(memorandum only)
Balances at June 30, 1993	\$ 73,495,752	\$ (8,588,235)	\$ 64,907,517	\$ 78,254	\$ 65,705,396
Net income (loss)	-	(7,082,142)	(7,082,142)	47,950	(7,034,192)
Transfer of depreciation and amortization on property and equipment acquired or constructed from grants and contributions to contributed capital	(8,405,976)	8,405,976	-	(25,914)	-
Contributions:					
Federal	140,170	-	140,170	-	140,170
HUD annual contributions (note 10)	19,430,076	-	19,430,076	-	19,430,076
State of Hawaii	15,745,585	-	15,745,585	-	15,745,585
Balances at June 30, 1994	\$ 100,405,607	\$ (7,264,401)	\$ 93,141,206	\$ 793,489	\$ 93,987,035
			\$ 52,340	\$ 845,829	

See accompanying notes to combined financial statements.

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combined Statement of Cash Flows -  
Proprietary Fund Types

Year ended June 30, 1994

	<u>Enterprise</u>	<u>Internal service</u>	Total (memorandum only)
Cash flows from operating activities:			
Operating income (loss)	\$ (10,666,437)	\$ 33,164	\$ (10,633,273)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation and amortization	8,405,976	100,992	8,506,968
Insurance proceeds	111,003	-	111,003
Loss on disposal of fixed assets	-	187	187
HUD operating subsidy	3,669,238	-	3,669,238
Provision for uncollectible accounts	181,952	-	181,952
Decrease (increase) in assets:			
Tenant and other receivables	(318,317)	-	(318,317)
Due from other funds	108,898	4,538	113,436
Due from State of Hawaii	36,128	-	36,128
Due from HUD	11,000,000	-	11,000,000
Inventory	50,922	-	50,922
Other assets	123,616	-	123,616
Decrease in liabilities:			
Accounts payable	(708,614)	-	(708,614)
Accrued expenses	(51,363)	-	(51,363)
Reserve for Hurricane Iniki repairs	(9,513,566)	-	(9,513,566)
Due to other funds	(38,680)	-	(38,680)
Other liabilities	(685,659)	-	(685,659)
Total adjustments	<u>12,371,534</u>	<u>105,717</u>	<u>12,477,251</u>
Net cash provided by operating activities	<u>1,705,097</u>	<u>138,881</u>	<u>1,843,978</u>
Cash flows from capital and related financing activities:			
Payments for capital acquisition	(8,639,095)	(98,339)	(8,737,434)
Principal payments on mortgage loan	(70,921)	-	(70,921)
Payments of interest	(397,034)	-	(397,034)
Receipts from capital grants	<u>10,044,743</u>	<u>-</u>	<u>10,044,743</u>
Net cash provided by (used in) capital and related financing activities	\$ <u>937,693</u>	\$ <u>(98,339)</u>	\$ <u>839,354</u>

(Continued)

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combined Statement of Cash Flows -  
Proprietary Fund Types, Continued

	<u>Enterprise</u>	<u>Internal service</u>	<u>Total (memorandum only)</u>
Cash flows from investing activities:			
Cash transfer from purchase of project	\$ 91,617	\$ -	\$ 91,617
Receipts of interest	228,415	14,916	243,331
Issuance of note receivable	(426,100)	-	(426,100)
Purchase of investment	(879,066)	-	(879,066)
Net increase in restricted deposits and funded reserves	<u>(437,569)</u>	<u>-</u>	<u>(437,569)</u>
Net cash provided by (used in) investing activities	<u>(1,422,703)</u>	<u>14,916</u>	<u>(1,407,787)</u>
Net increase in cash and cash equivalents	1,220,087	55,458	1,275,545
Cash and cash equivalents at June 30, 1993	<u>9,483,248</u>	<u>504,338</u>	<u>9,987,586</u>
Cash and cash equivalents at June 30, 1994	\$ <u>10,703,335</u>	\$ <u>559,796</u>	\$ <u>11,263,131</u>

Schedule of noncash investing, capital and financing activities:

During the current fiscal year, the Federal Low-Rent Program incurred \$4,646,586 of interest expense on HUD collateralized debt of which \$1,798,074 was paid by HUD. The remaining balance of the interest expense is expected to be forgiven by HUD (see note 8). The Federal Low-Rent Program also had a reduction in HUD collateralized debt of \$10,587,705 which was retired by HUD.

During the current fiscal year, the enterprise funds acquired \$15,885,755 of certain capital assets that were contributed to the funds by federal and state agencies.

See accompanying notes to combined financial statements.

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Balance Sheet - Special Revenue Funds

June 30, 1994

	Section 8				Drug Elimination/ Trafficking Programs	Total
	Existing	New Construction Haili	Housing Voucher Program	New Construction		
<b>Assets</b>						
Cash and short-term investments	\$ 2,498,774	\$ 101,019	\$ 444,266	\$ 1,204,127	\$ 53,025	\$ 4,301,211
Due from other funds	1,328,068	-	160,000	22,000	20,000	1,530,068
Due from HUD	362,236	-	-	14,320	-	376,556
Prepayments to landlords	1,001,466	-	166,386	-	-	1,167,852
Other	<u>31,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,000</u>
	<u>\$ 5,221,544</u>	<u>\$ 101,019</u>	<u>\$ 770,652</u>	<u>\$ 1,240,447</u>	<u>\$ 73,025</u>	<u>\$ 7,406,687</u>
<b>Liabilities and Fund Balances</b>						
Liabilities:						
Accounts payable	271,541	-	-	-	-	271,541
Due to HUD	403,197	14,572	221,636	88,828	-	728,233
Due to other funds	<u>1,370,701</u>	<u>1,494</u>	<u>190,136</u>	<u>9,133</u>	<u>1,962</u>	<u>1,573,426</u>
Total liabilities	2,045,439	16,066	411,772	97,961	1,962	2,573,200
Fund balances - Unreserved	<u>3,176,105</u>	<u>84,953</u>	<u>358,880</u>	<u>1,142,486</u>	<u>71,063</u>	<u>4,833,487</u>
	<u>\$ 5,221,544</u>	<u>\$ 101,019</u>	<u>\$ 770,652</u>	<u>\$ 1,240,447</u>	<u>\$ 73,025</u>	<u>\$ 7,406,687</u>

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Statement of Revenues, Expenditures and Changes  
in Fund Balances - Special Revenue Funds

Year ended June 30, 1994

	Section 8				Drug Elimination/ Trafficking Programs	Total
	Existing	New Construction Haili	Housing Voucher Program	New Construction		
Revenues:						
Intergovernmental - federal:						
HUD annual contributions	\$ 13,182,372	\$ 286,964	\$ 2,226,387	\$ 3,474,993	\$ 842,653	\$ 20,013,369
Other contributions	-	7,718	-	350,924	15,514	374,156
Interest and other	<u>98,002</u>	<u>3,926</u>	<u>7,185</u>	<u>37,935</u>	<u>1,232</u>	<u>148,280</u>
Total revenues	<u>13,280,374</u>	<u>298,608</u>	<u>2,233,572</u>	<u>3,863,852</u>	<u>859,399</u>	<u>20,535,805</u>
Expenditures:						
Housing assistance payments	11,591,017	277,541	1,963,512	3,418,285	-	17,250,355
Personal services	915,103	10,657	200,185	68,728	-	1,194,673
Security	-	-	-	-	801,037	801,037
Administration	101,648	2,271	22,119	12,068	25,958	164,064
Repairs and maintenance	188,312	1,140	22,660	6,797	32,165	251,074
Other	<u>84,990</u>	<u>1,283</u>	<u>16,413</u>	<u>8,162</u>	<u>9,494</u>	<u>120,342</u>
Total expenditures	<u>12,881,070</u>	<u>292,892</u>	<u>2,224,889</u>	<u>3,514,040</u>	<u>868,654</u>	<u>19,781,545</u>
Excess of revenues over (under) expenditures	399,304	5,716	8,683	349,812	(9,255)	754,260
Fund balances at June 30, 1993	<u>2,776,801</u>	<u>79,237</u>	<u>350,197</u>	<u>792,674</u>	<u>80,318</u>	<u>4,079,227</u>
Fund balances at June 30, 1994	<u>\$ 3,176,105</u>	<u>\$ 84,953</u>	<u>\$ 358,880</u>	<u>\$ 1,142,486</u>	<u>\$ 71,063</u>	<u>\$ 4,833,487</u>

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Balance Sheet - Enterprise Funds

June 30, 1994

	Housing Revolving Fund	Teacher Housing Revolving Fund	Housing for Elders Revolving Fund	Federal Low-Rent Program	Banyan Street Manor Project	Wilikina Apartment Project	Total
Cash and cash equivalents	\$ 246,211	\$ 327,979	\$ 766,609	\$ 8,508,036	\$ 257,528	\$ 596,972	\$ 10,703,335
Receivables:							
HUD annual contributions	-	-	-	27,534,936	-	-	27,534,936
Tenant	49,409	18,984	14,688	270,020	8,403	15,366	376,870
Other	24,331	360	240	232,565	2,699	1,983	262,178
Due from other funds	125,000	20,000	45,000	3,581,389	-	-	3,771,389
Due from HUD	-	-	-	4,761,587	-	-	4,761,587
Note receivable	426,100	-	-	-	-	-	426,100
Investment	-	-	-	879,066	-	-	879,066
Tenant security deposits	-	-	-	-	12,259	18,394	30,653
Restricted deposits and funded reserves	-	-	-	-	1,185,998	1,643,892	2,829,890
Inventory	-	-	-	430,834	-	-	430,834
Deferred costs	-	-	-	31,425	97,324	-	128,749
Other	-	-	28,000	12,383	38	-	40,421
Property and equipment:							
Land	139,077	6,600	2,375,751	17,905,781	-	1,514,873	21,942,082
Structures and improvements	17,484,221	1,564,553	23,306,700	160,993,101	3,689,600	6,897,545	213,935,720
Equipment, furniture and fixtures	478,416	155,318	66,635	4,925,676	157,489	390,734	6,174,268
Construction in progress	-	-	-	27,697,289	-	-	27,697,289
Less accumulated depreciation and amortization	18,101,714	1,726,471	25,749,086	211,521,847	3,847,089	8,803,152	269,749,359
Net property and equipment	6,523,568	246,285	1,218,363	96,248,746	1,011,997	376,286	105,625,245
	11,578,146	1,480,186	24,530,723	115,273,101	2,835,092	8,426,866	164,124,114
	<u>\$ 12,449,197</u>	<u>\$ 1,847,509</u>	<u>\$ 25,385,260</u>	<u>\$ 161,515,342</u>	<u>\$ 4,399,341</u>	<u>\$ 10,703,473</u>	<u>\$ 216,300,122</u>

(Continued)

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Balance Sheet - Enterprise Funds, Continued

<u>Liabilities and Fund Equity</u>	<u>Housing Revolving Fund</u>	<u>Teacher Housing Revolving Fund</u>	<u>Housing for Elders Revolving Fund</u>	<u>Federal Low-Rent Program</u>	<u>Banyan Street Manor Project</u>	<u>Wilikina Apartment Project</u>	<u>Total</u>
<b>Liabilities:</b>							
Accounts payable	\$ -	\$ -	\$ -	\$ 666,041	\$ 1,004	\$ 17,910	\$ 684,955
Accrued expenses:							
Interest	-	-	-	27,534,936	31,287	19,375	27,585,598
Wages and employee benefits	133,224	3,227	40,123	1,037,109	1,091	-	1,214,774
Other	32,481	-	11,542	391,249	-	-	435,272
Reserve for Hurricane Iniki repairs	-	-	-	8,052,091	-	-	8,052,091
Due to other funds	-	-	-	3,729,260	-	-	3,729,260
Security deposits	80,750	16,589	60,345	652,027	12,259	18,394	840,364
HUD collateralized liabilities	-	-	-	74,760,064	1,507,248	3,099,893	79,367,205
Note payable	-	-	-	-	171,327	-	171,327
Other	2,211	-	111	1,072,631	3,117	-	1,078,070
<b>Total liabilities</b>	<u>248,666</u>	<u>19,816</u>	<u>112,121</u>	<u>117,895,408</u>	<u>1,727,333</u>	<u>3,155,572</u>	<u>123,158,916</u>
<b>Fund equity:</b>							
Contributed capital:							
Federal	102,724	-	-	132,525,039	-	-	132,627,763
State of Hawaii	17,658,165	1,894,465	25,720,896	1,361,949	2,149,605	7,209,148	55,994,228
Other	299,247	124,653	-	-	-	-	423,900
Less depreciation and amortization on property and equipment acquired or constructed from grants and contributions	18,060,136	2,019,118	25,720,896	133,886,988	2,149,605	7,209,148	189,045,891
Retained earnings (accumulated deficit)	<u>6,685,021</u>	<u>396,307</u>	<u>1,216,002</u>	<u>79,859,160</u>	<u>107,508</u>	<u>376,286</u>	<u>88,640,284</u>
	11,375,115	1,622,811	24,504,894	54,027,828	2,042,097	6,832,862	100,405,607
Retained earnings (accumulated deficit)	<u>825,416</u>	<u>204,882</u>	<u>768,245</u>	<u>(10,407,894)</u>	<u>629,911</u>	<u>715,039</u>	<u>(7,264,401)</u>
<b>Total fund equity</b>	<u>12,200,531</u>	<u>1,827,693</u>	<u>25,273,139</u>	<u>43,619,934</u>	<u>2,672,008</u>	<u>7,547,901</u>	<u>93,141,206</u>
	<u>\$ 12,449,197</u>	<u>\$ 1,847,509</u>	<u>\$ 25,385,260</u>	<u>\$ 161,515,342</u>	<u>\$ 4,399,341</u>	<u>\$ 10,703,473</u>	<u>\$ 216,300,122</u>



STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Statement of Revenues and Expenses - Enterprise Funds

Year ended June 30, 1994

	Housing Revolving Fund	Teacher Housing Revolving Fund	Housing for Elders Revolving Fund	Federal Low-Rent Program	Banyan Street Manor Project	Wilkina Apartment Project	Total
Operating revenues:							
Rental	\$ 1,989,093	\$ 295,752	\$ 1,041,135	\$ 13,686,732	\$ 522,884	\$ 1,269,106	\$ 18,804,702
Other	<u>672,349</u>	<u>840</u>	<u>28,143</u>	<u>437,400</u>	<u>15,540</u>	<u>15,984</u>	<u>1,170,256</u>
	2,661,442	296,592	1,069,278	14,124,132	538,424	1,285,090	19,974,958
Operating expenses:							
Personal services	1,118,510	65,769	191,487	7,326,348	51,646	91,378	8,845,138
Depreciation and amortization	575,928	52,049	593,315	6,700,890	107,508	376,286	8,405,976
Utilities	668,360	5,830	265,841	5,271,208	26,027	61,644	6,298,910
Repairs and maintenance	218,093	35,401	257,901	2,677,801	27,724	68,290	3,285,210
Insurance	91,204	5,698	28,659	683,384	-	7,425	816,370
Payments in lieu of taxes	-	-	-	551,333	-	-	551,333
Other	<u>358,247</u>	<u>31,832</u>	<u>239,714</u>	<u>1,657,531</u>	<u>39,970</u>	<u>111,164</u>	<u>2,438,458</u>
	3,030,342	196,579	1,576,917	24,868,495	252,875	716,187	30,641,395
Operating income (loss)	(368,900)	100,013	(507,639)	(10,744,363)	285,549	568,903	(10,666,437)
Nonoperating revenues and expenses:							
Interest expense	-	-	-	(4,646,586)	(150,904)	(273,457)	(5,070,947)
HUD accrued contribution for interest	-	-	-	4,646,586	-	-	4,646,586
HUD operating subsidy	-	-	-	3,669,238	-	-	3,669,238
Insurance proceeds	-	-	-	111,003	-	-	111,003
Interest income	<u>22,476</u>	<u>2,769</u>	<u>12,392</u>	<u>118,778</u>	<u>28,693</u>	<u>43,307</u>	<u>228,415</u>
	22,476	2,769	12,392	3,899,019	(122,211)	(230,150)	3,584,295
Net income (loss)	\$ (346,424)	\$ 102,782	\$ (495,247)	\$ (6,845,344)	\$ 163,338	\$ 338,753	\$ (7,082,142)

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Statement of Fund Equity - Enterprise Funds

Year ended June 30, 1994

	Contributed Capital						Retained Earnings (Accumulated Deficit)							
	Housing Revolving Fund	Teacher Housing Revolving Fund	Housing for Elders Revolving Fund	Federal Low-Rent Program	Banyan Street Manor Project	Waikana Apartment Project	Total	Housing Revolving Fund	Teacher Housing Revolving Fund	Housing for Elders Revolving Fund	Federal Low-Rent Program	Banyan Street Manor Project	Waikana Apartment Project	Total
Balances at June 30, 1993	\$ 4,143,541	\$ 1,547,937	\$ 25,098,209	\$ 40,556,440	\$ 2,149,605	\$ -	\$ 73,495,752	\$ 595,912	\$ 50,051	\$ 670,177	\$ (10,263,440)	\$ 359,065	\$ -	\$ (8,588,235)
Net income (loss)	-	-	-	-	-	-	-	(346,424)	102,782	(495,247)	(6,845,244)	163,338	338,753	(7,082,142)
Transfer of depreciation and amortization on property and equipment acquired or constructed from grants and contributions to contributed capital	(575,928)	(52,049)	(593,315)	(6,700,890)	(107,508)	(376,286)	(8,405,976)	575,928	52,049	593,315	6,700,890	107,508	376,286	8,405,976
Contributions:														
Federal	-	-	-	140,170	-	-	140,170	-	-	-	-	-	-	-
HUD annual contributions	-	-	-	19,430,076	-	-	19,430,076	-	-	-	-	-	-	-
State of Hawaii	7,807,502	126,903	-	602,032	-	7,209,148	15,745,585	-	-	-	-	-	-	-
Balances at June 30, 1994	\$ 11,375,115	\$ 1,622,811	\$ 24,504,894	\$ 54,027,828	\$ 2,042,097	\$ 6,832,862	\$ 100,405,607	\$ 825,416	\$ 204,882	\$ 768,245	\$ (10,407,854)	\$ 629,911	\$ 715,039	\$ (7,264,401)

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Statement of Cash Flows - Enterprise Funds

Year ended June 30, 1994

	Housing Revolving Fund	Teacher Housing Revolving Fund	Housing for Elders Revolving Fund	Federal Low-Rent Program	Banyan Street Manor Project	Wilikina Apartment Project	Total
Cash flows from operating activities:							
Operating income (loss)	\$ (368,900)	\$ 100,013	\$ (507,639)	\$ (10,744,363)	\$ 285,549	\$ 568,903	\$ (10,666,437)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation and amortization	575,928	52,049	593,315	6,700,890	107,508	376,286	8,405,976
Insurance proceeds	-	-	-	111,003	-	-	111,003
HUD operating subsidy	-	-	-	3,669,238	-	-	3,669,238
Provision for uncollectible accounts	21,165	-	-	129,787	-	31,000	181,952
Decrease (increase) in assets:							
Tenant and other receivables	(20,907)	(7,831)	(11,712)	(241,767)	997	(37,097)	(318,317)
Due from other funds	16,060	-	-	92,838	-	-	108,898
Due from State of Hawaii	-	-	-	36,128	-	-	36,128
Due from HUD	-	-	-	11,000,000	-	-	11,000,000
Inventory	-	-	-	50,922	-	-	50,922
Other assets	-	-	63	119,569	3,984	-	123,616
Increase (decrease) in liabilities:							
Accounts payable	-	-	-	(713,006)	(4,283)	8,675	(708,614)
Accrued expenses	(14,182)	(21,098)	(4,768)	(10,953)	(362)	-	(51,363)
Reserve for Hurricane Iniki repairs	-	-	-	(9,513,566)	-	-	(9,513,566)
Due to other funds	(16,060)	-	-	(22,620)	-	-	(38,680)
Other liabilities	12,542	16,589	50,331	(733,866)	98	(31,353)	(685,659)
Total adjustments	574,546	39,709	627,229	10,674,597	107,942	347,511	12,371,534
Net cash provided by (used in) operating activities	\$ 205,646	\$ 139,722	\$ 119,590	\$ (69,766)	\$ 393,491	\$ 916,414	\$ 1,705,097

(Continued)

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Statement of Cash Flows - Enterprise Funds, Continued

	Housing Revolving Fund	Teacher Housing Revolving Fund	Housing for Elders Revolving Fund	Federal Low-Rent Program	Banyan Street Manor Project	Wilikina Apartment Project	Total
Cash flows from capital and related financing activities:							
Payments for capital acquisition	\$ (2,843)	\$ -	\$ (18,743)	\$ (8,603,146)	\$ (1,380)	\$ (12,983)	\$ (8,639,095)
Principal payments on mortgage loan	-	-	-	-	(22,475)	(48,446)	(70,921)
Payments of interest	-	-	-	-	(129,178)	(267,856)	(397,034)
Receipts from capital grants	-	-	-	10,044,743	-	-	10,044,743
Net cash provided by (used in) capital and related financing activities	(2,843)	-	(18,743)	1,441,597	(153,033)	(329,285)	937,692
Cash flows from investing activities:							
Cash transfer from purchase of project	-	-	-	-	-	91,617	91,617
Receipts of interest	22,476	2,769	12,392	118,778	28,693	43,307	228,415
Issuance of note receivable	(426,100)	-	-	-	-	-	(426,100)
Purchase of investment	-	-	-	(879,066)	-	-	(879,066)
Net increase in restricted deposits and funded reserves	-	-	-	-	(312,488)	(125,081)	(437,569)
Net cash provided by (used in) investing activities	(403,624)	2,769	12,392	(760,288)	(283,795)	9,843	(1,422,703)
Net increase (decrease) in cash and cash equivalents	(200,821)	142,491	113,239	611,543	(43,337)	596,972	1,220,087
Cash and cash equivalents at June 30, 1993	447,032	185,488	653,370	7,896,493	300,865	-	9,483,248
Cash and cash equivalents at June 30, 1994	\$ 246,211	\$ 327,979	\$ 766,609	\$ 8,508,036	\$ 257,528	\$ 596,972	\$ 10,703,335

(Continued)

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Statement of Cash Flows - Enterprise Funds, Continued

Schedule of noncash investing, capital and financing activities:

During the current fiscal year, the Federal Low-Rent Program incurred \$4,646,586 of interest expense on HUD collateralized debt of which \$1,798,074 was paid by HUD. The remaining balance of the interest expense is expected to be forgiven by HUD. The Federal Low-Rent Program also had a reduction in HUD collateralized debt of \$10,587,705 which was retired by HUD.

During the current fiscal year, the Housing Revolving Fund, Federal Low-Rent Program and the Teacher Housing Revolving Fund acquired \$7,807,502, \$602,032, and \$126,903, respectively, of certain capital assets that were contributed to the Funds by the Capital Projects Fund. The Federal Low-Rent Program also acquired \$140,170 of equipment that was contributed by the Section 8 Existing Fund.

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Balance Sheet - Internal Service Funds

June 30, 1994

<u>Assets</u>	<u>Equipment rental</u>	<u>Vehicle rental</u>	<u>Total</u>
Cash and cash equivalents	\$ 310,070	\$ 249,726	\$ 559,796
Equipment and vehicles:			
Equipment	642,111	-	642,111
Vehicles	<u>-</u>	<u>502,096</u>	<u>502,096</u>
	642,111	502,096	1,144,207
Less accumulated depreciation	<u>478,566</u>	<u>379,608</u>	<u>858,174</u>
Net equipment and vehicles	<u>163,545</u>	<u>122,488</u>	<u>286,033</u>
	<u>\$ 473,615</u>	<u>\$ 372,214</u>	<u>\$ 845,829</u>
<u>Fund Equity</u>			
Fund equity:			
Contributed capital:			
Federal	111,926	-	111,926
State of Hawaii	<u>132,600</u>	<u>166,055</u>	<u>298,655</u>
	244,526	166,055	410,581
Less depreciation on property and equipment acquired or constructed from grants and contributions	<u>202,131</u>	<u>156,110</u>	<u>358,241</u>
	42,395	9,945	52,340
Retained earnings	<u>431,220</u>	<u>362,269</u>	<u>793,489</u>
	<u>\$ 473,615</u>	<u>\$ 372,214</u>	<u>\$ 845,829</u>

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Statement of Revenues and Expenses - Internal Service Funds

Year ended June 30, 1994

	Equipment rental	Vehicle rental	Total
Operating revenues:			
Rental	\$ 83,051	\$ 51,290	\$ 134,341
Other	<u>8</u>	<u>-</u>	<u>8</u>
	<u>83,059</u>	<u>51,290</u>	<u>134,349</u>
Operating expenses:			
Depreciation	64,317	36,675	100,992
Other	<u>187</u>	<u>6</u>	<u>193</u>
	<u>64,504</u>	<u>36,681</u>	<u>101,185</u>
Operating income	18,555	14,609	33,164
Nonoperating revenue - interest income	<u>8,146</u>	<u>6,640</u>	<u>14,786</u>
Net income	\$ <u>26,701</u>	\$ <u>21,249</u>	\$ <u>47,950</u>

STATE OF HAWAII  
HAWAII HOUSING AUTHORITY  
Combining Statement of Fund Equity - Internal Service Funds  
Year ended June 30, 1994

	Contributed Capital		Retained Earnings	
	Equipment rental	Vehicle rental	Equipment rental	Vehicle rental
				Total
Balance at June 30, 1993	\$ 66,888	\$ 11,366	\$ 380,026	\$ 339,599
Net income	-	-	26,701	21,249
Transfer of depreciation on property and equipment acquired or constructed from grants and contributions to contributed capital	(24,493)	(1,421)	24,493	1,421
Balance at June 30, 1994	\$ 42,395	\$ 9,945	\$ 431,220	\$ 362,269
				\$ 793,489



STATE OF HAWAII  
HAWAII HOUSING AUTHORITY

Combining Statement of Cash Flows - Internal Service Funds

Year ended June 30, 1994

	Equipment <u>rental</u>	Vehicle <u>rental</u>	<u>Total</u>
Cash flows from operating activities:			
Operating income	\$ 18,555	\$ 14,609	\$ 33,164
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	64,317	36,675	100,992
Loss on disposal of fixed assets	187	-	187
Decrease in due from other funds	<u>4,538</u>	<u>-</u>	<u>4,538</u>
Net cash provided by operating activities	87,597	51,284	138,881
Cash flows used in capital and related financing activities - payments for capital acquisition	(57,513)	(40,826)	(98,339)
Cash flows provided by investing activities - receipts of interest	<u>8,208</u>	<u>6,708</u>	<u>14,916</u>
Net increase in cash and cash equivalents	38,292	17,166	55,458
Cash and cash equivalents at June 30, 1993	<u>271,778</u>	<u>232,560</u>	<u>504,338</u>
Cash and cash equivalents at June 30, 1994	\$ <u>310,070</u>	\$ <u>249,726</u>	\$ <u>559,796</u>

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## Notes

### Chapter 2

1. Franklin Wong and Associates, Limited, "Statewide Physical Needs Assessments for the State of Hawaii Comprehensive Improvement Program by the Hawaii Housing Authority," Honolulu, Hawaii, August 1992.

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## **Response of the Affected Agency**

### **Comments on Agency Response**

We transmitted a draft of this report to the Hawaii Housing Authority on December 14, 1994. A copy of the transmittal letter to the authority is included as Attachment 1. The authority's response is included as Attachment 2.

The authority does not dispute our findings and has begun to take steps to implement our recommendations. It provided updated information on expenditures of the homeless programs which is incorporated in the report. It also provided additional background information on the development project that it now manages and says its property management section is monitoring the project monthly.

ATTACHMENT 1

STATE OF HAWAII  
OFFICE OF THE AUDITOR  
465 S. King Street, Room 500  
Honolulu, Hawaii 96813-2917



MARION M. HIGA  
State Auditor

(808) 587-0800  
FAX: (808) 587-0830

December 14, 1994

**COPY**

Mr. Mitsuo Shito, Executive Director  
Hawaii Housing Authority  
1002 North School Street  
Honolulu, Hawaii 96817

Dear Mr. Shito:

Enclosed for your information are three copies, numbered 6 to 8 of our draft report, *Financial Audit of the Hawaii Housing Authority*. We ask that you telephone us by Friday, December 16, 1994, on whether or not you intend to comment on our recommendations. If you wish your comments to be included in the report, please submit them no later than Friday, December 23, 1994.

The Governor and presiding officers of the two houses of the Legislature have also been provided copies of this draft report.

Since this report is not in final form and changes may be made to it, access to the report should be restricted to those assisting you in preparing your response. Public release of the report will be made solely by our office and only after the report is published in its final form.

Sincerely,

Marion M. Higa  
State Auditor

Enclosures

BENJAMIN J. CAYETANO  
GOVERNOR



STATE OF HAWAII  
DEPARTMENT OF HUMAN SERVICES  
HAWAII HOUSING AUTHORITY  
P. O. BOX 17907  
HONOLULU, HAWAII 96817

ATTACHMENT 2

mitsuo skito  
EXECUTIVE DIRECTOR

LEONARD PARESA, JR.  
DEPUTY EXECUTIVE DIRECTOR

FAX: (808) 848-3313

IN REPLY REFER TO:

December 23, 1994

RECEIVED

DEC 27 9 30 AM '94

OFF. OF THE AUDITOR  
STATE OF HAWAII

Mrs. Marion M. Higa, State Auditor  
Office of the Auditor  
465 So. King Street, Room 500  
Honolulu, Hawaii 96813-2917

Dear Mrs. Higa:

Thank you for the opportunity to respond to your Financial Audit of the Hawaii Housing Authority Report. The following are our responses to your findings:

1. The Authority continues to accumulate Section 8 unrestricted funds instead of using them for needed maintenance.

The Authority has been using the Section 8 unrestricted funds to support the low income and elderly housing projects; however, we will redirect our expenditures to include major repairs and maintenance projects. A plan is in place and implementation of the plan has been initiated.

2. The Authority does not adequately maintain inventory records for its general fixed assets account group resulting in a reportable condition.

We have met with the managing agent for the Banyan Street Manor and the Wilikina Apartment Projects and they were reminded of the lack of detailed fixed asset records. The authority will insure the managing agent complies with the fixed asset requirement.

3. The statutory and audit requirements for the homeless program are too stringent.

The authority is submitting a bill to the 1995 Legislature to amend the statutes and require an audit of each provider agency at least once per biennium.

We would like to request a change in dollar amounts that are reported as expenditures for the Homeless Stipend Program, the State Homeless Outreach Program and the Homeless Emergency Loan and Grants Program reflected on page 7 of the report. The amounts should be \$3,058,775.93 for the Stipend Program, \$600,000 for the Outreach Program and \$422,745.35 for the Grant Program.

4. Improvements are needed in the Authority's working relationships with developers of low-income housing.

The Ke Kumu Project was developed under a turnkey concept in which the developer is responsible for researching the market and determining the feasibility of the project. The research takes into consideration the population and market for rental units in the area. In addition, the developer prepares a performance report to demonstrate the feasibility of the project.

During the developers presentation of the Ke Kumu Project, all management staff, the Attorney General's Office and the HHA's Board of Commissioners were involved. The project's performance report for operation of the project were reviewed by all involved, including the property management section. At the time the performance report and budget were presented, the revenues and expenditures appeared to be comparable to similar projects in the West Hawaii area. The report was put together by a private property managing agent who manages several properties in the area. Based on the economic situation at that time and the going rate of operational cost, the performance report did not appear unreasonable.

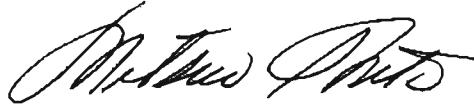
Several meetings were held with the developer, HHA staff and the Board of Commissioners before approval of the project. The performance report reflected sufficient revenues to provide for operation expenses and to establish a reserve for contingencies. The Authority's property management section is monitoring the project monthly and we feel confident that the project will meet our expectations.



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December 23, 1994  
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Your consideration of our responses is very much appreciated. Should you have any questions regarding my responses, please feel free to call me at 832-6060.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mitsu Shito".

MITSUO SHITO  
Executive Director