Hawaii Public Housing Authority

Financial Statements
June 30, 2009
Together with Independent Auditor's Report

Submitted by

THE AUDITOR
STATE OF HAWAII

KMH LLP

A Hawaii Limited Liability Partnership

March 18, 2010

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

Dear Ms. Wise:

This is our report on the financial audit of the Hawaii Public Housing Authority (Authority) as of and for the fiscal year ended June 30, 2009. Our audit was performed in accordance with the terms of our contract with the State of Hawaii and with the requirements of the U.S. Office of Management and Budget (OMB) Circular A-133, Government Auditing Standards, *Audits of States, Local Governments, and Non-Profit Organizations.*

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Authority's basic financial statements as of and for the fiscal year ended June 30, 2009, and to comply with the requirements of OMB Circular A-133. The objectives of the audit were as follows:

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

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

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

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

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SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the Authority as of and for the fiscal year ended June 30, 2009.

ORGANIZATION OF THE REPORT

This report is presented in six parts as follows:

- Part I – The basic financial statements and related notes of the Authority as of and for the fiscal year ended June 30, 2009, and our opinion on the basic financial statements.
- Part II – Our report on internal control over financial reporting and compliance.
- Part III – Our report on compliance with requirements applicable to each major program and internal control over compliance.
- Part IV – The schedule of findings and questioned costs and management responses
- Part V – The summary schedule of prior audit findings.

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

Sincerely,

Wilcox Choy

Wilcox Choy
Partner

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PART I

FINANCIAL SECTION

KMHLLP

A Hawaii Limited Liability Partnership

Independent Auditor's Report

The Auditor
State of Hawaii

Board of Directors
Hawaii Public Housing Authority:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hawaii Public Housing Authority (Authority), as of and for the year ended June 30, 2009. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in note 1, the financial statements of the Authority are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate other fund information of the State of Hawaii that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2009, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2009, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2010, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. The accompanying Financial Data Schedule is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 18, 2010

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2009

This Management's Discussion and Analysis (MD&A) provides an overall review of the Hawaii Public Housing Authority's (HPHA) financial activities for the fiscal year ended June 30, 2009. The intent of this discussion and analysis is to look at the HPHA's financial performance as a whole. Readers should also review the financial statements to enhance their understanding of the HPHA's financial performance.

INTRODUCTION

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

Presently, the HPHA administers the following major programs:

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

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

- Homeless programs
  The HPHA also administers Homeless programs utilizing Federal grants and state appropriations allotments.

As management of the HPHA, we offer readers of the HPHA's financial statements this narrative overview and analysis of the financial activities of the HPHA for the fiscal year ended June 30, 2009.

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2009

The HPHA's Management's Discussion and Analysis (MD&A) is designed to:

a) assist the reader in focusing on significant financial issues;
b) provide an overview of the HPHA's financial activity; and
c) identify changes in the HPHA's financial position (its ability to address the next and subsequent year challenges); and d) identify individual fund issues or concerns.

Since the MD&A is designed to focus on the financial activities of the HPHA for the last fiscal year ended June 30, 2009, readers should review this in conjunction with the financial statements that follow.

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the assets of the HPHA exceeded its liabilities by $363,987,326 (net assets). Of this amount, $302,682 255 is invested in capital assets, net of related debt. (Detailed on Government-Wide Statement of Net Assets, page 19)

- The HPHA's net assets decreased by $12,275,752 or 3.2%. This is primarily due to the one time transfer of the Teacher Housing Revolving Fund's net assets of $2,258,211 and the transfer of $4,420,657 of capital projects to other state agencies and business type activities operating losses, before transfers, of approximately $5,840,177. (Detailed on Government-wide Statement of Activities, page 21)

- Although operating and capital subsidies from the U.S. Department of Housing and Urban Development (HUD) increased from $26,037,416 to $35,593,322 an increase of $9,555,906 or 36.7% from prior year, the amounts were not sufficient to cover the business-type activities operating losses of $41,604,608 for the year. Consequently, business-type activities recognized net losses, before transfers, of $5,840,177 for the fiscal year. (Detailed on Proprietary Funds, Statement of Revenues, Expenses, and Changes in Fund Net Assets, page 29)

- Governmental funds reported a combined ending fund balance of $39,787,058, a decrease of $8,677,695 in comparison from prior year. Approximately $5,606,132 of this total amount was due to transfers to support rental housing service operating shortfalls and capital projects expended for the benefit of certain properties under the Federal low Rent Program fund. (Detailed on Governmental Funds, Statement of Revenues, Expenditures and changes in Fund Balance, page 24)

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Detailed information on HPHA's most significant funds is represented in the fund financial statements, but the fund statements are not a representation of the HPHA as a whole.
Fund Financial Statements: The HPHA uses fund accounting to ensure and demonstrate fiscal accountability. A fund is defined as a grouping of related accounts used to keep track of specific sources of funding and spending for particular purposes (sometimes referred to as a "self-balancing" set of accounts). This means a fund's assets will equal the total of its liabilities and its fund balance (or net assets), similar to the way financial statements are presented.

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

HAWAII PUBLIC HOUSING AUTHORITY
Condensed Statement of Net Assets
June 30, 2009 & June 30, 2008

	Governmental Activities		Business Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	$ 43,815	$ 54,896	$ 28,130	$ 19,859	$ 71,945	$ 74,755
Assets held by trustee	-	-	-	-	-	-
Capital assets	27,814	39,813	275,285	269,826	303,099	309,639
Other assets	-	-	8,367	8,938	8,367	8,938
Total Assets	$ 71,629	$ 94,709	$ 311,782	$ 298,623	$ 383,411	$ 393,332
Current and other liabilities	$ 4,028	$ 6,632	$ 9,971	$ 8,352	$ 13,999	$ 14,984
Long-term liabilities	212	271	5,213	1,814	5,425	2,085
Total Liabilities	4,240	6,903	15,184	10,166	19,424	17,069
Net assets:						
Invested in capital assets, net of related debt	27,814	39,812	$ 274,868	269,319	302,682	309,131
Restricted	-	-	7,345	7,917	7,345	7,917
Unrestricted	39,575	47,994	14,385	11,221	53,960	59,215
Total net assets	67,389	87,806	296,598	288,457	363,987	376,263
Total liabilities & net assets	$ 71,629	$ 94,709	$ 311,782	$ 298,623	$ 383,411	$ 393,332

Statement of net assets

Net assets may serve over time as a useful indicator of the HPHA's financial position. At the close of the fiscal year, the HPHA's assets exceeded its liabilities by $363,987,326. As noted earlier, $302,682,255 of net assets is invested in capital assets, net of related debt.

Of the HPHA's total assets, $302,682,255 (or 83%) represents capital assets, net of related debt. Cash and due from the State of Hawaii *(as presented in the detailed Government-Wide Statement of Net Assets, page 19)* in the amount of $62,473,362 and comprises 16.3% of total assets. Amounts that are "Due from the state of Hawaii" represent available State allotted appropriations as of the end of the fiscal year and are primarily designated for capital improvement projects. Net assets for the previous fiscal year had a similar composition with the majority of total net assets represented by capital assets, net of related debt.

Accounts payable and accrued expenses of $12,041,599 (*as detailed in the Government-Wide Statement of Net Assets*, pg 20) comprise 61.9% of the HPHA's total current liabilities.

Long term liabilities increased by $3,341,327 from prior year. This is primarily due to the increase in the other post retirement employee benefits liability of $1,702,170 (*as detailed in the Notes to the Financial Statements, #10*.)

HAWAII PUBLIC HOUSING AUTHORITY
Government-Wide Statement of Activities
Years Ended June 30, 2009 – June 30, 2008
(In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues:						
Charges for services	$ -	$ -	$24,101	$ 21,940	$ 24,101	$ 21,940
Operating Grants and Contributions	46,284	44,374	20,308	17,404	66,592	61,778
Capital Grants and Contributions	-	-	15,285	9,521	15,285	9,521
General Revenues:						
State Allotted Appropriations, net of Lapses	21,446	58,682	-	-	21,446	58,682
Other revenues	426	-	-	-	426	-
Total Revenues	68,156	103,056	59,694	48,865	127,850	151,921
Expenses						
Governmental Activities						
Homeless Services and assistance program	18,991	12,834	-	-	18,991	12,834
Rental housing assistance program	48,922	54,887	-	-	48,922	54,887
Business-type activities						
Rental assistance program	-	-	56,136	47,508	56,136	47,508
Housing development program	-	-	8,319	9,145	8,319	9,145
Other	-	-	1,079	1,056	1,079	1,056
Total governmental-wide expenses	67,913	67,721	65,534	57,709	133,447	125,430
Excess of revenues over expenses	243	35,335	(5,840)	(8,844)	(5,597)	26,491
Transfers	(20,660)	(8,136)	13,981	8,136	(6,679)	-
CHANGES IN NET ASSETS	(20,417)	27,199	8,141	(708)	(12,276)	26,491
Total net assets, beginning of year	87,806	60,607	288,457	289,165	376,263	349,772
Total net assets, end of year	$67,389	$87,806	$296,598	$ 288,457	$363,987	$ 376,263

Statement of Activities

Operating grants and contributions increased $4,814,449 in the current year from $61,778,335 to $66,592,784. Capital grants and contributions also increased by $5,763,478 in the current year from $9,521,427 to $15,284,905. Although HUD operating and capital subsidies increased from $26,037,416 to $35,593,322, an increase of $9,555,906 or 36.7% from prior year, the amounts were not sufficient to cover the business-type activities operating losses of $41,604,658 for the year, as detailed in the *Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets, page 29.* Consequently, business-type activities recognized net losses, before transfers, of $5,840,177 for the year.

However, in comparison with prior year's business type activities net losses, before transfers of $8,844,184, current net losses, before transfers, represents a decrease of $3,004,007 from prior year. This variance from prior year is primarily due to the increases in HUD operating and capital subsidies of $9,555,906, which compensated for the corresponding increases in operating expenses of $7,825,465 or 13.5%, from prior year. Current year increases in operating expenses including, but not limited to, increase in repairs and maintenance expenses from $2,500,813 to $4,431,636, an increase of $1,930,823, or 77%; increases in utilities expenses from $11,709,437 to $12,932,993, an increase of $1,223,556 or 10.4%; and increases in the post retirement benefit obligation of approximately $1,702,170 or 122% from prior year.

Government activities net assets decreased by $20,416,852. The detailed charts on *Government-Wide Statement of Activities*, *page 21*, note that this change is primarily due to a $16,239,488 of operating transfer to business-type activities and $4,420,657 transfers to capital projects at other agencies. When capital projects are completed with governmental funds, they are transferred to a business-type activity. Of the $16,239,488 transferred to business-type activities, approximately $11,682,000 fall into that category.

In comparison with the prior year, government activities increased in net assets of $27,198,977. The key elements of this variance were due to additional State Allotted appropriations received in prior year of $37,236,756, of which $30,510,000 were capital projects funding, and operating transfers of $8,136,190 compared with transfers of $20,660,145 for the current year.

FINANCIAL ANALYSIS OF THE HPHA'S FUNDS

Governmental funds

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

- At the end of the fiscal year, combined fund balances amounted to $39,787,058, of which $28,890,680 is reserved for capital projects, a decrease of $8,677,695 in comparison with the prior year.

- The key factors in this decrease were capital outlays of $4,648,290 and operating transfers of $4,172,384 to pay for rental housing service shortfalls under certain proprietary funds during the current year.

- The prior year's Net Change in Fund Balance resulted in an increase of $22,249,474. The current year's Net Change in Fund Balance which resulted in a decrease of $8,677,695 is primarily due to $30,510,000 of state allotted appropriations for capital projects which was received in the prior year.

Proprietary funds

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

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

The combined net assets restricted by legislation and contractual agreement amounted to $7,345,511 are related to restricted deposits and funded reserves. (Detailed on *Proprietary Funds*, *Statement of Net Assets, page 26*)

Other factors concerning the finances of these funds have already been addressed in the discussion of the HPHA's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the original budget was decreased by approximately $671,000 due to reductions in the family homeownership program. The budgetary actual revenue and expenditures were lower than the amended final budget by approximately $144,000 and $2,313,000 due to change in program requirements during fiscal year 2009.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The HPHA's investment in capital assets for its governmental and business-type activities for the fiscal year ended June 30, 2009 is $302,682,255 (net of related debt). This investment in capital assets includes land, buildings and improvements, equipment, furniture, and fixtures. (Detailed in *Notes to the Financial Statements, #5*)

HPHA Capital Assets
Years ended June 30, 2009 and June 30, 2008
(In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	$ 2,373	$ 2,373	$ 22,966	$ 22,973	$ 25,339	$ 25,346
Buildings and improvements	46,487	48,061	523,135	487,642	569,622	535,703
Equipment	1,198	1,198	10,001	10,285	11,199	11,483
Construction in progress	2,290	11,642	6,685	23,755	8,975	35,397
Total	52,348	63,274	562,787	544,655	615,135	607,929
Accumulated Depreciation	(24,534)	(23,462)	(287,502)	(274,829)	(312,036)	(298,291)
Total Capital Assets Net	$ 27,814	$ 39,812	$ 275,285	$ 269,826	$303,099	$ 309,638

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

<u>Major Projects Outstanding (in-progress) at the end of the year</u>

- AMP 140 Installation of a fire alarm system at Kuhio Park Terrace at $1,072,043
- AMP 137 Major modernization at Lanikila Homes at $1,856,490

<u>Major projects completed with Governmental Funds and transferred to Fixed Assets</u>

- Kalaeloa Homeless Shelter at $1,781,306

<u>Major projects completed with Governmental Funds and transferred to Business Type Activities</u>

- AMP 132 Mayor Wright Homes, Design at $866,665
- AMP 138 Renovations at Lokahi at $494,830
- AMP 137 Major modernization at Lanakila Homes at $1,048,624
- AMP 131 Major modernization at Kalihi Valley Homes at $300,000
- AMP 131 Renovation of long term vacant units at Kalihi Valley Homes at $1,065,584
- AMP 143 Major modernization at Kahale Kahaluu at $1,500,000

Major projects completed with Proprietary Funds and transferred to Fixed Assets

- AMP 135 Structural and spall repairs at Makamae at $4,159,564,
- AMP 135 Structural investigation and repairs at Pumehana at $2,187,297
- AMP 143 Major modernization at Kahale Kahaluu at $9,221,009
- AMP 131 Major modernization at Kalihi Valley Homes, Phase 3b at $5,695,538
- AMP 146 Physical improvements at Noelani I & II at $2,428,407

Debt Activity

As of June 30, 2009, HPHA had $416,782 of Mortgage and Notes Payable debt outstanding related to two loans for the Banyan Street Manor development. (Detailed in *Notes to the Financial Statements, #6.*) During the fiscal year ended June 30, 2009, approximately $89,959 was paid as part of the planned amortization of the existing loans. No additional debt was assumed during the fiscal year ended June 30, 2009.

As of June 30, 2009, $7,345,511 of cash was considered restricted. This was comprised of the following:

Replacement reserves and escrow accounts – Banyan Street Manor	$ 1,536,832
Replacement reserves and escrow accounts – HHA Wilikina Apartments	5,808,679
Total Restricted Cash as June 30, 2009	$ 7,345,511

ECONOMIC FACTORS AND NEXT YEAR BUDGETS AND RATES

HUD increased operating funding for public housing for fiscal year 2009 by increasing the operating subsidy proration (actual funding) rate from 82% to 89% of full funding, and by adjusting the base subsidy for 2009. Due to HUD's inability to provide appropriations for a full fiscal year, the HPHA projects its budget forward using current subsidy amounts and produces revised budgets once the actual appropriations are provided.

During the fiscal year, the HPHA's received funds under the American Recovery and Reinvestment Act in the amounts of $16,245,443 for the Capital Fund Program and $2,166,888 for the Homelessness Prevention and Rapid Re-housing Program. The HPHA also received notice that the Committee on Appropriations U.S. House of Representatives allotted funds for capital improvements at Lanakila Homes ($475,000), Kalihi Valley Homes ($380,000), Kahale Mua ($400,000) and Pahala Elderly ($400,000).

The HPHA was named as a defendant in a lawsuit over living conditions at Kuhio Park Terrace calling for capital improvements such as elevators, trash chutes, fire alarms, and sewers, as well as an increase in handicapped accessible units. The HPHA is working to address the issues involved with existing funds, and is seeking additional funding. The HPHA is in settlement negotiations with the plaintiffs.

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

During the current fiscal year, the HPHA intends to transfer its Homeless Programs (a government funded program) to the Department of Human Services. The transfer will allow for better coordination of homeless services and will affect net assets and activities for both government activities and proprietary funds (central office management fees). A memorandum of agreement to transfer the program was executed effective March 1, 2010.

CONTACT INFORMATION

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

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET ASSETS

June 30, 2009

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash	$ 5,532,184	$ 21,479,896	$ 27,012,080
Due from State of Hawaii	35,461,282	-	35,461,282
Receivables			
Accrued interest	-	182,971	182,971
Tenant receivables, less allowance for doubtful receivables of $4,434,396	-	604,655	604,655
Other	268,253	265,245	533,498
	268,253	1,052,871	1,321,124
Internal balances	1,402,567	(1,402,567)	-
Due from other state agencies	-	713,390	713,390
Due from HUD	1,082,765	5,364,331	6,447,096
Inventories	-	832,325	832,325
Prepaid expenses and other assets	68,394	63,503	131,897
Deposits held in trust	-	26,464	26,464
Total current assets	43,815,445	28,130,213	71,945,658
Note Receivable	-	426,100	426,100
Accrued Interest	-	595,234	595,234
Restricted Deposits and Funded Reserves	-	7,345,511	7,345,511
Capital Assets, less accumulated depreciation	27,814,340	275,284,697	303,099,037
TOTAL ASSETS	$ 71,629,785	$ 311,781,755	$ 383,411,540

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET ASSETS (continued)

June 30, 2009

LIABILITIES AND NET ASSETS	Governmental Activities	Business-type Activities	Total
Current Liabilities			
Accounts payable	$ 3,222,721	$ 5,035,251	$ 8,257,972
Accrued expenses	803,440	2,980,187	3,783,627
Due to other state agencies	-	5,846	5,846
Due to State of Hawaii	-	571,402	571,402
Due to HUD	2,226	12,659	14,885
Security deposits	-	911,935	911,935
Deferred income	-	330,868	330,868
Mortgage payable, current portion	-	122,176	122,176
Total current liabilities	4,028,387	9,970,324	13,998,711
Accrued Expenses	212,204	4,918,693	5,130,897
Mortgage and Note Payable, net of current protion	-	294,606	294,606
Commitments and Contingencies			
Net Assets			
Invested in capital assets, net of related debt	27,814,340	274,867,915	302,682,255
Restricted by legislation and contractual agreements	-	7,345,511	7,345,511
Unrestricted	39,574,854	14,384,706	53,959,560
Total net assets	67,389,194	296,598,132	363,987,326
TOTAL LIABILITIES AND NET ASSETS	$ 71,629,785	$ 311,781,755	$ 383,411,540

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

		Program Revenues			Net (expense) revenue and changes in net assets		
	Expenses	Charges for services and other revenues	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Functions/Programs							
Governmental activities							
Homeless service and assistance program	$ 18,991,285	$ -	$ 1,316,297	$ -	$ (17,674,988)	$ -	$ (17,674,988)
Rental housing and assistance program	48,921,820	-	44,968,070	-	(3,953,750)	-	(3,953,750)
Total governmental activities	67,913,105	-	46,284,367	-	(21,628,738)	-	(21,628,738)
Business-type activities							
Rental assistance program	56,135,742	17,388,885	20,308,417	15,284,905	-	(3,153,535)	(3,153,535)
Rental housing program	8,319,447	3,877,399	-	-	-	(4,442,048)	(4,442,048)
Others	1,079,396	2,834,802	-	-	-	1,755,406	1,755,406
Total business-type activities	65,534,585	24,101,086	20,308,417	15,284,905	-	(5,840,177)	(5,840,177)
Total government-wide	$ 133,447,690	$ 24,101,086	$ 66,592,784	$ 15,284,905	(21,628,738)	(5,840,177)	(27,468,915)
State Allotted Appropriations, net of lapsed funds of $488,203					21,445,740	-	21,445,740
Other Non-Program Revenue					426,291	-	426,291
Net Transfers					(16,239,488)	16,239,488	-
Intergovernmental Transfer					(4,420,657)	(2,258,211)	(6,678,868)
Total general revenues and transfers					1,211,886	13,981,277	15,193,163
Change in net assets					(20,416,852)	8,141,100	(12,275,752)
Net Assets at July 1, 2008					87,806,046	288,457,032	376,263,078
Net Assets at June 30, 2009					$ 67,389,194	$ 296,598,132	$ 363,987,326

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2009

ASSETS	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Current Assets						
Cash	$ -	$ -	$ 4,928,312	$ 601,642	$ 2,230	$ 5,532,184
Due from State of Hawaii	6,079,656	29,381,626	-	-	-	35,461,282
Other receivables	268,253	-	-	-	-	268,253
Due from other funds	6,130	-	1,986,202	509,110	-	2,501,442
Due from HUD	-	-	-	447,819	634,946	1,082,765
Prepaid expenses and other assets	68,394	-	-	-	-	68,394
TOTAL ASSETS	$ 6,422,433	$ 29,381,626	$ 6,914,514	$ 1,558,571	$ 637,176	$ 44,914,320
LIABILITIES AND FUND BALANCES						
Current Liabilities						
Accounts payable	$ 2,034,001	$ 490,946	$ 30,170	$ 50,027	$ 617,577	$ 3,222,721
Accrued expenses	28,435	-	274,374	500,631	-	803,440
Due to other funds	358,311	-	565,910	157,281	17,373	1,098,875
Due to HUD	-	-	-	-	2,226	2,226
Total liabilities	2,420,747	490,946	870,454	707,939	637,176	5,127,262
Fund Balances - Unrestricted						
Reserved	4,001,686	28,890,680	-	-	-	32,892,366
Unreserved	-	-	6,044,060	850,632	-	6,894,692
Total fund balances	4,001,686	28,890,680	6,044,060	850,632	-	39,787,058
TOTAL LIABILITIES AND FUND BALANCES	$ 6,422,433	$ 29,381,626	$ 6,914,514	$ 1,558,571	$ 637,176	$ 44,914,320

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

June 30, 2009

Total fund balance - governmental funds		$	39,787,058
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds	27,814,340		
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds	(212,204)		27,602,136
Net assets of governmental activities		$	67,389,194

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2009

	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Revenues						
Intergovernmental – HUD annual contributions and others	$ -	$ -	$ 20,578,390	$ 23,632,408	$ 2,120,065	$ 46,330,863
State allotted appropriations, net of lapsed funds of $488,203	21,445,740	-	-	-	-	21,445,740
Other	426,496	-	32,170	191	-	458,857
Total revenues	21,872,236	-	20,610,560	23,632,599	2,120,065	68,235,460
Expenditures						
Housing assistance payments	866,497	-	18,500,240	22,021,594	-	41,388,331
Homeless services	16,779,427	-	-	-	-	16,779,427
Grants	-	300,000	-	-	-	300,000
Personnel services	865,637	-	1,260,910	5,331	-	2,131,878
Administration	882,637	-	812,071	1,335,292	2,075,054	5,105,054
Professional services	54,140	-	65,615	4,636	-	124,391
Security	-	-	840	-	-	840
Repairs and maintenance	6,165	675,587	780	-	-	682,532
Insurance	10,959	-	17,068	-	-	28,027
Capital outlays	22,386	4,648,290	-	-	-	4,670,676
Other	-	-	16,805	-	-	16,805
Total expenditures	19,487,848	5,623,877	20,674,329	23,366,853	2,075,054	71,227,961
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2,384,388	(5,623,877)	(63,769)	265,746	45,011	(2,992,501)
Nonoperating Expenditure - Interest Expense	(205)	-	(78,857)	-	-	(79,062)
Other Financing (Uses) Sources - Transfers (Out) In	(4,172,384)	(1,048,624)	45,011	(385,124)	(45,011)	(5,606,132)
NET CHANGE IN FUND BALANCES	(1,788,201)	(6,672,501)	(97,615)	(119,378)	-	(8,677,695)
Fund Balances at July 1, 2008	5,789,887	35,563,181	6,141,675	970,010	-	48,464,753
Fund Balances at June 30, 2009	$ 4,001,686	$ 28,890,680	$ 6,044,060	$ 850,632	$ -	$ 39,787,058

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2009

Net change in fund balances - total governmental funds		$ (8,677,695)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation during the year.	3,055,610	
Long-term compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	58,466	
Other post-retirement employee benefits reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	200,780	
Intergovernmental transfers, capital related items	(4,420,657)	
Net operating transfers, capital related items	(10,633,356)	(11,739,157)
Change in net assets of governmental activities		$ (20,416,852)

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

June 30, 2009

ASSETS	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Assets							
Cash	$ 11,982,224	$ 316,686	$ 1,895,870	$ 16,779	$ 6,064,127	$ 20,275,686	$ 1,204,210
Receivables							
Accrued interest	-	-	60,155	-	82,672	142,827	40,144
Tenant receivables, less allowance for doubtful accounts of $4,434,396	396,889	45,108	3,576	-	159,082	604,655	-
Other	192,314	-	-	318	72,613	265,245	-
	589,203	45,108	63,731	318	314,367	1,012,727	40,144
Due from other funds	400,105	1,024,999	206,461	9,281,217	284,420	11,197,202	117,389
Due from other state agencies	-	-	-	-	713,390	713,390	-
Due from HUD	5,252,461	-	-	-	111,870	5,364,331	-
Inventories	715,113	16,292	67,181	33,739	-	832,325	-
Prepaid expenses and other assets	-	-	-	-	63,503	63,503	-
Deposits held in trust	-	-	-	-	26,464	26,464	-
Total current assets	18,939,106	1,403,085	2,233,243	9,332,053	7,578,141	39,485,628	1,361,743
Note Receivable	-	426,100	-	-	-	426,100	-
Accrued Interest	-	595,234	-	-	-	595,234	-
Restricted Deposits and Funded Reserves	-	-	-	-	7,345,511	7,345,511	-
Capital Assets, less accumulated depreciation	200,931,241	15,310,202	40,222,685	86,269	18,681,751	275,232,148	52,549
TOTAL ASSETS	$ 219,870,347	$ 17,734,621	$ 42,455,928	$ 9,418,322	$ 33,605,403	$ 323,084,621	$ 1,414,292

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (continued)

June 30, 2009

LIABILITIES AND NET ASSETS	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Liabilities							
Accounts payable	$ 3,032,373	$ 62,575	$ 141,028	$ 10,221	$ 1,789,054	$ 5,035,251	$ -
Accrued expenses	1,547,321	41,838	10,781	670,675	709,572	2,980,187	-
Due to other funds	6,843,772	303,718	249,569	-	5,263,835	12,660,894	56,264
Due to other state agencies	-	-	-	-	5,846	5,846	-
Due to State of Hawaii	-	-	-	-	571,402	571,402	-
Due to HUD	-	-	-	-	12,659	12,659	-
Security deposits	671,803	35,544	143,631	-	60,957	911,935	-
Deferred income	289,120	19,019	-	-	22,729	330,868	-
Mortgage payable, current portion	-	-	-	-	122,176	122,176	-
Total current liabilities	12,384,389	462,694	545,009	680,896	8,558,230	22,631,218	56,264
Accrued Expenses	690,888	45,442	-	4,182,363	-	4,918,693	-
Mortgage and Note Payables, net of current portion	-	-	-	-	294,606	294,606	-
Commitments and Contingencies							
Net Assets							
Invested in capital assets, net of related debt	200,931,241	15,310,202	40,222,685	86,269	18,264,969	274,815,366	52,549
Restricted by legislation and contractual agreements	-	-	-	-	7,345,511	7,345,511	-
Unrestricted	5,863,829	1,916,283	1,688,234	4,468,794	(857,913)	13,079,227	1,305,479
Total net assets	206,795,070	17,226,485	41,910,919	4,555,063	24,752,567	295,240,104	1,358,028
TOTAL LIABILITIES AND NET ASSETS	$ 219,870,347	$ 17,734,621	$ 42,455,928	$ 9,418,322	$ 33,605,403	$ 323,084,621	$ 1,414,292

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

June 30, 2009

Total net assets of enterprise funds	$	295,240,104
Amounts reported for business-type activities in the statement of net assets are different because internal service fund assets and liabilities are included with business-type activities		1,358,028
Net assets of business-type activities	$	296,598,132

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2009

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Eliminating Entries	Total Enterprise Funds	Internal Service Funds
Operating Revenues								
Rental	$ 17,152,436	$ 908,306	$ 1,936,653	$ -	$ 1,212,605	$ -	$ 21,210,000	$ 130,618
Fee-for-service	-	-	-	11,311,274	-	(11,311,274)	-	-
Other	239,779	-	65,112	8,383	69,922	-	383,196	-
Total operating revenues	17,392,215	908,306	2,001,765	11,319,657	1,282,527	(11,311,274)	21,593,196	130,618
Operating Expenses								
Project	6,727,744	-	-	-	-	-	6,727,744	-
Personnel services	8,882,181	632,418	32,584	7,712,464	173,971	-	17,433,618	-
Depreciation	10,854,271	590,926	1,414,393	2,464	974,157	-	13,836,211	46,223
Administration	11,483,302	317,107	1,041,233	786,519	696,983	(11,311,274)	3,013,870	-
Bad debt expense	615,014	-	-	-	27,288	-	642,302	-
Professional services	332,638	27,819	9,069	209,094	4,302	-	582,922	2,967
Security	1,470,749	-	659	15,371	-	-	1,486,779	-
Insurance	680,738	38,099	106,851	-	150,595	-	976,283	-
Repairs and maintenance	3,481,699	103,242	166,668	263,790	416,237	-	4,431,636	-
Utilities	10,710,228	610,593	988,598	124,890	498,684	-	12,932,993	-
Capital expenditures	297,178	-	-	1,139	-	-	298,317	5,565
Other	600,000	7,463	3,498	-	300,081	-	911,042	-
Total operating expenses	56,135,742	2,327,667	3,763,553	9,115,731	3,242,298	(11,311,274)	63,273,717	54,755
Operating (loss) income carried forward	(38,743,527)	(1,419,361)	(1,761,788)	2,203,926	(1,959,771)	-	(41,680,521)	75,863

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2009

Change in net assets - total enterprise funds	$	8,047,688
Change in net assets - internal service fund		93,412
Change in net assets of business-type activities	$	8,141,100

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS

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

Year ended June 30, 2009

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Eliminating Entries	Total Enterprise Funds	Internal Service Funds
Operating (loss) income brought forward	(38,743,527)	(1,419,361)	(1,761,788)	2,203,926	(1,959,771)	-	(41,680,521)	75,863
Nonoperating Revenues (Expenses)								
Interest income	76,200	99,906	117,218	67,194	56,665	-	417,183	87,474
HUD operating subsidy and others	35,593,322	-	-	-	-	-	35,593,322	-
Loss on disposals of capital assets	-	-	-	-	-	-	-	(10,570)
Other revenues (expenses)	(79,530)	(52,096)	(86,845)	(45,102)	-	-	(263,573)	(59,355)
Net nonoperating revenues	35,589,992	47,810	30,373	22,092	56,665	-	35,746,932	17,549
(Loss) income before transfers	(3,153,535)	(1,371,551)	(1,731,415)	2,226,018	(1,903,106)	-	(5,933,589)	93,412
Intergovernmental Transfer	-	-	-	-	(2,258,211)	-	(2,258,211)	-
Net Operating Transfers	7,960,912	4,469,300	1,003,380	2,329,045	476,851	-	16,239,488	-
CHANGE IN NET ASSETS	4,807,377	3,097,749	(728,035)	4,555,063	(3,684,466)	-	8,047,688	93,412
Net Assets at July 1, 2008	201,987,693	14,128,736	42,638,954	-	28,437,033	-	287,192,416	1,264,616
Net Assets at June 30, 2009	$ 206,795,070	$ 17,226,485	$ 41,910,919	$ 4,555,063	$ 24,752,567	$ -	$ 295,240,104	$ 1,358,028

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2009

Change in net assets - total enterprise funds	$	8,047,688
Change in net assets - internal service fund		93,412
Change in net assets of business-type activities	$	8,141,100

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

Year ended June 30, 2009

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities							
Cash received from renters	$ 16,778,257	$ 914,744	$ 1,931,622	$ -	$ 1,115,556	$ 20,740,179	$ -
Cash payments to employees	(11,307,268)	(748,709)	(88,407)	-	(173,971)	(12,318,355)	-
Cash payments to suppliers	(28,097,031)	(1,060,275)	(2,445,861)	-	(2,099,430)	(33,702,597)	-
Cash receipts from (payments to) other funds	-	283,081	(271,268)	-	4,819,181	4,830,994	(5,908)
Other cash (payments) receipts	(358,939)	(7,463)	64,682	-	(114,609)	(416,329)	(8,532)
Net cash (used in) provided by operating activities	(22,984,981)	(618,622)	(809,232)	-	3,546,727	(20,866,108)	(14,440)
Cash Flows from Noncapital Financing Activities							
Intergovernmental transfer	-	-	-	-	(1,063,621)	(1,063,621)	-
HUD operating subsidy and others received	24,363,687	-	-	-	-	24,363,687	-
Operating transfers in	1,691,964	602,985	597,014	16,779	(40,526)	2,868,216	-
Net cash provided by (used in) noncapital financing activities	26,055,651	602,985	597,014	16,779	(1,104,147)	26,168,282	-
Cash Flows from Capital and Related Financing Activities							
HUD capital subsidy received	9,345,864	-	-	-	-	9,345,864	-
Principal payments on mortgage loans	-	-	-	-	(89,959)	(89,959)	-
Interest payments	-	-	-	-	-	-	-
Payments for acquisition of property and equipment	(9,345,864)	-	-	-	(457,979)	(9,803,843)	(13,573)
Net cash used in capital and related financing activities	-	-	-	-	(547,938)	(547,938)	(13,573)
Subtotal carried forward	3,070,670	(15,637)	(212,218)	16,779	1,894,642	4,754,236	(28,013)

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year ended June 30, 2009

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Subtotal brought forward	3,070,670	(15,637)	(212,218)	16,779	1,894,642	4,754,236	(28,013)
Cash Flows from Investing Activities							
Receipts of interest	76,200	99,082	66,927	-	56,665	298,874	51,405
Change in Valuation of Cash Held in State of Hawaii Treasury	-	(10,736)	(78,530)	-	(257,892)	(347,158)	(54,627)
Net increase in restricted deposits and funded reserves	-	-	-	-	571,503	571,503	-
Net cash provided by (used in) investing activities	76,200	88,346	(11,603)	-	370,276	523,219	(3,222)
NET INCREASE (DECREASE) IN CASH	3,146,870	72,709	(223,821)	16,779	2,264,918	5,277,455	(31,235)
Cash at July 1, 2008	8,835,354	243,977	2,119,691	-	3,799,209	14,998,231	1,235,445
Cash at June 30, 2009	$ 11,982,224	$ 316,686	$ 1,895,870	$ 16,779	$ 6,064,127	$ 20,275,686	$ 1,204,210

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year ended June 30, 2009

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities							
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities							
Operating (loss) income	$ (38,743,527)	$ (1,419,361)	$ (1,761,788)	$ -	$ (1,959,771)	$ (43,884,447)	$ 75,863
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities							
Depreciation	10,854,271	590,926	1,414,393	-	974,157	13,833,747	46,223
Bad debt expense	615,014	-	-	-	27,288	642,302	-
Changes in assets and liabilities:							
Tenant receivables	(429,351)	(15,148)	(153)	-	(113,787)	(558,439)	-
Other receivables	1,282	-	3,068	-	(48,152)	(43,802)	-
Due from other funds	2,747,738	(18,944)	(84,109)	-	5,661,761	8,306,446	(122,117)
Due from HUD	-	-	-	-	(111,870)	(111,870)	-
Inventories	(221,939)	4,453	(23,359)	-	-	(240,845)	-
Prepaid expenses and other assets	-	-	-	-	(111)	(111)	-
Deposits held in trust	-	-	-	-	701	701	-
Accounts payable	568,179	32,132	(70,408)	-	(55,513)	474,390	-
Other accrued expenses	(1,699,996)	(116,291)	(94,839)	-	128,474	(1,782,652)	-
Other liabilities	-	-	-	-	(22,726)	(22,726)	-
Due to other funds	3,268,176	302,025	(187,159)	-	(842,580)	2,540,462	(14,409)
Due to HUD	-	-	-	-	(1,901)	(1,901)	-
Security deposits	8,003	2,567	(4,878)	-	(6,692)	(1,000)	-
Deferred income	47,169	19,019	-	-	(82,551)	(16,363)	-
Net cash (used in) provided by operating activities	$ (22,984,981)	$ (618,622)	$ (809,232)	$ -	$ 3,546,727	$ (20,866,108)	$ (14,440)

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2009

		Private Purpose Trust
ASSETS		
Cash	$	1,655
TOTAL ASSETS	$	1,655
LIABILITIES AND NET ASSETS		
Liability - Accounts Payable	$	-
Net Assets - Held in Trust		1,655
TOTAL LIABILITIES AND NET ASSETS	$	1,655

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

FIDUCIARY FUND
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year ended June 30, 2009

	Private Purpose Trust
Addition - Intergovernmental Revenue	$ -
Deductions - Capital Outlays	490,898
CHANGE IN NET ASSETS	(490,898)
Net Assets at July 1, 2008	492,553
Net Assets at June 30, 2009	$ 1,655

The accompanying notes are an integral part of this statement.

1. Organization and Significant Accounting Policies

a. General

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

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

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

The financial statements of the Authority are intended to present the financial position, changes in financial position, and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2009, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually, which include the Authority's financial activities.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements, the statement of net assets and the statement of activities, report information of all of the non-fiduciary activities of the Authority. Governmental activities, which normally are supported by State allotments and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

1. Organization and Significant Accounting Policies (continued)

b. Government-Wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function.

Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State allotments and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues. The Authority employs an indirect cost allocation system.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally it is the Authority's policy to use restricted resources first then unrestricted resources as they are needed.

The fund financial statements are provided for governmental funds, proprietary funds and fiduciary fund. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are summarized into a single column. The Authority's fiduciary fund is presented in the fund financial statements. Since by definition their assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities as obligations of the government, their funds are not incorporated into the government-wide statements.

c. Measurement Focus and Basis of Accounting

i. Government-Wide Financial Statements

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

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

ii. Governmental Fund Financial Statements

The Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. In applying the susceptible to accrual concept to intergovernmental revenues, the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when applicable requirements, including timing requirements are met.

Principal revenue sources considered susceptible to accrual include federal grants and rental income. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with generally accepted accounting principles since they have been earned and are expected to be collected within sixty days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the Authority.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation and other post-retirement benefits, which are recorded as expenditures when utilized or paid. The amount of indebtedness related to accumulated vacation and other post-retirement benefits at June 30, 2009 has been reported in the government-wide financial statements.

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

iii. Proprietary Funds and Fiduciary Fund

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

Each proprietary fund has the option under GASB Statement 20, Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities that Use Proprietary Fund Accounting, to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Authority has elected to not apply FASB statements after the applicable date.

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

d. Fund Accounting

The financial activities of the Authority are recorded in individual funds, each of which is deemed to be a separate accounting entity. The Authority uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

GASB Statement 34 sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

i. Governmental Funds

General Fund – The general fund is the general operating fund of the Authority. It is used to account for all financial activities except those required to be accounted for in another fund. This fund includes the Rent Supplement and the Homeless Programs. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted.

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

Capital Projects Fund – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary fund type).

The Authority reports the following major governmental funds:

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

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

ii. Proprietary Funds

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

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

Internal Service Funds – These funds account for those activities, which provide goods or services primarily to the Authority, rather than to external parties. In the government-wide statements, internal service funds are included with business-type activities. These funds include the Equipment Rental Fund and Vehicle Rental Fund.

The Authority reports the following as major proprietary funds:

Federal Low-Rent Program accounts for the proceeds from federal contributions for the development of rental property and rental income and federal operating subsidies from such properties.

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

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

Central Office Cost Center Fund was established in 2009 to account for costs related to the general oversight of its housing projects and other indirect and administrative costs of the Authority. The fund charges fees to the Authority's various housing projects for such services. In addition to the fee income to operate the public housing programs, the Authority also earns fees from its other federal and state programs. The fee income earned by the fund is considered to be de-federalized.

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

iii. Fiduciary Fund

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

e. HUD Subsidized Programs

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

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

f. Capital Assets

Capital assets, which include property and equipment, are reported in the applicable governmental or business-type activities in the government-wide financial statements and proprietary funds financial statements. Capital assets are defined by the Authority as land and those assets with estimated useful lives greater than one year and with an acquisition cost greater than:

Land improvements	$	100,000
Building and building improvements	$	100,000
Equipment	$	5,000

1. Organization and Significant Accounting Policies (continued)

f. Capital Assets (continued)

Purchased and constructed capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds financial statements. The Authority utilizes the straight-line method over the assets' estimated useful life. No depreciation is recorded for land and land improvements. Generally, the useful lives are as follows:

	Governmental Activities	Proprietary Fund and Business-type Activities
Building and building improvements	25 years	10 – 40 years
Equipment	7 years	1 – 10 years

g. Cash and Cash Equivalents

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

h. Inventories

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

i. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as "due to and from other funds." Interfund receivables and payables between funds (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net assets.

1. Organization and Significant Accounting Policies (continued)

j. HUD Annual Contributions

The Authority receives annual contributions and subsidies from HUD for operating the Authority's housing assistance payment programs and the development and operation of low-income housing projects. The Authority also receives annual subsidies from HUD for housing assistance payments and operating deficits incurred in the operation of the programs. Annual subsidies recorded in the proprietary fund types are recognized as nonoperating revenue when realized and earned and are accounted for in the statement of revenues, expenses and changes in fund net assets – proprietary funds as HUD operating subsidy.

k. Vacation

Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately $573,000.

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

Balance at July 1, 2008	Additions	Reductions	Balance at June 30, 2009
$2,099,000	$969,000	$847,000	$2,221,000

As of June 30, 2009, approximately $212,000 and $2,009,000 of the unpaid vacation balance was for government-wide activities and business-type activities, respectively, and is included in the accompanying balance sheets.

l. Allocated Costs

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

1. Organization and Significant Accounting Policies (continued)

m. Reservations of Fund Balances

The general and capital projects fund balances are reserved for continuing appropriations, which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments, which generally are liquidated in the subsequent fiscal year.

Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

n. Risk Management

Liabilities related to certain types of losses (including torts, theft of, damage to, or destruction of assets, errors or omissions, natural disasters and injuries to employees) are reported when it is probable that the losses have occurred and the amount of those losses can be reasonably estimated.

o. Use of Estimates

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

2. Budgeting and Budgetary Control

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

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

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

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

2. Budgeting and Budgetary Control (continued)

A comparison of both the original budget and the final budget to the actual revenues and expenditures of the general and certain special revenue funds are presented in the accompanying required supplementary information – budgetary comparison schedule. Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with 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 summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP for the general and certain special revenue funds for the year ended June 30, 2009 is set forth in the required supplementary information.

3. Cash

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

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

3. Cash (continued)

At June 30, 2009, total cash reported in the statement of net assets is $27,038,544, which consisted of the following:

	Governmental	Business-Type	Total
State pool and petty cash	$ -	$ 8,825,357	$ 8,825,357
Cash in bank (book balance)	5,532,184	12,654,539	18,186,723
	5,532,184	21,479,896	27,012,080
Deposits held in trust	-	26,464	26,464
Total Cash	$ 5,532,184	$ 21,506,360	$ 27,038,544

During 2009, the Authority recorded a valuation adjustment of approximately $402,000 for its State pool cash balances. The valuation adjustment relates primarily to the State of Hawaii action rate securities.

Bank balance of cash in bank was approximately $19,312,000, of which $936,000 was covered by federal depositary insurance and $18,376,000 by collateral held by the pledging financial institution's trust department or agent in the name of the Authority.

4. Note Receivable

The note receivable consists of a $426,100 uncollateralized promissory note receivable from a developer bearing interest at 9%. On January 1, 2010, the Authority has the option to acquire certain improvements constructed by the developer. If the Authority does not exercise the option, 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.

5. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	July 1, 2008	Increases	Decreases	June 30, 2009
Governmental Activities				
Capital assets, not being depreciated:				
Land	$ 2,373,410	$ -	$ -	$ 2,373,410
Construction in progress	11,642,130	440,865	(9,792,125)	2,290,870
Total capital assets not being depreciated	14,015,540	440,865	(9,792,125)	4,664,280
Capital assets, being depreciated:				
Building and improvements	48,061,442	3,393,113	(4,967,999)	46,486,556
Equipment	1,197,769	-	-	1,197,769
Total capital assets being depreciated	49,259,211	3,393,113	(4,967,999)	47,684,325
Less accumulated depreciation for:				
Building and improvements	22,343,025	1,540,442	(482,381)	23,401,086
Equipment	1,118,982	14,197	-	1,133,179
Total accumulated depreciation	23,462,007	1,554,639	(482,381)	24,534,265
Governmental activities, net	$ 39,812,744	$ 2,279,339	$(14,277,743)	$ 27,814,340

	July 1, 2008	Increases	Decreases	June 30, 2009
Business-Type Activities				
Capital assets, not being depreciated:				
Land	$ 22,972,800	$ -	$ (6,600)	$ 22,966,200
Construction in progress	23,755,408	11,884,386	(28,955,773)	6,684,021
Total capital assets not being depreciated	46,728,208	11,884,386	(28,962,373)	29,650,221
Capital assets being depreciated:				
Building and improvements	487,642,229	37,650,782	(2,157,624)	523,135,387
Equipment	10,284,621	81,886	(365,519)	10,000,988
Total capital assets being depreciated	497,926,850	37,732,668	(2,523,143)	533,136,375
Less accumulated depreciation for:				
Building and improvements	265,423,787	13,560,075	(1,002,976)	277,980,886
Equipment	9,405,317	322,359	(206,663)	9,521,013
Total accumulated depreciation	274,829,104	13,882,434	(1,209,639)	287,501,899
Business-type activities capital assets, net	$ 269,825,954	$ 35,734,620	$ (30,275,877)	$ 275,284,697

5. Capital Assets (continued)

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

Governmental Activities	
Homeless Service and Assistance Program	$ 121,326
Rental Housing and Assistance Program	1,433,314
Total depreciation expense – governmental activities	1,554,640
Business-Type Activities	
Federal Low Rent Program	10,854,271
Housing Revolving Fund	590,926
Housing for Elders Revolving Fund	1,414,393
Central Office Cost Center Fund	2,464
Others	1,020,380
Total depreciation expense – business-type activities	13,882,434
Total depreciation expense	$ 15,437,074

At June 30, 2009, capital assets for the proprietary funds consisted of the following:

	Enterprise Funds							
	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds	Total
Land	$ 13,093,629	$ 2,252,881	$ 6,104,817	$ -	$ 1,514,873	$ 22,966,200	$ -	$ 22,966,200
Buildings and improvements	419,451,696	22,311,062	55,275,568	42,857	26,054,204	523,135,387	-	523,135,387
Equipment, furniture and fixtures	6,800,599	252,521	208,356	65,557	703,087	8,030,120	1,970,868	10,000,988
Construction in Progress	6,319,137	288,541	76,343	-	-	6,684,021	-	6,684,021
Less accumulated depreciation	244,733,820	9,794,803	21,442,399	22,145	9,590,413	285,583,580	1,918,319	287,501,899
Net property and equipment	$ 200,931,241	$ 15,310,202	$ 40,222,685	$ 86,269	$ 18,681,751	$ 275,232,148	$ 52,549	$ 275,284,697

6. Mortgage and Note Payable

The Banyan Street Manor Project entered into a mortgage note agreement in October 1976 in the amount of $1,727,800 with USGI, Inc. (insured by HUD). On September 1, 1996, Greystone Servicing Authority, Inc. (GSCI) became the new servicing agent and mortgagee. The mortgage loan bears interest at 7.5 percent and is collateralized by the rental property. At June 30, 2009, the mortgage payable balance was $245,455. Principal and interest are payable in monthly installments of $11,370, maturing January 1, 2018.

The note payable amounting to $171,327 is an unsecured promissory note payable to an individual (the former owner of Banyan Street). The entire principal balance plus accrued interest, which accrues at the same rate as the residual receipt funds held by GSCI, Inc. (approximately 1.0 percent for the year ended June 30, 2009), is due within 45 days of full payment of the 7.5 percent GSCI, Inc. mortgage note collateralized by HUD which matures on January 1, 2018.

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

	Balance at July 1, 2008	Addition	Reductions	Balance at June 30, 2009	Less Current Portion	Long-Term Portion
Mortgage payable	$ 335,414	$ -	$ 89,959	$ 245,455	$ 122,176	$ 123,279
Note payable	171,327	-	-	171,327	-	171,327
Total	$ 506,741	$ -	$ 89,959	$ 416,782	$ 122,176	$ 294,606

6. Mortgage and Note Payable (continued)

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

	Principal	Interest	Total
Year ending June 30,			
2010	$ 122,176	$ 14,000	$ 136,176
2011	123,279	5,000	128,279
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015-2019	171,327	-	171,327
	$ 416,782	$ 19,000	$ 435,782

7. Leases

a. Lease Commitments

The Authority leases land under noncancellable operating lease expiring at 2028. The land lease for the Banyan Street Manor Project contains the option to purchase the fee-simple interest in the land at any time for a specified percentage of fair market value at the time of purchase.

8. Commitments and Contingencies

a. Construction Contracts

At June 30, 2009, the Federal Low Rent Program fund and the Capital Projects fund had outstanding construction contract commitments to expend approximately $5,261,000 and $10,538,000, respectively, for the construction and renovation of housing projects.

8. Commitments and Contingencies (continued)

b. Torts

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

c. Workers' Compensation Policy

The State is self-insured for workers' compensation. Accordingly, the Authority is liable for workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims include the effects of specific incremental claim adjustment expenses, salvage and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. The workers' compensation reserve amounted to approximately $304,000 at June 30, 2009.

d. Accumulated Sick Leave Pay

Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limitation. It may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave at June 30, 2009 amounted to approximately $4,996,000.

e. Deferred Compensation Plan

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

8. Commitments and Contingencies (continued)

f. Litigation

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

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

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

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

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

8. Commitments and Contingencies (continued)

f. Litigation (continued)

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

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

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

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

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

On June 30, 1997, the Governor approved Act 329, Session Laws of Hawaii, 1997. The purpose of this Act was to achieve a comprehensive, just and lasting resolution of all controversies relating to the proper management and disposition of the lands subject to public

8. Commitments and Contingencies (continued)

f. Litigation (continued)

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

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

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

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

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

On July 27, 1995, OHA filed suit against the Hawaii Housing Authority and the State Director of Finance to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of ceded lands, which were transferred to the Authority for rental housing projects. On January 11, 2000, all proceedings in this suit were pending the Hawaii Supreme Court's decision in the State's appeal. On March 31, 2009, the Supreme Court of the United States decided in favor with the State.

8. Commitments and Contingencies (continued)

f. Litigation (continued)

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

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

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

On December 18, 2008, the disabled residents of Kuhio Park Terrace and Kuhio Homes filed a law suit against the Agency alleging housing conditions violated federal disability laws. The plaintiffs seek injunctive and declaratory relief, damages, attorney's fees and costs, and additional relief. As of June 30, 2009 the Authority estimates the loss to be approximately $600,000, which has been recorded in the accompanying statement of net assets of the Authority.

9. Retirement Plan

a. Plan Description

All eligible employees of the State and Counties are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. The ERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for ERS. That report may be obtained from ERS.

The ERS consists of a contributory plan and a noncontributory plan. Employees covered by Social Security on June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984, who are covered by Social Security, are generally required to join the noncontributory plan. Both plans provide a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation (AFC). The AFC is the average salary earned during

9. Retirement Plan (continued)

a. Plan Description (continued)

the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service excluding the vacation payment. All benefits vest after five and ten years of credited service for the contributory and noncontributory plans, respectively. All contributions, benefits and eligibility requirements are governed by Chapter 88.

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

b. Funding Policy

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

The Authority's contributions requirements as of June 30, 2009, 2008 and 2007 were approximately $1,728,000, $1,589,000, and $1,556,000 respectively.

10. Other Post Retirement Employee Benefits

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

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

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

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

Annual OPEB Cost and Net OPEB Obligation

It is the State's policy that measurement of the actuarial valuation and the annual required contribution (ARC) are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Authority. The state allocates the ARC to the various departments and agencies based upon a systematic methodology. The Authority's contribution for the year ended June 30, 2009 was $1,020,066, which represented 37% of the Authority's share of the ARC for postretirement healthcare and life insurance benefits of $2,722,236.

10. Other Post Retirement Employee Benefits (continued)

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2009:

Balance at June 30, 2008	$ 1,764,956
Additions	2,722,236
Deletions	(1,020,066)
Balance at June 30, 2009	$ 3,467,126

As of June 30, 2009, approximately $379,000 and $3,088,000 of the postretirement liability balance was for government-wide activities and business-type activities, respectively, and is included in the accompanying balance sheets.

The State's CAFR includes the required footnote disclosure and required supplementary information on the State's post-retirement health care and life insurance benefit plans.

11. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2009 is as follows:

Due from	General Fund	Housing Choice Voucher	Section 8 Contract Admin	Federal Low Rent Program	Housing Revolving Fund	Housing For Elders Revolving Fund	Central Office Cost Center Fund	Internal Services Fund	Non-major Enterprise
General Fund	$ -	$ -	$ -	$ -	$ -	$ -	$ 271,016	$ -	$ 87,295
Housing Choice Voucher	-	-	-	-	-	-	565,910	-	-
Section 8 Contract Admin	-	-	-	-	-	-	131,932	-	25,349
Federal Low-Rent Program	-	28,262	-	-	-	-	6,815,510	-	-
Housing Revolving Fund	-	-	-	-	-	-	303,718	-	-
Housing for Elders Revolving Fund	3,407	-	-	-	-	-	246,162	-	-
Internal Services	-	-	-	-	-	-	-	-	56,264
Nonmajor – Enterprise	2,723	1,957,940	509,110	400,105	1,024,999	206,461	946,969	117,389	98,139
Nonmajor – Government	-	-	-	-	-	-	-	-	17,373
Total	$6,130	$ 1,986,202	$ 509,110	$400,105	$ 1,024,999	$ 206,461	$ 9,281,217	$117,389	$ 284,420

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

12. Operating Transfers

The composition of net operating transfer balances reflected in the financial statements as of June 30, 2009 is as follows:

Transfer From	Housing Choice Voucher	Federal Low Rent Program	Housing Revolving Fund	Housing For Elders Revolving Fund	Central Office Cost Center Fund	Nonmajor – Enterprise
General Fund	$ -	$ 2,969,648	$ 602,985	$ 597,014	$ 2,737	$ -
Capital Projects Fund	-	1,048,624	-	-	-	-
Section 8 Contract Admin	-	-	-	-	-	385,124
Federal Low Rent Program	-	-	-	-	2,326,308	-
Nonmajor – Government	45,011	-	-	-	-	-
Government-Wide: Capital Projects	-	6,268,948	3,866,315	406,366	-	91,727
Total	$ 45,011	$ 10,287,220	$4,469,300	$1,003,380	$ 2,329,045	$ 476,851

The following describes the operating transfers noted above:

General Fund: The General Fund expended approximately $4,172,000 from the current year annual State of Hawaii appropriations to pay for rental housing service shortfalls under certain enterprise funds.

Capital Projects: The Capital Projects fund expended approximately $1,049,000 for the benefit of certain properties under the Federal Low Rent Program fund.

Section 8 Contract Administration: The Section 8 Contract Administration fund expended approximately $385,000 from its administrative fee to pay for rental housing service shortfalls under certain enterprise funds.

Federal Low Rent Program: The Central Office Cost Center was established in 2009 to account for costs related to the general oversight of its housing projects and other indirect and administrative costs of the Authority. The net transfer from the Federal Low Rent Program to the Central Office Cost Center of approximately $2,326,000 represents the net assets that were allocated from the Federal Low Rent Program to the Central Office Cost Center in accordance with project based accounting guidelines established by the U.S. Department of Housing and Urban Development.

12. Operating Transfers (continued)

Nonmajor – Government: Approximately $45,000 was transferred from the Resident Opportunities and Self-Sufficiency fund to the Housing Choice Voucher Program to pay for family self-sufficiency program services as permitted by the U.S. Department of Housing and Urban Development.

Government-Wide: Approximately $10,633,000 of fixed assets was transferred from the government-wide statement of net assets to the Federal Low Rent Program, Housing Revolving Fund, Housing for Elders Revolving Fund, and certain non-major enterprise funds for projects wholly or partially funded by the General Fund and Capital Projects Fund.

13. Intergovernmental Transfers

Department of Education: Effective July 1, 2008 the Teacher Housing Revolving Fund was transferred to the Department of Education (DOE) as directed under Act 204, SLH 2005. The Teacher Housing Revolving Fund's net assets of $2,258,211 were transferred out of HPHA at the beginning of the current fiscal year and were reflected on the financial statements as of June 30, 2009. In addition, the Authority also transferred to the DOE $774,487 of Capital Project's assets. The Authority has agreed to complete any CIP projects that were initiated prior to the transfer to maintain continuity. The amounts were recorded as intergovernmental transfers during the year ended June 30, 2009.

Hawaii Housing Finance Development Corporation: The Authority has agreed to complete various capital projects related to the HFDC that were initiated prior to their bifurcation and creation of the Authority in 2006. As a result, $3,646,170 of Capital Project's assets related to these projects was transferred out and recorded as intergovernmental transfers during the year ended June 30, 2009.

Required Supplementary Information
Other Than Management Discussion and Analysis

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2009

	General Fund		
	Original Budget	Final Budget	Budgetary Actual
Revenues -			
State allotted appropriations	$ 22,260,859	$ 21,589,503	$ 21,445,740
Expenditures:			
Homeless service and assistance program	15,988,592	15,317,236	13,881,958
Rental housing and assistance program	6,272,267	6,272,267	5,394,729
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ 2,169,053

	Housing Choice Voucher Program		
	Original Budget	Final Budget	Budgetary Actual
Revenues -			
HUD contributions	$ 21,323,703	$ 20,502,126	$ 20,578,390
Expenditures -			
Rental housing and assistance program	21,323,703	20,502,126	20,674,328
DEFICIENCY OF REVENUES UNDER EXPENDITURES	$ -	$ -	$ (95,938)

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS (continued)

Year ended June 30, 2009

	Section 8 Contract Administration		
	Original Budget	Final Budget	Budgetary Actual
Revenues			
HUD contributions	$ 27,374,925	$ 22,660,093	$ 23,632,408
Expenditures			
Rental housing and assistance program	27,374,925	22,660,093	23,366,853
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -	$ 265,555

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
BUDGET-TO-GAAP RECONCILIATION

Year ended June 30, 2009

	General Fund	Housing Choice Voucher Program	Section 8 Contract Administration
Excess (deficiency) of revenues over (under) expenditures and other sources and uses - actual on budgetary basis	$ 2,169,053	$ (95,938)	$ 265,555
Reserve for encumberance at year end*	6,385,137	-	-
Expenditures for liquidation of prior year's encumbrances	(5,533,311)	-	-
Reversion of prior year's allotments	(488,203)	-	-
Accrual adjustments, operating transfers and other	(4,320,877)	(1,677)	(384,933)
DEFICIENCY OF REVENUES UNDER EXPENDITURES AND OTHER USES - US GAAP BASIS	$ (1,788,201)	$ (97,615)	$ (119,378)

* Amount reflects the encumbrance balance included in continuing appropriation.

See accompanying independent auditor's report.

Supplementary Information

Hawaii Public Housing Authority

COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS

June 30, 2009

ASSETS	Shelter Plus Care	HOPWA Program	Emergency Shelter Grant Program	ROSS	Supportive Housing Program	Boys and Girls Club	Total
Current Assets							
Cash	$ 2,087	$ 29	$ 31	$ 28	$ 51	$ 4	$ 2,230
Due from HUD	86,332	220	49,016	377,974	115,481	5,923	634,946
TOTAL ASSETS	$ 88,419	$ 249	$ 49,047	$ 378,002	$ 115,532	$ 5,927	$ 637,176
LIABILITIES AND FUND BALANCES							
Current Liabilities							
Accounts payable	$ 86,332	$ -	$ 48,796	$ 372,307	$ 110,138	$ 4	$ 617,577
Due to other funds	-	220	220	5,667	5,343	5,923	17,373
Due to HUD	2,087	29	31	28	51	-	2,226
Total current liabilities	88,419	249	49,047	378,002	115,532	5,927	637,176
Fund Balances - Unreserved	-	-	-	-	-	-	-
TOTAL LIABILITIES AND FUND BALANCES	$ 88,419	$ 249	$ 49,047	$ 378,002	$ 115,532	$ 5,927	$ 637,176

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2009

	Shelter Plus Care	HOPWA Program	Emergency Shelter Grant Program	ROSS	Supportive Housing Program	Boy and Girls Club	Total
Revenue							
Intergovernmental – HUD annual contributions and others	$ 904,903	$ 170,733	$ 240,661	$ 540,688	$ 261,193	$ 1,887	$ 2,120,065
Expenditure - Administration	904,903	170,733	240,661	495,677	261,193	1,887	2,075,054
EXCESS OF REVENUES OVER EXPENDITURES	-	-	-	45,011	-	-	45,011
Other Financing Uses - Transfers Out	-	-	-	(45,011)	-	-	(45,011)
NET CHANGE IN FUND BALANCES	-	-	-	-	-	-	-
Fund Balances at July 1, 2008	-	-	-	-	-	-	-
Fund Balances at June 30, 2009	$ -	$ -	$ -	$ -	$ -	$ -	$ -

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET ASSETS – NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2009

ASSETS	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Current Assets							
Cash	$ -	$ 27,071	$ 171,929	$ 66,107	$ 5,675,108	$ 123,912	$ 6,064,127
Receivables							
Accrued interest	-	-	-	-	82,672	-	82,672
Tenant receivables, less allowance for doubtful accounts	-	281	67,808	4,062	-	86,931	159,082
Other	-	67,023	5,590	-	-	-	72,613
	-	67,304	73,398	4,062	82,672	86,931	314,367
Due from other funds	-	-	-	-	284,420	-	284,420
Due from other state agencies	-	-	-	-	713,390	-	713,390
Due from HUD	-	-	111,870	-	-	-	111,870
Prepaid expenses and other assets	-	63,503	-	-	-	-	63,503
Deposits held in trust	-	-	-	26,464	-	-	26,464
Total current assets	-	157,878	357,197	96,633	6,755,590	210,843	7,578,141
Restricted Deposits and Funded Reserves	-	1,536,832	5,808,679	-	-	-	7,345,511
Capital Assets, less accumulated depreciaiton	-	3,277,402	4,488,117	-	-	10,916,232	18,681,751
TOTAL ASSETS	$ -	$ 4,972,112	$ 10,653,993	$ 96,633	$ 6,755,590	$ 11,127,075	$ 33,605,403

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

June 30, 2009

LIABILITIES AND NET ASSETS	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Current Liabilities							
Accounts payable	$ -	$ 218,198	$ 18,471	$ 25,830	$ 1,526,555	$ -	$ 1,789,054
Accrued expenses - other	-	104,779	12,276	560,173	-	32,344	709,572
Due to other funds	-	408,619	57,639	140,906	4,653,863	2,808	5,263,835
Due to other state agencies	-	-	-	-	5,846	-	5,846
Due to State of Hawaii	-	-	-	-	571,402	-	571,402
Due to HUD	-	-	12,659	-	-	-	12,659
Security deposits	-	8,668	14,716	26,464	-	11,109	60,957
Deferred income	-	-	22,729	-	-	-	22,729
Mortgage payable, current portion	-	122,176	-	-	-	-	122,176
Total current liabilities	-	862,440	138,490	753,373	6,757,666	46,261	8,558,230
Mortgage Payable, net of current portion	-	294,606	-	-	-	-	294,606
Net Assets							
Invested in capital assets, net of related debt	-	2,860,620	4,488,117	-	-	10,916,232	18,264,969
Restricted by legislation and contractual agreements	-	1,536,832	5,808,679	-	-	-	7,345,511
Unrestricted	-	(582,386)	218,707	(656,740)	(2,076)	164,582	(857,913)
Total net assets	-	3,815,066	10,515,503	(656,740)	(2,076)	11,080,814	24,752,567
TOTAL LIABILITIES AND NET ASSETS	$ -	$ 4,972,112	$ 10,653,993	$ 96,633	$ 6,755,590	$ 11,127,075	$ 33,605,403

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2009

	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Operating Revenues							
Rental	$ -	$ 217,549	$ 219,084	$ 325,995	$ -	$ 449,977	$ 1,212,605
Other	-	5,225	54,627	10,070	-	-	69,922
Total operating revenues	-	222,774	273,711	336,065	-	449,977	1,282,527
Operating Expenses							
Personnel services	-	-	-	73,794	-	100,177	173,971
Depreciation	-	153,562	324,403	-	-	496,192	974,157
Administration	-	124,978	317,277	165,866	-	88,862	696,983
Provision for losses	-	-	-	-	-	27,288	27,288
Professional services	-	-	-	971	-	3,331	4,302
Insurance	-	32,250	20,959	80,771	-	16,615	150,595
Repairs and maintenance	-	93,641	202,679	65,567	-	54,350	416,237
Utilities	-	65,898	111,548	93,982	-	227,256	498,684
Other	-	300,081	-	-	-	-	300,081
Total operating expenses	-	770,410	976,866	480,951	-	1,014,071	3,242,298
Operating loss	-	(547,636)	(703,155)	(144,886)	-	(564,094)	(1,959,771)
Nonoperating Revenues							
Interest income	-	-	56,595	-	-	70	56,665
Total nonoperating revenues	-	-	56,595	-	-	70	56,665
Loss	-	(547,636)	(646,560)	(144,886)	-	(564,024)	(1,903,106)
Intergovernmental Transfer	(2,258,211)	-	-	-	-	-	(2,258,211)
Net Operating Transfers	-	21,333	70,394	385,124	-	-	476,851
CHANGE IN NET ASSETS	$ (2,258,211)	$ (526,303)	$ (576,166)	$ 240,238	$ -	$ (564,024)	$ (3,684,466)

See accompanying independent auditor's report.

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

Year ended June 30, 2009

	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Net Assets at July 1, 2008	$ 2,258,211	$ 4,341,369	$ 11,091,669	$ (896,978)	$ (2,076)	$ 11,644,838	$ 28,437,033
Change in Net Assets	(2,258,211)	(526,303)	(576,166)	240,238	-	(564,024)	(3,684,466)
Net Assets at June 30, 2009	$ -	$ 3,815,066	$ 10,515,503	$ (656,740)	$ (2,076)	$ 11,080,814	$ 24,752,567

See accompanying independent auditor's report.

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2009

	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Cash Flows from Operating Activities							
Cash received from renters	$ -	$ 216,597	$ 168,980	$ 325,995	$ -	$ 403,984	$ 1,115,556
Cash payments to employees	-	-	-	(73,794)	-	(100,177)	(173,971)
Cash payments to suppliers	-	(364,050)	(675,189)	(339,292)	(308,743)	(412,156)	(2,099,430)
Cash receipts from other funds	-	334,557	41,861	132,531	4,358,738	(48,506)	4,819,181
Other cash (payments) receipts	-	(63,588)	44,189	10,070	(105,280)	-	(114,609)
Net cash provided by (used in) operating activities	-	123,516	(420,159)	55,510	3,944,715	(156,855)	3,546,727
Cash Flows from Noncapital Financing Activities							
Intergovernmental transfer	(1,063,621)	-	-	-	-	-	(1,063,621)
Interest paid to Department of Budget and Finance	-	-	-	-	-	-	-
Cash payments to other state agencies	-	-	-	-	(40,526)	-	(40,526)
Net cash used in noncapital financing activities	(1,063,621)	-	-	-	(40,526)	-	(1,104,147)
Cash Flows from Capital and Related Financing Activities							
Payments for acquisition of property and equipment	-	(449,059)	(8,920)	-	-	-	(457,979)
Principal payments on mortgage loans	-	(89,959)	-	-	-	-	(89,959)
Net cash used in capital and related financing activities	-	(539,018)	(8,920)	-	-	-	(547,938)
Cash Flows from Investing Activities							
Receipts of interest	-	-	56,595	-	-	70	56,665
Change in Valuation of Cash Held in State of Hawaii Treasury	-	-	-	-	(257,892)	-	(257,892)
Net decrease in restricted deposits and funded reserves	-	442,573	128,930	-	-	-	571,503
Net cash provided by (used in) investing activities	-	442,573	185,525	-	(257,892)	70	370,276
NET (DECREASE) INCREASE IN CASH	(1,063,621)	27,071	(243,554)	55,510	3,646,297	(156,785)	2,264,918
Cash at July 1, 2008	1,063,621	-	415,483	10,597	2,028,811	280,697	3,799,209
Cash at June 30, 2009	$ -	$ 27,071	$ 171,929	$ 66,107	$ 5,675,108	$ 123,912	$ 6,064,127

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2009

	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Cash Flows from Operating Activities							
Reconciliation of operating loss to net cash provided by (used in) operating activities							
Operating loss	$ -	$ (547,636)	$ (703,155)	$ (144,886)	$ -	$ (564,094)	$ (1,959,771)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities							
Depreciation	-	153,562	324,403	-	-	496,192	974,157
Bad debt expense	-	-	-	-	-	27,288	27,288
Changes in assets and liabilities:							
Tenant receivables	-	14	(67,808)	-	-	(45,993)	(113,787)
Other receivables	-	(66,912)	101,432	-	(82,672)	-	(48,152)
Due from other funds	-		-	132,531	5,529,230	-	5,661,761
Due from HUD	-	-	(111,870)	-	-	-	(111,870)
Prepaid expenses and other assets	-	(111)	-	-	-	-	(111)
Deposits held in trust	-	-	-	701	-	-	701
Accounts payable	-	148,130	-	22,428	(226,071)	-	(55,513)
Other accrued expenses	-	104,779	-	45,437	-	(21,742)	128,474
Other liabilities	-	-	(22,726)	-	-	-	(22,726)
Due to other funds	-	334,557	41,861	-	(1,170,492)	(48,506)	(842,580)
Due to HUD	-	(1,901)	-	-	-	-	(1,901)
Security deposits	-	(966)	(5,025)	(701)	-	-	(6,692)
Deferred income	-	-	22,729	-	(105,280)	-	(82,551)
Net cash provided by (used in) operating activities	$ -	$ 123,516	$ (420,159)	$ 55,510	$ 3,944,715	$ (156,855)	$ 3,546,727

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET ASSETS – INTERNAL SERVICE FUNDS

June 30, 2009

ASSETS	Equipment Rental	Vehicle Rental	Total
Current Assets			
Cash	$ 768,664	$ 435,546	$ 1,204,210
Accrued interest receivable	25,688	14,456	40,144
Due from other funds	-	117,389	117,389
Total current assets	794,352	567,391	1,361,743
Capital Assets, less accumulated depreciation	9,666	42,883	52,549
TOTAL ASSETS	$ 804,018	$ 610,274	$ 1,414,292
LIABILITIES AND NET ASSETS			
Current Liability			
Due to other funds	$ 56,264	$ -	$ 56,264
Net Assets			
Invested in capital assets	9,666	42,883	52,549
Unrestricted	738,088	567,391	1,305,479
Total net assets	747,754	610,274	1,358,028
TOTAL LIABILITIES AND NET ASSETS	$ 804,018	$ 610,274	$ 1,414,292

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2009

	Equipment Rental	Vehicle Rental	Total
Operating Revenue -			
Rental	$ 13,540	$ 117,078	$ 130,618
Total operating revenues	13,540	117,078	130,618
Operating Expenses:			
Professional services	1,480	1,487	2,967
Depreciation	15,361	30,862	46,223
Capital expenditures	5,565	-	5,565
Total operating expenses	22,406	32,349	54,755
Operating Income (loss)	(8,866)	84,729	75,863
Nonoperating Revenues (Expenses)			
Interest Income	55,125	32,349	87,474
Loss on disposals of capital assets	-	(10,570)	(10,570)
Other Expenses	(34,869)	(24,486)	(59,355)
Change in net assets	11,390	82,022	93,412
Net Assets at July 1, 2008	736,364	528,252	1,264,616
Net Assets at June 30, 2009	$ 747,754	$ 610,274	$ 1,358,028

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS

Year Ended June 30, 2009

	Equipment Rental	Vehicle Rental	Total
Cash Flows from Operating Activities			
Cash receipts from (payments to) other funds	$ 3,721	$ (9,629)	$ (5,908)
Other cash payments	(7,045)	(1,487)	(8,532)
Net cash used in operating activities	(3,324)	(11,116)	(14,440)
Cash Flows from Capital and Related Financing Activity			
Payments for acquisition of property and equipment	(13,573)	-	(13,573)
Net cash used in capital and related financing activity	(13,573)	-	(13,573)
Cash Flows From Investing Activities:			
Change in Valuation of Cash Held in State of Hawaii Treasury	(34,869)	(19,758)	(54,627)
Receipts of interest	32,066	19,339	51,405
Net cash used in investing activities	(2,803)	(419)	(3,222)
NET DECREASE IN CASH	(19,700)	(11,535)	(31,235)
Cash at July 1, 2008	788,364	447,081	1,235,445
Cash at June 30, 2009	$ 768,664	$ 435,546	$ 1,204,210

	Equipment Rental	Vehicle Rental	Total
Cash Flows from Operating Activities			
Reconciliation of operating (loss) income to net cash used in operating activities			
Operating (loss) income	$ (8,866)	$ 84,729	$ 75,863
Adjustments to reconcile operating (loss) income to net cash used in operating activities			
Depreciation	15,361	30,862	46,223
Changes in assets and liabilities			
Due from other funds	-	(122,117)	(122,117)
Due to other funds	(9,819)	(4,590)	(14,409)
Net cash used in operating activities	$ (3,324)	$ (11,116)	$ (14,440)

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH

June 30, 2009

The Authority's cash consists of the following as of June 30, 2009:

Equity in State Treasury investment pool - Gov't Wide	$ 8,825,357
Cash in banks	18,186,723
Deposits held in trust	26,464
	27,038,544
Equity in State Treasury investment pool - Fiduciary Funds	1,655
	$ 27,040,199

Total cash is in agreement with the State Comptroller's central accounting records as of June 30, 2009, as reconciled below:

	Appropriation symbol	June 30, 2009
Cash in State Treasury		
Special Funds	S-04-337-K	$ 18,309
	S-05-337-K	20,773
	S-07-337-K	76,886
	S-08-337-K	11,412
	S-09-337-K	1,682,284
	S-00-308-K	8,789
	S-02-308-K	1,062
	S-03-308-K	1,088
	S-05-308-K	70
	S-07-308-K	1,359
	S-08-308-K	45,567
	S-09-308-K	189,468
	S-08-304-K	89,005
	S-06-332-K	3,200
	S-07-332-K	40,818
	S-08-332-K	6,530
	S-09-332-K	5,767,348
	S-09-336-K	803,533
	S-09-335-K	455,304
Trust Funds	T-06-927-K	588
	T-07-920-K	1,062
	T-09-913-K	36,007
Total cash held in State Treasury as reported by State Comptrollers accounting records carried forward		9,260,462

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH (continued)

June 30, 2009

	Appropriation symbol	June 30, 2009
Subtotal brought forward		9,260,462
Reconciling items:		
Summary Warrant Vouchers not recorded by DAGS		(31,665)
State Treasury Investment Pool Write-down		(401,785)
		(433,450)
Cash held outside State Treasury:		
Cash in bank		18,186,723
Deposits held in trust		26,464
		18,213,187
Cash on statement of net assets		$ 27,040,199

See accompanying independent auditor's report.

Hawaii Public Housing Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2009

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development:		
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments - Special Allocations	14.195	$ 23,366,853
Emergency Shelter Grants Program	14.231	240,661
Supportive Housing Program	14.181	261,193
Shelter Plus Care	14.238	904,903
Housing Opportunities for Persons with AIDS Program	14.241	170,733
Public and Indian Housing	14.850	20,774,293
Section 8 Housing Choice Vouchers Program	14.871	19,925,782
Public Housing Capital Fund	14.872	15,284,905
Resident Opportunity & Self Sufficiency	14.870	495,677
Community Development Block Grants/Economic Development Initiative	14.246	1,887
TOTAL FEDERAL EXPENDITURES		$ 81,426,887

The accompanying note is an integral part of this schedule.

Hawaii Public Housing Authority

Note to the Schedule of Expenditures of Federal Awards
Year ended June 30, 2009

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Hawaii Public Housing Authority, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

PART II

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

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

Board of Directors
Hawaii Public Housing Authority

We have audited the financial statements of the Hawaii Public Housing Authority, as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated March 18, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential, will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, items 2009-01 through 2009-04 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-01 through 2009-04 to be material weaknesses.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of the Hawaii Public Housing Authority, in a separate letter dated March 18, 2010.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hawaii Public Housing Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of the Hawaii Revised Statutes) and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and response as items 2009-05, 2009-10, 2009-11, and 2009-15 through 2009-18.

We noted certain matters that we reported to management of the Hawaii Public Housing Authority in a separate letter dated March 18, 2010.

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

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 18, 2010

PART III

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

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

Board of Directors
Hawaii Public Housing Authority

Compliance

We have audited the compliance of the Hawaii Public Housing Authority (the Authority) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Hawaii Public Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hawaii Public Housing Authority's management. Our responsibility is to express an opinion on the Hawaii Public Housing Authority's compliance based on our audit.

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

As described in item 2009-05 in the accompanying *Schedule of Findings and Questioned Costs*, the Hawaii Public Housing Authority did not comply with requirements regarding special tests and provisions that are applicable to its Section 8 Housing Choice Voucher program. Compliance with such requirements is necessary, in our opinion, for the Hawaii Public Housing Authority to comply with requirements applicable to that program.

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As described in items 2009-10 and 2009-11 in the accompanying *Schedule of Findings and Questioned Costs*, the Hawaii Public Housing Authority did not comply with requirements regarding the Davis Bacon Act and reporting that are applicable to its Public Housing Capital Fund program. Compliance with such requirements is necessary, in our opinion, for the Hawaii Public Housing Authority to comply with requirements applicable to that program.

As described in items 2009-15, 2009-16, 2009-17 and 2009-18 in the accompanying *Schedule of Findings and Questioned Costs*, the Hawaii Public Housing Authority did not comply with requirements regarding allowable costs and cost principles and special tests and provisions that are applicable to its Public and Indian Housing program. Compliance with such requirements is necessary, in our opinion, for the Hawaii Public Housing Authority to comply with requirements applicable to that program.

As described in items 2009-24 and 2009-25 in the accompanying *Schedule of Findings and Questioned Costs*, the Hawaii Public Housing Authority did not comply with requirements regarding reporting and subrecipient monitoring that is applicable to its Shelter Plus Care program. Compliance with such requirements is necessary, in our opinion, for the Hawaii Public Housing Authority to comply with requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Hawaii Public Housing Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2009-06 through 2009-09, 2009-12 through 2009-14, 2009-19 to 2009-23 and 2009-26 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 2009-06 through 2009-08, 2009-12 through 2009-14, 2009-19 to 2009-22 and 2009-26 to be material weaknesses.

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

The Hawaii Public Housing Authority's responses to the findings identified in our audit are described in the Response by Affected Agency section. We did not audit the Hawaii Public Housing Authority's response and, accordingly, we express no opinion on it.

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

KMH LLP

KMH LLP

Honolulu, Hawaii
March 18, 2010

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs
Year Ended June 30, 2009

Section I – Summary of Auditor's Results:

Financial Statements

Type of auditor's report issued: Unqualified.

Internal control over financial reporting:

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

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program
14.871	Section 8 Housing Choice Vouchers Program
14.872	Public Housing Capital Fund
14.850	Public and Indian Housing
14.238	Shelter Plus Care

Dollar threshold used to distinguish between type A and type B programs: $2,442,806 (3% of federal award expended)

Auditee qualified as low-risk auditee?	___ Yes	√ No

Section II – Financial Statement Findings

Finding No.: 2009-01 Financial Management Competencies - Material Weakness

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

Condition & cause: The lack of appropriate management leadership and shortage of adequate staffing in the Fiscal Management Office (FMO) have continued to significantly impact HPHA's ability to perform its core accounting functions. Many of the issues and conditions noted in the current year were originated from prior years.

HPHA is currently challenged in obtaining and retaining qualified accounting personnel, especially at more senior levels where a high level of understanding of accounting principles and financial reporting standards and application is required. With the recent departure of its Chief Financial Officer and Fiscal Officer, the agency's ability to provide timely and reliable financial reporting has been severely compromised. Consequently, numerous routine accounting functions and control activities were not being performed on a timely basis. This lack of dedicated oversight responsibilities and overall management of its accounting and financial reporting function during the 2009 fiscal year have limited the effectiveness of HPHA's ability to record and report accurate and timely financial information. Some of these conditions noted include the following:

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

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

Section II – Financial Statement Findings (continued)

Finding No.: 2009-01 Financial Management Competencies - Material Weakness (continued)

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

Questioned costs*:* None

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

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

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

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

1. HPHA should continue its effort to hire a qualified Chief Financial Management Advisor (CFO) and Fiscal Officer.

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

Section II – Financial Statement Findings (continued)

Finding No.: 2009-01 Financial Management Competencies - Material Weakness (continued)

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

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

3. Upon the hiring of the Chief Financial Management Advisor or Fiscal Officer, either should perform the following.

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

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

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

   - Prepare and implement recommendations.

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

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

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

Section II – Financial Statement Findings (continued)

Finding No.: 2009-01Financial Management Competencies- Material Weakness (continued)

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

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

PHA Reply (Corrective Action Plan):

In order to address the problem of untimely financial reporting, the HPHA has contracted with a professional services employment firm to retain five full time accounting professionals to function in the absence of agency filled positions. These contracted personnel are rectifying results of past operational deficiencies in recordkeeping, reconciliations and financial analyses.

With the retention of the professional services team the agency has focused responsibility for upgrading operations and planning departmental work flows that are distributed appropriately among FMO personnel. In the first phase of correction the team has begun its planning effort and will produce its written plan in the first calendar quarter of 2010.

Senior fiscal office staff will work with the team to assess capabilities of existing departmental personnel to recommend suitable staffing configuration and target appropriate additional training and cross training where needed. As a part of this process, HPHA has contacted a mainland Housing Authority to request the on-site services of their Finance Director and an additional senior finance team member to assist with HPHA's analysis of departmental operations deficits, personnel placement, and work flow. However, such an engagement is contingent on funding availability.

The HPHA will, with the Board's strong endorsement, continue to recruit for a qualified Fiscal Officer and budget analyst for the HPHA's fiscal office.

HPHA has developed a comprehensive *Fiscal Management Office Policy & Procedure Manual* that has been distributed to every member of the Financial Management Office. The manual includes reference material; delineates standard control procedures; itemizes processes in major programs; and depicts system flows including application screen shots. The manual was produced in 2009 and includes changes in government program mandates through FY 2009.

Most recently, the HPHA staff received training on project based budgeting and project based accounting by Nan McKay & Associates, a HUD-contractor in order to prepare for the fiscal year 2010-2011 budget cycle.

Section II – Financial Statement Findings (continued)

Finding No.: 2009-01Financial Management Competencies- Material Weakness (continued)

The HPHA will develop a written corrective plan focused on process and desired outcomes including milestones to measure progress and efficacy. This plan will include a comprehensive monthly production checklist with review and monitoring responsibilities assigned to appropriate senior and management personnel.

Contact Person: Mark Buflo

Target Completion Date: March 2010; **Implementation:** beginning March 2010. Completion may be impacted by possible additional statewide reductions in force that could cause the FMO to lose existing personnel and replace those positions with employees transferred from other departments.

Finding No.: 2009-02 Lack of Monitoring- Material Weakness

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

Condition, Cause and Context: Activities that serve to monitor the effectiveness of internal control in the ordinary course of operations are manifold. They include regular management and supervisory activities, comparisons, reconciliations and other routine actions. However, such evaluations are not currently being performed and deficiencies are not being communicated to senior management. Consequently, management is not able to take corrective actions to mitigate those risks. An example of such was the implementation of "project-based" accounting. The change in the reporting requirements of HPHA's housing projects resulted in incorrect information being submitted to the Real Estate Assessment Center, which required the subsequent corrections and re-submission.

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

Section II – Financial Statement Findings (continued)

Finding No.: 2009-02 Lack of Monitoring- Material Weakness (continued)

needs to determine whether the internal control system continues to be relevant and able to address new risks.

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

PHA Reply (Corrective Action Plan):

HPHA is aware of the need to consistently assess financial system performance and that risks need to be fully evaluated and disclosed. The HPHA contracted for the professional services team to work in conjunction with the existing fiscal staff and senior management to establish the groundwork for consistent timely reliable reporting.

Routine processes and production milestones will be calendared for reference and for monitoring. The Fiscal Office will schedule regular staff meetings and internal team meetings to measure progress and assess the consequences of delays or failures of performance, and to reevaluate the work flow and work load of specific staff persons.

The Accounting Supervisor will be required to draft month-end closing procedures and shall be responsible for monitoring adherence to the procedures.

Contact Person: Mark Buflo

Target Completion Date: June 2010

Section II – Financial Statement Findings (continued)

Finding No.: 2009-03 No General Ledger and Non-reconciliations of General Ledger Accounts-Material Weakness

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

Condition, cause & context: Although the general ledger was in full use and financial transactions (checks, deposits, journal vouchers) were being recorded in the "emPHAsys" system and monthly financial statements were first produced for the November 2008 Board meeting, it was determined that certain key internal control activities, such as reconciliations of the general ledger accounts balances to the corresponding transaction or activity details, was not performed. Without these key month-end "closing" processes, the development of reliable financial statements is compromised. Financial statement preparation must involve processes to ensure that the information presented is accurate, complete and properly recorded.

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

- Lack of monthly financial statements

- Reconciliation of the detailed fixed assets and CIP to the general ledger was not performed during the year and the detailed listings of additions and deletions were not available until requested by the auditors. Consequently, projects listed within the CIP schedule that were completed was not appropriately transferred to the Capital Assets account and depreciated.

- Lack of information to perform budget to actual comparisons to determine if the HPHA has sufficient funds to adequately cover operations. Additionally, the lack of budgetary control could result in the HPHA operating with deficits

- Lack of information to perform monthly cost analysis by Management Unit (MU) level to identify the causes of any overruns

Questioned costs: None

Section II – Financial Statement Findings (continued)

Finding No.: 2009-03 No General Ledger and Non-reconciliations of General Ledger Accounts-Material Weakness (continued)

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

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

PHA Reply (Corrective Action Plan):

HPHA recognizes the need for routine, timely, accurate and complete and verifiable General Ledger postings.

To attain the target of routine monthly reporting, with inclusive reconciliations, timely closings, and with fiscal management review and approval, it is necessary to remediate historical deficiencies and inaccuracies in inter-fund, bank and G/L account reconciliations; establish the accrual basis for accounting; assure trial balances are accurate; and move to a production mode in which all necessary closing entries have been confirmed and checked off the monthly production calendar prior to report running.

The HPHA has begun to plan and assess operations, assign and reallocate duties and responsibilities to appropriate personnel, measure outputs, make adjustments as needed. Implementation will begin in March, and the goal is to complete the process by the end of June.

The Accounting Supervisor will be required to draft month-end closing procedures and shall be responsible for monitoring adherence to the procedures.

Contact Person: Mark Buflo

Target Completion Date: June 2010

Section II – Financial Statement Findings (continued)

Finding No.: 2009-04 Lack of Clear Policies and Procedures - Material Weakness

Criteria: Sound internal control procedures require that policies and procedures should be in place and operating effectively.

Condition, cause, and context: During our 2008 review of internal controls, it was revealed that the accounting and budgeting departments do not maintain updated formal policies and procedures manuals or documents related to key internal control functions or activities. For example, HPHA does not maintain documented policies and procedures related to cash reconciliations, tenant accounts receivable reconciliations, general accounts payable processing, HPHA'S reporting, Capital Fund monitoring, or financial reporting procedures, including REAC's electronic submission filing. Toward the end of fiscal 2009, HPHA was in the process of documenting these policies and procedures, but has yet to finalize and implement such policies and procedures.

Effect: The lack of clearly documented updated policies and procedures limits the effectiveness of the HPHA internal control environment and procedures and may result in additional costs expended by HPHA. This is especially true in situations where personnel are new to a position and performing certain functions for the first time. An example of such a situation was the hiring of an outside consultant to complete HPHA's REAC electronic submission filing.

Recommendation: HPHA should continue to complete the documentation of policies and procedures of its key processes. However, given that the Chief Financial Management Advisor and Fiscal Officer are both no longer with the HPHA, an outside specialist may need to be hired to complete the documentation process and to commence the training and implementation of such policies and procedures.

PHA Reply (Corrective Action Plan):

In July 2009 HPHA distributed the *Fiscal Management Office Policy & Procedure Manual* to every member of the Financial Management Office. The manual includes reference material; delineates standard control procedures; itemizes processes in major programs; and depicts system flows including application screen shots. The manual was produced in 2009 and includes current changes in recent government program mandates.

Additional procedures will be defined as needed and appended to the Policy and Procedure Manual when issued.

Section II – Financial Statement Findings (continued)

Finding No.: 2009-04 Lack of Clear Policies and Procedures - Material Weakness (continued)

The HPHA's next step will include in-house training on procedural changes and monitoring for compliance with the policies and procedures.

Contact Person: Mark Buflo

Target Completion Date: Ongoing monitoring of compliance

Section III – Federal Award Findings and Questioned Costs

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

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

Criteria: 24 CFR sections 5.410, 982.54(d) and 982.201 through 982.207 require HPHA to establish policies for verification and documentation of information relevant to the acceptance or rejection of an applicant.

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

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

Effect*:* Non compliance

Questioned costs*:* None

Recommendation: We recommend that HPHA comply with its administrative plan and the above requirements.

PHA Reply (Corrective Action Plan):

As the audit finding states, "Subsequent to year end, management was able to resolve the software application error with its vendor and has re-sequenced the wait list in accordance with the above requirements." The HPHA is also implementing the transition to the upgraded software and expects that problems with the waitlist will be resolved once implementation is completed.

HPHA will continue to comply with its administrative plan and the related requirements.

Contact Person: Norhana Schumacher

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

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

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

Target Completion Date: Completed prior to June 30, 2009

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

Criteria: 24 CFR sections 5.410, 982.54(d) and 982.201 through 982.207 require HPHA to establish policies for verification and documentation of information relevant to the acceptance or rejection of an applicant.

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

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

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

***Questioned costs**:* None

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

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

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

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

PHA Reply (Corrective Action Plan):

With the implementation of the upgraded information system software the not less than 75% requirement has become automated, hence the requirement will be met. A quality assurance program is under development to meet change monitoring requirements on the waiting list.

Contact Person: Norhana Schumacher

Target Completion Date: June 30, 2010

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

Criteria: Before assigning key financial and operational positions, management needs to establish and agree on the knowledge, skills, and abilities needed to effectively carryout the associated responsibilities. Additionally, a written policies and procedures manual will help to ensure that financial and operational knowledge is transferred should an employee retires or leaves the agency.

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

In addition, we noted that with the retirement of a HCVP Branch Manager and the lack of a written policies and procedures manual, there was not an effective transfer of knowledge of the retired branch manager's responsibilities, critical job knowledge, skills and abilities to the appropriate recipients. Consequently, his interim replacement was unsure of the position requirements, which included the location of certain schedules and information. Knowledge transfer preserves the potential loss of intellectual capital in key function areas of the agency. A written policies and procedures manual will help in documenting data and information in a format that allows for the retrieval by others when needed.

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

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

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

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

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

HPHA distributed the *Fiscal Management Office Policy & Procedure Manual* in July 2009; however, this manual is not necessarily relevant to all operations in other sections. Most recently, the HPHA participated in a 2-day training by Nan McKay & Associates on asset management requirements. HPHA staff represented all affected HPHA departments.

Contact Person: Mark Buflo

Target Completion Date: June 2010

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

Criteria: OMB A-133 requires that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and federal reports and maintain accountability over assets.

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

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

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

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

Effect*:* Failure to perform timely reconciliations can lead to misstatement of financial information and increase the risk of misappropriation of cash.

Questioned costs: None

Recommendation: We recommend that management perform timely monthly bank reconciliations of its cash balances.

PHA Reply (Corrective Action Plan):

HPHA is reconciling all bank accounts, with the target set to be current by April 2010. The Accounting Supervisor is responsible for ensuring the timely reconciliations and will be monitored by the Fiscal Officer.

Contact Person: Mark Buflo

Target Completion Date: May 2010

Finding No.: 2009-09 Reporting

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

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

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

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

Finding No.: 2009-09 Reporting (continued)

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

Effect*:* Failure to meet reporting requirements may lead to non-compliance with program requirements.

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

The Voucher Management System reports are created in the Section 8 department; however, the FMO accountant in charge of FMO Section 8 processing will be cross-trained in order to back up Section 8, and to provide an additional level of review prior to submitting the VMS reports.

Contact Person: Mark Buflo, Norhana Schumacher

Target Completion Date: May 2010

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

Public Housing Capital Fund CFDA No. 14.872

Finding No.: 2009-10 Davis Bacon Act

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

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

Effect: Non compliance

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

The HPHA has clarified its procedures to obtain and retain certified payroll reports for all construction contracts as required under the Davis Bacon Act. Additionally, the Construction Management supervisors have been instructed to withhold payments for contractors who fail to submit payroll documents as required.

Contact Person: Lydia Camacho

Target Completion Date: Implemented February 2010

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2009-11 Reporting

Criteria: For each public and Indian housing grant that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002 (24 CFR sections 135.3(a) and 135.90). Additionally in accordance with 24 CFR Section 902.33, HPHA is required to electronically submit the financial statements to HUD in a format prescribed by HUD using the "Financial Data Schedule" (FDS).

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

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

***Effect**:* Non compliance

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

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

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

Contact Person: Steven Chang

Target Completion Date: March 2010

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

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

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

Condition, cause and context: Similar to the HCVP, at the option of the PHAs, they are allowed to recover their indirect costs related to the Public Housing Capital Fund (PHCF) through the use of a fee-for-service model in lieu of a cost allocation plan. During the current year, HPHA initially adopted a fee-for-service model to charge the program. However, it was determined subsequent to year end that the PHCF would not be charged for such indirect costs, and the fees charged were reversed. Subsequent to that determination, management decided to charge the fees for the fiscal year, and at June 30, 2009, management fees were charged to the PHCF by the COCC. Upon further review, it became evident that management was not fully knowledgeable with HUD's requirements related to indirect costing.

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

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

HPHA is aware of the need to establish a fee-for-service matrix to charge indirect costs to the asset management programs. It is anticipated that the basis will be finalized in March and implemented immediately. Most recently, the HPHA participated in a 2-day training by Nan McKay & Associates on asset management requirements. This training helped lay a foundation for compliance with HUD's requirements for project based accounting.

Contact Person: Mark Buflo

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

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

Target Completion Date: March 31, 2010

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

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

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

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

Effect*:* The lack of appropriate monitoring and reporting may lead to misstatement of the CIP and equipment and real property balances and non-compliance with program requirements.

Questioned costs: None

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

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

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

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

PHA Reply (Corrective Action Plan):

The contracted fiscal services team began working on fixed assets in January 2010, and has progressed through Phase I of four phases to complete the work of inputting; duplicates deletion; location confirmation; and reconciliation of the subsidiary registers to the General Ledger, including analysis of detailed depreciation to assure the schedule values tie to the control accounts. The agency will develop a system to monitor construction in progress and to record construction completion and transfer to the Fixed Assets system by June of 2010. The present automated Fixed Asset module does not permit automated updates; therefore the detail is recorded in Excel spreadsheets.

Contact Person: Mark Buflo

Target Completion Date: June 2010

Finding No.: 2009-14 Reporting – Material Weakness

Criteria: Financial reporting requirements in 24 CFR section 902.33(a)(2) require the PHA to provide annual reports on a PHA-wide basis and electronically submit such annual reports in the format prescribed by HUD using the Financial Data Schedule (FDS). Also, 24 CFR sections 135.3(a) and 135.90, require that for each public and Indian housing grant that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (OMB No. 2529-0043).

Condition, cause, and context: HPHA continues to have challenges in identifying an individual who has been properly trained to complete and submit the FDS and other HUD reporting requirements. For example, during the current year the FDS submission included incorrect allocations which required the schedules to be corrected and filing re-submitted. Although HPHA outsourced the completion of the FDS to a third-party, there was no HPHA employee who was able to verify the accuracy and propriety of the

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2009-14 Reporting – Material Weakness (continued)

FDS filing. Also, as a result of not properly tracking HUD reporting requirements, HPHA has not submitted Form HUD 60002 for the past three years.

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

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

PHA Reply (Corrective Action Plan):

HPHA will contract with the consultant who prepared the prior year submittal to assist with the FDS transmittal in March, 2010; however, this year HPHA will also utilize the consultant to train FMO personnel in order to produce the FDS in-house going forward.

Contact Person: Mark Buflo

Target Completion Date: March 2010

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

Public and Indian Housing Program CFDA No. 14.850

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

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

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

Effect: Non compliance

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

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

Contact Person: Stephanie Fo

Target Completion Date: June 2010

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

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

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

Criteria: OMB A-133 Compliance Supplement requires PHA to provide those funds to duly elected resident councils. Funding provided by a PHA to a duly elected resident council may be made only under a written agreement between the PHA and the resident council that includes a resident council budget. PHAs are permitted to fund $25 per unit per year for units represented by duly elected resident councils for resident services. Of this $25, $15 per unit per year is provided to fund tenant participation activities. The agreement must require the local resident council to account to the PHA for the use of the funds and permit the PHA to inspect and audit the resident council's financial records related to the agreement (24 CFR section 964.150).

Condition, cause and context: HPHA does not account for these funds separately from its other operating funds. Consequently, HPHA is not able to determine the amount of funds available for tenant participation activities. Additionally, in accordance with the Memorandum on Tenant Participation Fund Policies and Procedures, tenant associations must provide detailed budgets and other supporting documents for review and approval of disbursement of these funds. However, during our audit, management was not able to provide adequate support for such disbursements. Without adequate accounting, HPHA is not able to properly allocate the tenant participation funds to resident councils.

Effect*:* Non compliance

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

The HPHA has clarified with all affected parties the account codes for the resident participation funds so that the funds can be accounted for properly. Internal audits began in 2009, and will continue to check resident council disbursements. HPHA will provide resident training, and copies of the files will be retained in the property Management and Maintenance Services branch.

Contact Person: Earl Nakaya

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

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

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

Target Completion Date: June 2010

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

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

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

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

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

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

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

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

Finding No.: 2009-17 Allowable Cost and Cost Principles (continued)

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

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

In addition, due to delays in the implementation of project based accounting, all cash disbursements processed in the first 2 months of the fiscal year were recorded to the same General Ledger (GL), the Central Office Cost Center GL (181). For the remaining 10 months of the fiscal year separate GL's were created and utilized by HPHA to track the activity in the individual AMPs. At the end of the fiscal year, a journal entry was recorded by HPHA to move the activity from the first 2 months of the fiscal year to the respective AMPs' GL's at year end. In our testing for compliance, 20 of the 75 GL entries selected could not be verified as having been recorded in the proper AMP.

Effect*:* Non compliance

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

The HPHA participated in a two day training by Nan McKay & Associates on the requirements of asset management, including project based budgeting and project based accounting. The HPHA also intends to contract with a consultant for additional technical assistance in HUD's asset management requirements during the budget preparation process in April 2010.

Contact Person: Mark Buflo

Target Completion Date: April 2010

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

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

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

***Criteria**:* In accordance with HUD's asset management, PHA's must apportion their assets, liabilities, and equities to their Asset Management Projects (AMPs) and Central Office Cost Center (COCC) at the time of conversion to project-based accounting. Assets, liabilities, and associated net assets should be assigned to the applicable AMP or COCC if a direct relationship exists. HUD has provided guidance on this subject in Section 4.3 of the Supplement to HUD Handbook 7475.1 and PIH Notice 2008-17. Guidance on Disposition of Excess Equipment and Non-Dwelling Real Property under Asset Management (24 CFR section 990.280(b)(1)).

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

***Effect**:* Non compliance

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

HPHA has familiarized itself with HUD's project based accounting and asset management requirements, and is now complying with those requirements.

Contact Person: Mark Buflo

Target Completion Date: Completed.

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

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

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

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

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

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

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

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

Contact Person: Stephanie Fo

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

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

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

Target Completion Date: June 2010

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

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

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

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

Effect*:* The lack of appropriate monitoring and reporting may lead to misstatement of the CIP and equipment and real property balances and non-compliance with program requirements.

Questioned costs: None

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

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

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

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

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

PHA Reply (Corrective Action Plan):

The contracted fiscal services team began working on fixed assets in January 2009, and has progressed through Phase I of four phases to complete the work of inputting; duplicate deletion; location confirmation; and reconciliation of the subsidiary registers to the General Ledger, including analysis of detailed depreciation to assure the schedule values are tied to the control accounts. The fiscal services team will develop a system to monitor construction in progress and to record construction completion and transfer to the Fixed Assets system by June of 2010.

Contact Person: Mark Buflo

Target Completion Date: June 2010

Finding No.: 2009-21 Reporting – Material Weakness

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

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

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

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

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

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

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

PHA Reply (Corrective Action Plan):

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

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

Contact Person: Stephanie Fo

Target Completion Date: June 2010

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

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

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

Criteria: Before assigning key financial and operational positions, management needs to establish and agree on the knowledge, skills, and abilities needed to effectively carryout the associated responsibilities. Additionally, a written policies and procedures manual will help to ensure that financial and operational knowledge is transferred should an employee retires or leaves the agency.

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

In addition, we noted that HPHA hired an outside expert to train staff on project based accounting and asset management requirements and assist in HPHA implementing the new requirements. However, it was evident with the lack of support for HPHA's implementation of its fee-for-service model and the lack of respective policies and procedures that there was not an effective transfer of knowledge of project based accounting and asset management requirements to the appropriate recipients. Consequently, HPHA was unsure of how to appropriately implement project based accounting and asset management. Sufficient training provides staff with the required knowledge to properly implement new compliance requirements. A written accounting policies and procedures manual that complies with project based accounting and asset management will help in documenting data and information in a format that allows for compliance.

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

Questioned costs: None

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

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

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

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

management requirements. We would encourage management to continue with its completion of the policies and procedures manual.

PHA Reply (Corrective Action Plan):

HPHA has received on-site training in Asset Management and Project Based Accounting in January, 2010 from well-qualified instructors who have been associated with HUD in developing the methods for accomplishing appropriate accounting and reporting. One of the trainers authored Chapter 7 of HUD's "Financial Management Handbook" of 2007, which explicitly details methods to follow to assure compliance in Asset Management and Project Based Accounting. This training was attended by staff members from the Fiscal Office, Property Management and Maintenance Services, Procurement, Construction Management, Personnel, and Compliance. The HPHA also intends to secure additional technical assistance from those same trainers during the budgeting process for the coming fiscal year.

Contact Person: Mark Buflo

Target Completion Date: June 2010

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

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

To ensure such guidelines are complied with, HPHA initially performs a 10% review of all annual re-exams and new placements. The monthly reviews are performed by the project managers and are submitted to the Property Management and Maintenance Service Branch (PMMSB). PMMSB conducts

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

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

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

an error analysis, tracking the number and type of errors for each review. From the result of the analysis, program management performs a second follow up quality review.

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

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

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

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

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

PMMSB is responsible for conducting quality control monitoring. The Branch Chief will implement quarterly meetings to discuss the findings, and schedule additional staff training. Additionally, the PMMSB staff will continue to have the monitors review 3 files per AMP each month. The reorganization

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

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

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

plan for PMMSB includes 1.0 FTE to conduct file reviews, including an audit of 10% of every AMPs tenant files on a monthly basis.

Contact Person: Stephanie Fo

Target Completion Date: March 2010

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

Shelter Plus Care CFDA No. 14.238

Finding No.: 2009-24 Reporting

Criteria: HUD-40118, Annual Progress Report (OMB No. 2506-0145) is due from each grantee within 90 days after the end of its operating year (24 CFR section 582.300 (d)).

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

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

Effect*:* Non compliance

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

The annual Progress Report will be scrutinized by both the staff that prepares the report and the Branch Administrator prior to submittal to HUD.

Contact Person: Sandra J. Miyoshi

Target Completion Date: Immediately

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

Shelter Plus Care CFDA No. 14.238 (continued)

Finding No.: 2009-25 Subrecipient Monitoring

Criteria: OMB A-133, Part 3 of the Compliance Supplement, requires HPHA to monitor the subrecipient's use of Federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and those performance goals are achieved.

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

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

Effect: Non compliance

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

Site monitoring visits for Shelter Plus Care were conducted in 2007 and 2008, after which several changes in staffing meant that the new staff had to learn the program sufficiently to conduct the monitoring. Site monitoring for S+C will be a high priority for the assigned program specialist in 2010.

Contact Person: Sandra J. Miyoshi

Target Completion Date: Site monitoring visits for all S+C sub-recipients will be completed in April 2010.

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

Shelter Plus Care CFDA No. 14.238 (continued)

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

Criteria: OMB A-133 Compliance Supplement requires the grantee to provide or ensure the provision of supportive housing services that are at least equal in value to the aggregate amount of rental assistance funded by HUD. The manner in which the value of supportive services is calculated is contained in 24 CFR section 582.110(c).

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

Effect: The lack of appropriate review and approval may lead to non compliance with program requirements.

Questioned costs: None

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

PHA Reply (Corrective Action Plan):

The match requirement from HUD is cumulative over the course of the initial five years of the grant. Hence, any discrepancies between the supporting documentation and the APR can be corrected when the supporting documentation is reviewed, a tedious process that may not be accomplished by the APR due date. Of far greater priority for early review of the documentation to support the match requirement are the annual renewal grants, which are screened for accuracy. The Homeless Programs Branch must continue to give priority to screening the documentation provided for annual grants to meet the APR deadline and maintain compliance of the match, but will make every effort to also review the documentation provided for the five year grants prior to submittal of the APRs. With the transfer of the

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

Shelter Plus Care CFDA No. 14.238 (continued)

Finding No.: 2009-26 Subrecipient Monitoring -Material Weakness (continued)

programs to the Department of Human Services, the Homeless Programs Branch will receive additional staff support to ensure compliance with requirements to monitor the contracts.

Contact Person: Sandra J. Miyoshi

Target Completion Date: Immediately.

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Hawaii Public Housing Authority

Summary Schedule of Prior-Year Audit Findings
Year Ended June 30, 2009

Section I – Financial Statement Findings

<u>Finding No.: 2008-01 Financial Management Deficiencies - Material Weakness</u>

The lack of appropriate management leadership and shortage of adequate staffing in the Fiscal Management Office have continued to significantly impact HPHA's ability to perform its core accounting functions. Many of the issues and conditions noted in the current year originated from prior year.

Condition & cause: Although HPHA subsequently hired a Chief Accountant in July 2007 and external financial consultants to assist with the Fiscal Management Office functions, accounting personnel did not have proper oversight and supervision during most of the fiscal year, including appropriate reviews and approval of transactions. Consequently, numerous routine accounting functions were not being performed. This lack of dedicated leadership and overall management of its accounting and financial reporting function during the 2008 fiscal year have limited the effectiveness of HPHA's ability to record and report accurate and timely financial information. Some of these conditions noted include the following.

- Monthly general ledgers not prepared
- Monthly reconciliations of all account balances not performed
- Accruals incorrectly recorded or not recorded at all
- Certain revenue and expense items recorded on a cash basis
- Journal entries recorded incorrectly
- Expenses not allocated on a timely basis
- Obligations, including various payables and litigation settlements, not recorded
- Depreciation expense not recorded
- Transfer of assets not properly accounted for between funds

Context: The lack of proper training continues to be a significant shortcoming of the HPHA. This is evident in the lack of understanding and use of the "emPHAsys" computer system, the application of generally accepted governmental accounting standards, various State of Hawaii generated reports from the Department of Accounting and General Services and HUD's reporting requirements. The shortage of training, in combination with the lack of clearly documented policies and procedures and the presence of shortage of staffing, has limited the effectiveness of the HPHA's internal control environment and procedures. Additionally, HUD's reporting requirements, including but not limited to "project-based" accounting, the Real Estate Assessment Center electronic submission filing requirements and asset-management accounting further accentuates the need for proper training and supervision.

Section I – Financial Statement Findings (continued)

Finding No.: 2008-01 Financial Management Deficiencies - Material Weakness (continued)

***Questioned costs**:* None

***Effect**:* Failure to provide adequate oversight and supervision and the ineffectiveness or absence of key accounting and internal control functions can lead to misstatement of financial results and non-compliance.

Recommendation: HPHA needs to assess its current policies and procedures to ensure that internal controls over key accounting, financial reporting and budgeting processes are established and adhered to. Specifically:

1. We recommend that the Chief Financial Officer and Chief Accountant:

   - Gain an understanding of each program's objectives and type of major transaction. They should also perform interviews with the various branch chiefs, program managers, and the compliance officer.
   - Interview each accountant to determine their functions and what financial information is currently prepared and maintained.
   - Perform a gap analysis between the current conditions and desired conditions.
   - Prepare and implement recommendations.
   - Identify any missing key internal controls, including but not limited to the following:
     - Reviewing and approving of monthly bank reconciliations.
     - Performing month end reconciliations to detail supporting documents.
     - Reviewing and approving of month-end accruals.
     - Recording of routine transaction: expense allocation, monthly review of CIP transfers, month end accruals.
   - Consider developing a month end closing checklist to ensure that accurate financial information is prepared timely. The month end checklist should be tailored to the specific requirements of each fund. For example: Federal low rent- checklist would include procedures specific to capital improvements.

Section I – Financial Statement Findings (continued)

Finding No.: 2008-01 Financial Management Deficiencies - Material Weakness (continued)

- Monitor control systems to ensure effectiveness, including the timely review and approvals by appropriate personnel.
- As a majority of the agency's funding are HUD subsidies, consider establishing and maintaining controls over operating and capital improvement budgets.

2. The HPHA should continue its efforts in seeking to hire a Chief Financial Officer. In addition, the agencies should evaluate the need to hire on a temporary basis an experienced personnel to provide the appropriate oversight and supervision over the accounting and reporting functions.

PHA Reply (Corrective Action Plan):

1. Program Assessment:
   a. Fiscal Management Office (FMO) has interviewed Section 8 branch chief and Homeless branch chief. FMO plans to interview the Property Branch, AMP managers, Contracts and procurement, Construction Management Services, and other branches.
   b. MD Strum performed an assessment of the Fiscal Management Office staff and job functions. Process maps were developed for most of the positions and a draft Policy and Procedure Manual was created. Upon joining HPHA, the CFMA conducted interviews with all accountants to review their functions and assess their skill levels. The Fiscal Officer has been evaluating the weaknesses of the present financial procedures during the course of completing the FY2008 Audit.
   c. FMO is working on the gap analysis for internal controls, timely reconciliation, single/central recording of journal vouchers, timeliness of payments, and other functions of the FMO. FMO has performed the gap analyses for staff and identified areas in need of improvement. HPHA will be formally documenting these weak areas and will develop a timetable to work with the appropriate staff members to improve the job processes and internal financial control weaknesses. MD Strum will assist in this effort with the extension of their contract until June 30, 2009.
   d. FMO will prepare and implement recommendations for improvement.
   e. FMO will identify missing internal controls (see c, above).
   f. FMO will develop month end closing checklists tailored for each fund.
   g. FMO will monitor control systems by timely review and approvals by staff.
   h. FMO is developing controls over operating and capital improvement budgets.

Section I – Financial Statement Findings (continued)

Finding No.: 2008-01 Financial Management Deficiencies - Material Weakness (continued)

HPHA has had special meetings with the Honolulu HUD office to discuss HPHA needs and requests. The local office has generously offered assistance regarding increasing HPHA's understanding of Federal programs and requirements. HPHA has also met with the Department of Human Services (DHS) Fiscal Office management team to discuss possible ways they could assist HPHA in further training regarding State of Hawaii financial procedures.

2. Leadership. The Hawaii Public Housing Authority (HPHA) unsuccessfully sought to hire a Chief Financial Officer (CFO) level manager for over a year**.** Through the efforts of the Department of Housing and Urban Development (HUD), the firm of MD Strum was engaged to work with the HPHA staff to manage the Fiscal Management Office from July 2008 to December 2008. The Chief Financial Management Advisor (CFMA, functions as CFO) was hired effective October 1, 2008. The Fiscal Officer was hired effective October 10, 2008. HPHA hired a Budget Analyst in November 2008. He will be permanently assigned to the Fiscal Management Office effective March 2009. This position will be responsible for monitoring the HPHA operating budget and CIP budgets. All these key hires occurred after the 2008 fiscal year ended on June 30, 2008.

Contact Person: Gary Marushige, Chief Financial Management Advisor

Target Completion Date: June 30, 2009

Status: Comment still applicable. See finding **2009-01**.

Section I – Financial Statement Findings (continued)

Finding No.: 2008-02 No General Ledger and Non-reconciliations of General Ledger Accounts-Material Weakness

Criteria: Sound internal control procedures and Federal regulations require that the books and records of account should be maintained on a regular monthly basis for all programs.

Condition, cause & context: During the prior year, HPHA installed the "emPHAsys" general ledger system software to provide HPHA with a general ledger system that would be able to address HUD's new reporting requirements. However, the general ledger system continues to have very limited use. The lack of understanding of the "emPHAsys" computer system and appropriate accounting oversight and supervision have resulted in monthly general ledgers not being prepared during the fiscal year. Consequently, the key internal control activity of performing routine monthly reconciliations of the general ledger accounts balances to the corresponding transaction or activity details was not performed during the year. Without "reliable" and "timely" financial information, management decisions related to operations may be compromised. The following is a list of issues noted during the audit as a result of the lack of the general ledger and respective account reconciliations:

- Lack of financial statements
- Lack of information to perform budget to actual comparisons to determine if the HPHA has sufficient funds to adequately cover operations. Additionally, the lack of budgetary control could result in the HPHA operating with deficits
- Lack of information to perform monthly cost analysis by Management Unit (MU) level to identify the causes of any overruns

The lack of a functioning general ledger system and related account reconciliations is a fundamental deficiency in the organization's internal control environment.

Questioned costs*:* None

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

Section I – Financial Statement Findings (continued)

Finding No.: 2008-02 No General Ledger and Non-reconciliations of General Ledger Accounts-Material Weakness (continued)

Recommendation: HPHA's policy is to post approved journal vouchers to the general ledger and to perform monthly reconciliations of respective accounts. To ensure the accuracy and completeness of the HPHA's financial information, we recommend that management provide training in the full use of its general ledger system and comply with its policy to post journal vouchers to the general ledger and perform account reconciliations in a timely manner.

PHA Reply (Corrective Action Plan): At present the general ledger is in full use and financial transactions (checks, deposits, journal vouchers) are being recorded in the Emphasys system. With the addition of the Chief Financial Management Advisor and Fiscal Officer, financial statements were first produced for the November 2008 Board meeting and budget to actual reports have been produced on a monthly basis thereafter. Financial reports by Asset Management Project (AMP) are now being generated monthly and distributed to the AMPs through folders in the Agency's shared intranet drive.

A two week retraining on the Emphasys system for the FMO staff was conducted in November 2008 with the trainer brought on site to provide personal one-on-one training. FMO staff are also presently being trained weekly on web-based training to review specific training issues on a regular schedule for a total of 100 hours over the next several months.

Remote Emphasys accounting training was provided to FMO staff during the month of February, as indicated below. Training is scheduled to resume again in April (April 7 and 14). The Fiscal Officer will choose the topic and determine which staff should attend training as applicable. Emphasys will train HPHA on any topic that we need help with. The hours are coming out of our current contract's bank of 100 training hours, but may not all be used for FMO. After the April sessions, we will reassess how much more training the FMO staff is going to need.

Emphasys Remote Training Sessions for FMO Staff:

2/3/09 – **Rent Runs**
2/10/09 – **Bank Reconciliation**
2/17/09 – **Section 8**
2/24/09 – **GL Budget**

Section I – Financial Statement Findings (continued)

Finding No.: 2008-02 No General Ledger and Non-reconciliations of General Ledger Accounts-Material Weakness (continued)

With the recent completion of the FY2008 Audit, HPHA will begin to reconcile the key balance sheet accounts and analyze the monthly fund activities. Checklists and monitoring procedures to insure compliance with policies and procedures will be developed.

Contact Person: Gary Marushige, Chief Financial Management Advisor

Target Completion Date: June 30, 2009

Status: Comment still applicable. See finding **2009-03**.

Finding No.: 2008-03 Lack of Clear Policies and Procedures - Material Weakness

Criteria: Sound internal control procedures require that policies and procedures should be in place and operating effectively.

Condition, cause, and context: Our review of internal controls revealed that the accounting and budgeting departments do not maintain updated formal policies and procedures manuals or documents related to key internal control functions or activities. For example, HPHA does not maintain documented policies and procedures related to cash reconciliations, tenant accounts receivable reconciliations, general accounts payable processing, HPHA'S reporting, Capital Fund monitoring, or financial reporting procedures, including REAC's electronic submission filing.

Effect: The lack of clearly documented updated policies and procedures limits the effectiveness of the HPHA internal control environment and procedures and may result in additional costs expended by HPHA. This is especially true in situations where personnel is new to a position and performing certain functions for the first time. An example of such a situation was the hiring of an outside consultant to complete HPHA's REAC electronic submission filing.

Recommendation: HPHA should assess its current internal control polices and procedures related to key accounting and budgeting processes. Upon the completion of such assessment, a formal policies and procedures manual for all key accounting and budgeting functions. Any material changes to existing policies should be approved via resolution by the Board of Commissioners.

Section I – Financial Statement Findings (continued)

Finding No.: 2008-03 Lack of Clear Policies and Procedures - Material Weakness (continued)

PHA Reply (Corrective Action Plan): During the finalizing of the FY2008 Audit, several internal control weaknesses surfaced. It was also evident that due to the lack of written polices and procedures, the staff were inconsistent in their accounting processes. As mentioned previously, HUD retained MD Strum to review the present finance operations and to revise the procedures to correct control deficiencies. A draft Policy and Procedures Manual was written and distributed to the staff. MD Strum is presently finalizing the draft version. In addition, HPHA received an abbreviated set of policies and procedures from the Emphasys trainer during the training in November 2008.

In conjunction with the finalization of the policies and procedures manual, the FMO management team will begin individual training of the Accounting staff in the areas noted above. Staff will be tested on their understanding and adherence to the policy and procedure manual and make modifications if needed. The training of each staff member will be documented and recorded in the files. Any material changes to existing policies will be presented for approval via resolution by the Board of Directors.

Contact Person: Gary Marushige, Chief Financial Management Advisor

Target Completion Date: June 30, 2009

Status: Comment still applicable. See finding **2009-04**.

Section II – Federal Award Findings and Questioned Costs

Section 8 Housing Choice Vouchers Program CFDA No. 14.871

Finding No.: 2008-04 Special Tests and Provisions - Waiting List – Material Weakness

Criteria: 24 CFR sections 5.410, 982.54(d) and 982.201 through 982.207 require the HPHA to establish policies for verification and documentation of information relevant to acceptance or rejection of an applicant.

Condition, cause, and context: Due to the limited number of housing vouchers, the HPHA's policy for placing applicants into the program is based upon preference criteria. Applicants on the waiting list who met these preference criteria, with the proper documentation and verification, were admitted to the program.

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

In addition, we noted that one applicant was not properly listed on the master waiting list based on his initial application. Management noted that the applicant was improperly placed on the waiting list due to an input error, which was subsequently corrected when the applicant contacted HPHA to follow up on his application.

Effect*:* Failure to adequately monitor the waiting list may result in non-compliance with program requirements.

Questioned costs*:* None

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

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

Finding No.: 2008-04 Special Tests and Provisions - Waiting List – Material Weakness (continued)

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

PHA Reply (Corrective Action Plan): The Section 8 Housing Choice Voucher (HCV) program application taking process and waiting list has been closed since July 2006. Should the wait list be reopened for application taking and processing, the applicant's household information must be inputted into HPHA's software database to ensure that the applicant's household information and application date and time appears on the master wait list. The Branch will test the data input once all application data are entered into the database. To ensure that the applicant's data resides on the master wait list, the Branch will audit fifty (50) files to determine the accuracy of the inputted data. The single audit of 40 files produced one (1) data input error in which a preference was not entered as declared by the applicant. Deficiencies will be addressed and the Branch will audit additional files in increments of ten (10) until the Branch is assured that the input data is correct. The wait list will be re-sequenced after the Manager is assured that the input data is correct. The wait list will be audited through its normal quality review of new participants to the program. The Branch's quality review procedure is to review 10% of all new participants to the HCV to ensure that the HUD regulations and the Section 8 Administrative Plan is followed.

Contact Person: Dexter Ching, Section 8 Subsidy Program Branch Chief

Target Completion Date: June 30, 2009

Status: Comment still applicable. See finding **2009-06**.

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

Public Housing Capital Fund CFDA No. 14.872

Finding No.: 2008-05 Equipment and Real Property Deficiencies - Material Weakness

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

Condition, cause and context: During the audit, we noted that equipment and construction-in-progress (CIP) were not properly monitored and tracked during the fiscal year. A reconciliation of the detailed fixed assets and CIP to the general ledger was not performed during the year and the detailed listings of additions and deletions were not available until requested by the auditors.

Within the Federal Low Rent Program Fund, the HPHA maintains a Construction in Progress (CIP) schedule which details the projects and related costs. However, during our audit, it was noted that the CIP schedule as of June 30, 2008 was not updated for 2008 transactions on a timely basis. Additionally, the HPHA does not maintain an automated detail capital asset register, instead manual excel worksheets and previous detail general ledger printouts are used.

We also noted that the CIP schedule did not detail when projects were completed. Consequently, projects listed within the CIP schedule were completed and not transferred to the Capital Assets account. This resulted in a reclassification of CIP assets to Property and Equipment and an adjustment to record the corresponding depreciation expense.

Effect*:* The lack of appropriate monitoring and reporting may lead to misstatement of the CIP and equipment and real property balances and non-compliance with program requirements.

Questioned costs*:* None

Recommendation: We recommend that the HPHA maintain detailed CIP records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting for assets. Complete information such as the above, on all assets, would provide excellent control for the safeguarding of these assets, which are significant in cost.

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2008-05 Equipment and Real Property Deficiencies - Material Weakness (continued)

We also recommend that better monitoring, assessment and evaluation of the CIP be made regarding the status, completion and transfer of assets from construction in progress to active fixed assets which are being depreciated.

PHA Reply (Corrective Action Plan): The Capital Fund expenditures within the Federal Low Rent Program are presently tracked by the Capital Fund Coordinator using excel worksheets. However, these worksheets were never reconciled to the general ledger. FMO will implement a procedure to reconcile worksheets to General Ledger on a monthly basis. Presently, there is no written procedure for closing projects and re-classing amounts from CIP to fixed assets. FMO will implement a procedure detailing the required close out documents and the process of notification from Construction Management to FMO of the status of completed projects so CIP amounts can be cleared out to fixed assets on a quarterly basis. FMO will also research the availability of packaged software that could accommodate its needs in automating this detailed process.

Contact Person: Gary Marushige, Chief Financial Management Advisor

Target Completion Date: June 30, 2009

Status: Comment still applicable. See finding **2009-13**.

Finding No.: 2008-06 Reporting – Material Weakness

Criteria: Financial reporting requirements in 24 CFR section 902.33(a)(2) require the PHA to provide annual reports on a PHA-wide basis and electronically submit such annual reports in the format prescribed by HUD using the Financial Data Schedule (FDS). Also, 24 CFR sections 135.3(a) and 135.90, require that for each public and Indian housing grant that involves development, operating, or modernization assistance, the prime recipient must submit Form HUD 60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, (OMB No. 2529-0043).

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2008-06 Reporting – Material Weakness (continued)

Condition, cause, and context: Our review of internal controls over reporting requirements described above revealed that there are no PHA employees who have been properly trained to complete and submit the FDS. There is also no tracking of required HUD reporting requirements. For example, during the current year HPHA outsourced the completion of the FDS to a third-party, however, there was no HPHA employee who was able to verify the accuracy and propriety of the FDS filing. Also, as a result of not properly tracking HUD reporting requirements, HPHA has not submitted Form HUD 60002 for the past 2 years.

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

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

PHA Reply (Corrective Action Plan): The Chief Accountant had been responsible for assisting in preparing the FDS schedule in the past and will continue to be the person in charge. However, FMO will be training additional management personnel (Chief Financial Management Advisor, Fiscal Officer and Budget Analyst) in the preparation. HPHA, through MD Strum, has retained the services of Rector, Lindsay & Reeder to again assist in preparing the FDS submission. The consultant will train the FMO management staff on the procedures for preparing the reports and the consultant will also prepare a policy and procedure manual so written documentation will exist. The HPHA staff will be able to prepare the FDS with their own resources for the next submission.

The HUD reporting requirements will be part of the process review procedure being conducted by MD Strum on the second phase of their assignment. These requirements, including checklists and forms, will be incorporated into the final policy and procedure manual.

Contact Person: Gary Marushige, Chief Financial Management Advisor

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

Public Housing Capital Fund CFDA No. 14.872 (continued)

Finding No.: 2008-06 Reporting – Material Weakness (continued)

Target Completion Date: April 15, 2009

Status: Comment still applicable. See finding **2009-11**.

Public and Indian Housing Program CFDA No. 14.850

Finding No.: 2008-07 Special Tests and Provisions – Waiting List – Material Weakness

Criteria: 200824 CFR sections 960.204 through 960.207 require the HPHA to establish policies for verification and documentation of information relevant to acceptance or rejection of an applicant. Due to the excess of applicants on the waiting list for low-income housing in comparison to the number of units available, the HPHA's policy for placing applicants into the program is based upon preference criteria. Applicants on the waiting list who met these preference criteria with proper documentation and verification were admitted to the program.

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

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

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

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

Finding No.: 2008-07 Special Tests and Provisions – Waiting List – Material Weakness (continued)

Our testing of the waiting list resulted in the following exceptions:

1) For 5 out of 40 new participants tested, we noted that documentation on how the tenant was pulled from the waiting list was missing, as such, we could not ascertain whether or not the applicants were properly pulled from the waiting list.

2) For 1 out of 40 participants tested, we noted that the initial application submitted by the participant was missing, as such, we could not determine whether or not the participant was initially properly placed on the waiting list.

Effect*:* Failure to adequately maintain and monitor the waiting list in accordance with the administrative policies has resulted in non-compliance with program requirements.

Questioned costs*:* None

Recommendation: We recommend that the HPHA follow its Administration Plan guidelines for the waiting list that were submitted to HUD. We also noted that the Administration Plan allows for HPHA to close the waiting list, which we recommend HPHA implement in order to catch up with its “back log” as described above. We also recommend that HPHA evaluate the various functions in the Application Department and determine whether the department has sufficient capacity to manage the volume of applications and/or if there are any inefficient processes that should be revised or eliminated.

PHA Reply (Corrective Action Plan): HPHA does not concur with the recommendation of closing the waitlist for public housing. This would require that we advertise in publications which then cause an influx of applications prior to the closing and at the time of reopening. It would take months to bring the resulting backlog to current.

In order to effectively manage the wait list, overtime was allowed for a two month period, where the backlog of applications was processed and brought up to date during the period ending June 30, 2008. The backlog was created because of an administrative rule change notice mailed out to all applicants on the waitlist in September 2007. Over 8,000+ applicants responded and had to be inputted into Emphasys system.

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

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

Finding No.: 2008-07 Special Tests and Provisions – Waiting List – Material Weakness (continued)

Since mid-July 2008, this section has retained two temporary clerical personnel who are part of the "special team" assignment. This assignment is for a one year period. This section has been able to fill a permanent PHS position as of February 6, 2009.

Application Services Unit (ASU) – Oahu office has revised and is continuously reviewing its operational procedures. This section is now having the Administrative Assistant process acceptance letters to applicants who have applied. Previously the Public Housing Specialist II did the processing.

The Oahu housing waitlist is currently being purged of nonresponsive addresses by using monthly mass mail outs. This started in staggered stages from January 2009 with the deadline for last mail out being in mid- March.

Contact Person: Michi Kanoura-Hatae, Applications Services Supervisor

Target Completion Date: June 30, 2009

Status: Comment still applicable. See finding **2009-15**.

Finding No.: 2008-08 Equipment and Real Property Deficiencies - Material Weakness

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

Condition, cause and context: During the audit, we noted that equipment and construction-in-progress (CIP) were not properly monitored and tracked during the fiscal year. A reconciliation of the detailed fixed assets and CIP to the general ledger was not performed during the year and the detailed listings of additions and deletions were not available until requested by the auditors.

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

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

Finding No.: 2008-08 Equipment and Real Property Deficiencies - Material Weakness

Within the Federal Low Rent Program Fund, the HPHA maintains a Construction in Progress (CIP) schedule which details the projects and related costs. However, during our audit, it was noted that the CIP schedule as of June 30, 2008 was not updated for 2008 transactions on a timely basis. Additionally, the HPHA does not maintain an automated detail capital asset register, instead manual excel worksheets and previous detail general ledger printouts are used.

We also noted that the CIP schedule did not detail when projects were completed. Consequently, projects listed within CIP schedule were completed and not transferred to the Capital Assets account. This resulted in a reclassification of CIP assets to Property and Equipment and an adjustment to record the corresponding depreciation expense.

***Effect**:* The lack of appropriate monitoring and reporting may lead to misstatement of the equipment and real property balances and non-compliance with program requirements.

***Questioned costs**:* None

Recommendation: We recommend that the HPHA maintain detailed CIP records and reconcile these records to the general ledger on a timely basis to ensure accurate accounting for assets. Complete information such as the above, on all assets, would provide excellent control for the safeguarding of these assets which are significant in costs.

We also recommend that better monitoring, assessment and evaluation of the (CIP) be made regarding the status, completion and transfer of assets from construction in progress to active fixed assets which are being depreciated.

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

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

Finding No.: 2008-08 Equipment and Real Property Deficiencies - Material Weakness

PHA Reply (Corrective Action Plan): The Capital Fund expenditures within the Federal Low Rent Program are presently tracked by the Capital Fund Coordinator using excel worksheets. However, these worksheets were never reconciled to the general ledger. FMO will implement a procedure to reconcile worksheet to General Ledger on a monthly basis. Presently, there is no written procedure for closing projects and re-classing amounts from CIP to fixed assets. FMO will implement a procedure detailing the required close out documents and the process of notification from Construction Management to FMO of the status of completed projects so CIP amounts can be cleared out to fixed assets on a quarterly basis. FMO will also research the availability of packaged software that could accommodate its needs in automating this detailed process.

Contact Person: Gary Marushige, Chief Financial Management Advisor

Target Completion Date: June 30, 2009

Status: Comment still applicable. See finding **2009-20**.

Finding No.: 2008-09 Eligibility – Tenant File Testing

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

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

1) For 2 out of 40 tenant files tested, we noted that an annual re-examination was not performed.
2) For 1 out of 40 tenant files tested, we noted that the re-examination was not performed on a timely basis.
3) For 1 out of 40 tenant files tested, we noted that the tenant file was missing certain eligibility documents.

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

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

Finding No.: 2008-09 Eligibility – Tenant File Testing

***Effect**:* Failure to adequately determine eligibility can lead to non-compliance with program requirements and potential disallowed costs.

Questioned costs: None

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

PHA Reply (Corrective Action Plan): HPHA's Property Management Branch has implemented a quality control review of the tenant files on a monthly basis since October 2008. The Monthly Supervisor Review Procedures requires a 10% review of all annual re-exams and new placements. The monthly reviews are submitted to PMMSB and an error analysis is conducted, tracking the number and type of errors for each review. The review logs and error analysis are then submitted to HUD for their review.

Contact Person: Stephanie Fo, PMMSB Chief

Target Completion Date: June 30, 2009

Status: Comment still applicable. See finding **2009-23**.

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

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

Finding No.: 2008-10 Special Tests and Provisions – Project Based Budgeting and Accounting, Classification of Costs and Balance Sheet Allocation – Material Weakness

Criteria: The follow requirements relate to asset management accounting that HPHA was required to implement during fiscal year 2008:

1) *Project Based Accounting:* Per 24 CFR section 990.280(a), PHAs implementing asset management shall develop and maintain a system of budgeting and accounting for each project in a manner that allows for analysis of actual revenues and expenses associated with each property. Financial information to be budgeted and accounted for at a project level shall include all data needed to complete a project-based FDS in accordance with generally accepted accounting principles, including revenues, expenses, assets, liabilities, and equity data.

2) *Classification of Costs:* Per 24 CFR section 990.280(d), for PHAs implementing asset management, if a PHA chooses to centralize functions that directly support a project (e.g., central maintenance), it must charge each project using a fee-for-service approach.

3) *Balance Sheet Allocation:* Per 24 CFR section 990.280(b)(1), PHAs implementing asset management must apportion their assets, liabilities, and equities to their projects and COCC at the time of conversion to project-based accounting.

Condition, cause, and context: Through our discussions with HPHA management and performance of our audit, we noted that due to the lack of training and adequate staffing, asset management accounting as described above was not implemented during the fiscal year.

Effect*:* Failure to adequately monitor and implement project based accounting can lead to non-compliance with program requirements.

Questioned costs: None

Recommendation: We recommend that the HPHA provide adequate training to its accounting staff to properly implement asset management accounting, including the respective functions of the "emPHAsys" System.

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

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

Finding No.: 2008-10 Special Tests and Provisions – Project Based Budgeting and Accounting, Classification of Costs and Balance Sheet Allocation – Material Weakness (continued)

PHA Reply (Corrective Action Plan): MD Strum has provided training to the applicable HPHA employees on the principles of asset management and project based accounting. They have also provided specialized training to the FMO staff. HPHA has also provided accounting employees special Emphasys retraining sessions by bringing back the trainer to conduct retraining since February 2009. MD Strum will continue to provide training on the details of asset management to improve the staff's knowledge of the system.

The principles of asset management were implemented through the AMPs but project based accounting was only partially implemented due to a lack of a general ledger. Project based budgeting was implemented with the 2009 fiscal year. HPHA will continue the education of the Fiscal Management Office through MD Strum and monitor the application of project based accounting by holding periodic reviews with the AMPs and Central Office Cost Center (COCC) staff.

Contact Person: Gary Marushige, Chief Financial Management Advisor

Target Completion Date: June 30, 2009

Status: Comment still applicable. See findings **2009-17** and **2009-18**.