

# **Hawaii Public Housing Authority**

Financial Statements

June 30, 2007

Together with Independent Auditor's Report



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A Hawaii Limited Liability Partnership

March 20, 2008

Mr. Chad Taniguchi  
Executive Director  
Department of Public Safety  
State of Hawaii

Dear Mr. Taniguchi:

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, 2007. 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, 2007, and to comply with the requirements of OMB Circular A-133. The objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the Authority's basic financial statements.
2. To determine whether expenditures and other disbursements have been made and all revenues and other receipts to which the Authority is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii and the federal government.
3. To determine whether the Authority has established sufficient internal controls to properly manage federal financial assistance programs and to comply with the applicable laws and regulations.
4. To determine whether the Authority has complied with the laws and regulations that may have a material effect on the basic financial statements and on its major federal financial assistance programs.

## **SCOPE OF THE AUDIT**

Our audit was performed in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of OMB Circular A-133. The scope of our audit included an examination of the transactions and accounting records of the Authority as of and for the fiscal year ended June 30, 2007.

## **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, 2007, 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  
Partner

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**PART I**  
**FINANCIAL SECTION**



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A Hawaii Limited Liability Partnership

### **Independent Auditor's Report**

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, 2007. 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, 2007, 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, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2008, 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 165 and Budgetary Comparison Schedules on pages 61 to 63 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 Combining Financial Statements of Other Governmental and Enterprise Funds, Reconciliation of Cash and Short-term Investments, Schedule of Modernization Funds and Modernization Cost for projects HI-08-P001-150103 and HI-08-P001-150203 and Financial Data Schedule are 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 20, 2008

# **Hawaii Public Housing Authority**

Management Discussion and Analysis

June 30, 2007

This Management's Discussion and Analysis (MD&A) provides an overall review of the Hawaii Public Housing Authority's (HA) financial activities for the fiscal year ended June 30, 2007 only and not the merged agency HCDCH. The intent of this discussion and analysis is to look at the HA's financial performance as a whole. Readers should also review the notes to the financial statements and the financial statements to enhance their understanding of the HA's financial performance.

## **INTRODUCTION**

The Hawaii Public Housing Authority is a housing authority (HA), established by the State Legislature effective July 1, 2006. The HA bifurcated from the former Housing and Community Development Corporation of Hawaii (HCDCH) and created two separate agencies, the Hawaii Public Housing Authority and the Hawaii Housing Finance and Development Corporation (HFDC). Previous to July 1, 2006 the HCDCH consolidated the previous Hawaii Housing Authority and the Housing Finance and Development Corporation.

Presently, the HA administers the following major programs:

- Federal and State public housing programs
- Federal and State rent subsidy programs
- Homeless programs
- Housing Choice Voucher Program

The HA is responsible for the administration of over 5,300 federal public housing units in Hawaii, with funds received from the United States Department of Housing and Urban Development (HUD). The HA also administers the HUD Section 8 Housing Assistance Payments – Special Allocations Program, through a contract with the Bremerton (Washington) Housing Authority.

In addition, the HA administers a rental assistance program that subsidizes rental payments to persons and families with incomes that do not exceed 80% of the area median income.

The HA is administratively attached to the State Department of Human Services. The HA's Board of Directors consists of eleven members, of whom nine shall be public members appointed by the governor. Public members shall be appointed from each of the counties of Honolulu, Hawaii, Maui, and Kauai. 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. 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. The Director of Human Services; and the Governor's Senior Policy Advisor are ex-officio voting members. All HA action is taken by the affirmative vote of at least seven members.

# Hawaii Public Housing Authority

Management Discussion and Analysis  
June 30, 2007

The MD&A is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued in June 1999. Certain comparative information between the current year and the prior year is required to be presented in the MD&A and is included in this report.

## **OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction to the HA's basic financial statements which are the government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also includes supplementary information in addition to the basic financial statements themselves.

### **Government-wide Financial Statements**

The first two statements are government-wide financial statements — the *Statement of Net Assets* and the *Statement of Activities*. These provide both long-term and short-term information about the HA's overall financial status.

The *Statement of Net Assets* presents information on all of the HA's assets less liabilities, which results in net assets. The statement is designed to display the financial position of the HA. Over time, increases and decreases in net assets help determine whether the HA's financial position is improving or deteriorating.

The *Statement of Activities* provides information which shows how the HA's net assets changed as a result of the year's activities. The statement uses the accrual basis of accounting, which is 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 to which each expenditure function draws from general and federal revenues of the HA or is financed through charges for services and intergovernmental aid (primarily federal programs and state appropriations).

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

**Governmental activities** - The activities in this section are primarily supported by State appropriations or by HUD contributions which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds statements — the *Balance Sheet* and the *Statement of Revenues, Expenditures and Changes in Fund Balances* — are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the HA's programs. Because this information does not encompass the additional

# Hawaii Public Housing Authority

Management Discussion and Analysis  
June 30, 2007

long-term focus of the government-wide statements, we provide additional information that explains the relationship (or differences) between them.

**Business-type activities** – Business type activities also referred to as “proprietary funds” are activities that are financed and operated in a manner similar to private business enterprises — wherein the funding used to recover costs of providing goods and services to the general public is derived through user charges and charges to external users. Business-type activities are reported using an accrual basis of accounting and the economic resources measurement focus. To simplify, the accounting method used to record business-type activities transactions is basically the same method that is used by commercial enterprises and not for profit entities. These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users.

**Fiduciary funds** - Fiduciary funds are used to account for assets held by the HA 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 HA cannot use these assets for its operations. Fiduciary funds of the HA, 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 HA involve only the receipt, temporary investment, and remittance of resources to individuals, private organizations, or other governments in a purely custodial capacity (assets equal liabilities).

Detailed information on HA’s most significant funds are represented in the fund financial statements – However, the fund statements are not a representation of the Agency as a whole.

## **Fund Financial Statements**

HA uses fund accounting to ensure and demonstrate fiscal accountability. A fund is defined as a grouping of related accounts that is used to keep track of specific sources of funding and spending for particular purposes. It is sometimes referred to as a “self-balancing” set of accounts. This means that 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 agency are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are then either reported as major or non-major. The criteria for determining whether a fund is considered major or non-major is based on GASB (Governmental Accounting Standards Board) 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.

# Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2007

## Notes to the Financial Statements

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

### FINANCIAL ANALYSIS OF HA AS A WHOLE:

Effective Fiscal Year 2007, in accordance with Act 196, SLH 2005, the entity known as Housing and Community Development Corporation of Hawaii split into two organizations. As you review these financials, it is important to note that the financials of 2006 reflect the merged agency (HCDCH) and not just HPHA's portion. The 2007 financial numbers reflect only our agency's activities for the past fiscal year.

#### **HAWAII PUBLIC HOUSING AUTHORITY** **Condensed Statement of Net Assets** **June 30, 2007 & June 30, 2006** **(In thousands of dollars)**

	Governmental Activities		Business Activities		Total		Total Percentage Change
	2007	2006	2007	2006	2007	2006	
Current and other assets	\$ 33,619	\$ 22,359	\$ 19,234	\$ 229,679	\$ 52,853	\$ 252,038	-79.03%
Assets held by trustee	-	-	-	329,550	-	329,550	-100.00%
Capital assets	34,636	39,075	283,138	354,443	317,774	393,518	-19.25%
Other assets	-	-	-	106,089	-	106,089	-100.00%
<b>Total Assets</b>	<b>\$ 68,255</b>	<b>\$ 61,434</b>	<b>\$ 302,372</b>	<b>\$ 1,019,761</b>	<b>\$ 370,627</b>	<b>\$ 1,081,195</b>	<b>-65.72%</b>
Current and other liabilities	\$ 7,648	\$ 7,600	\$ 13,999	\$ 65,984	\$ 21,647	\$ 73,584	-70.58%
Long-term liabilities	-	-	576	390,376	576	390,376	-99.85%
<b>Total Liabilities</b>	<b>7,648</b>	<b>7,600</b>	<b>14,575</b>	<b>456,360</b>	<b>22,223</b>	<b>463,960</b>	<b>-95.21%</b>
Net assets:							
Invested in capital assets, net of related debt	34,636	39,075	273,617	245,803	308,253	284,878	8.21%
Restricted	-	-	8,001	338,056	8,001	338,056	-97.63%
Unrestricted	25,971	14,759	6,179	(20,458)	32,150	(5,699)	-664.13%
<b>Total net assets</b>	<b>60,607</b>	<b>53,834</b>	<b>287,797</b>	<b>563,401</b>	<b>348,404</b>	<b>617,235</b>	<b>-43.55%</b>
<b>Total liabilities &amp; net assets</b>	<b>\$ 68,255</b>	<b>\$ 61,434</b>	<b>\$ 302,372</b>	<b>\$ 1,019,761</b>	<b>\$ 370,627</b>	<b>\$ 1,081,195</b>	<b>-65.72%</b>

As presented above, the HA's assets exceeded liabilities by \$348,404,000 at the close of the fiscal year. This was due to a reduction of long-term liabilities (99.85%) and business activities current assets (79.03%) which belongs to the HHFDC.

# Hawaii Public Housing Authority

Management Discussion and Analysis  
June 30, 2007

The majority of the HA's net assets (86%) are invested in capital assets (land, buildings, and equipment) owned by the HA. These assets are not available for future expenditures since they will not be sold. Unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by enabling legislation, debt covenants, or other legal requirements was \$32,150,000 at the end of the year.

The HA's total revenues and expenditures are reflected in the following chart:

**HAWAII PUBLIC HOUSING AUTHORITY**  
**Government-Wide**  
**Statement of Activities**  
**Years Ended June 30, 2007 – June 30, 2006**  
**(In thousands of dollars)**

	Governmental Activities		Business Activities		Total		Total Percentage Change
	2007	2006	2007	2006	2007	2006	
<b>Revenues</b>							
Program Revenues:							
Charges for services	\$ -	\$ -	\$ 22,993	\$ 72,194	\$ 22,993	\$ 72,194	-68.15%
Operating Grants and Contributions	37,682	37,208	11,483	18,439	49,165	55,647	-11.65%
Capital Grants and Contributions	-	-	15,082	12,533	15,082	12,533	20.34%
General Revenues:							
State Alloted Appropriations, net of Lapses	36,708	19,853	-	-	36,708	19,853	84.90%
Total Revenues	74,390	57,061	49,558	103,166	123,948	160,227	-22.64%
<b>Expenses</b>							
Governmental Activities							
Homeless Services and assistance program	16,583	8,045	-	-	16,583	8,045	106.13%
Rental housing assistance program	40,153	40,142	-	-	40,153	40,142	0.03%
Business-type activities							
Rental assistance program	-	-	46,299	47,120	46,299	47,120	-1.74%
Housing development program	-	-	7,998	5,353	7,998	5,353	49.41%
Other	-	-	970	5,149	970	5,149	-81.16%
Total governmental-wide expenses	56,736	48,187	55,267	57,622	112,003	105,809	5.85%
Excess of revenues over expenses	17,654	8,874	(5,709)	45,544	11,945	54,418	-78.05%
Transfers	(670)	(2,175)	670	2,149	-	(26)	-100.00%
<b>CHANGES IN NET ASSETS</b>	16,984	6,699	(5,039)	4,741	11,945	11,440	4.41%
Total net assets, beginning of year	43,622	47,135	292,836	558,660	336,458	605,795	-44.46%
Total net assets, end of year	\$60,606	\$53,834	\$ 287,797	\$ 563,401	\$ 348,403	\$ 617,235	-43.55%

# Hawaii Public Housing Authority

Management Discussion and Analysis  
June 30, 2007

## Financial Highlights:

Due to the bifurcation of HCDCH into two separate agencies:

- HPHA's total net assets were reduced by 43.5%. This was due to a reduction in current assets from business activities normally funded by services of HHFDC.
- Operating grants and contributions contribute 56.4% of program revenues and 39.7% of total revenues. The major sources of revenues in this category are State General Funds and Federal funds restricted for specific programs.
- Capital grants and contributions include state and federal funds to provide capital improvements to the various housing projects.
- General revenues, are used to provide \$36,708,000 for expenses not covered by program revenues.
- Operation and maintenance services include utilities, security services, janitorial services, maintenance services, and depreciation of maintenance vehicles.
- Depreciation is used to report depreciation expense only for those assets that are used by the housing projects.
- General administrative services include salaries and benefits for the central office and provide system-wide support for the HA. Also included are legal expenses, liability insurance, and training for HA members and general administrative staff, printing costs, and depreciation of central office equipment and facilities.

## Financial Analysis of the HA's Funds

The analysis of governmental funds serves the purpose of looking at what resources came into the funds, how they were spent, and what is available for future expenditures. Analyzing this section allows HPHA management to determine: Did the HA generate enough revenue to pay for current obligations? What is available for spending at the end of the year.

At the end of the fiscal year, the HA's governmental funds reported combined ending fund balances of \$26.2 million. These were monies received from both government sources: Federal and State appropriations.

- ***Federal Fund appropriations*** - Federal funds appropriations are monies received from HUD. Federal funds provide for the majority of our operations.

# Hawaii Public Housing Authority

Management Discussion and Analysis  
June 30, 2007

- **General Fund appropriations** – General funds appropriations are monies received from our State Legislature to fund various State of Hawaii Homeless and Rental Assistance Programs.

General Fund expenditures increased approximately \$14.7 million from prior year's balances. This is due primarily from additional state appropriations received for various State of Hawaii homeless programs.

Proprietary Fund expenditures were approximately the same as prior year. However, the Federal Low Rent Fund, our largest proprietary fund, reflected an increase in overall revenues of approximately \$2.0 million. This is due primarily to increase in rents collected.

## HA's Capital Assets Years ended June 30, 2007 and June 30, 2006 (In thousands of dollars)

	Governmental Activities		Business Activities		Total		Total Percentage Change
	2007	2006	2007	2006	2007	2006	
Land	\$ 2,373	\$ 2,373	\$ 22,968	\$ 44,003	\$ 25,341	\$ 46,376	-45.36%
Buildings and improvements	42,784	37,471	474,512	596,269	517,296	633,740	-18.37%
Equipment	1,198	1,097	17,994	11,971	19,192	13,068	46.86%
Construction in progress	9,629	18,148	28,689	27,103	38,318	45,251	-15.32%
Total	55,984	59,089	544,163	679,346	600,147	738,435	-18.73%
Accumulated Depreciation	(21,348)	(20,014)	(262,152)	(324,903)	(283,500)	(344,917)	-17.81%
Total Capital Assets Net	<u>\$ 34,636</u>	<u>\$ 39,075</u>	<u>\$ 282,011</u>	<u>\$ 354,443</u>	<u>\$ 316,647</u>	<u>\$ 393,518</u>	-19.53%

### Capital Assets and Debt Administration

**Capital Assets** - At June 30, 2007, the HA had approximately \$316,647,000 invested in capital assets including land, buildings, equipment (costing \$5000 or more), vehicles, buildings and equipment under capital lease, and construction in progress. Increases during the year represent addition to those categories, while decreases represents the bifurcation of assets, depreciation, and retirement of assets.

Due to the bifurcation, capital assets decreased by \$76,871.000 for the 2007 fiscal year (19.53% reduction). However, it is important to note, that as a merged agency, over 60% of capital assets belonged to HPHA.

# **Hawaii Public Housing Authority**

Management Discussion and Analysis

June 30, 2007

## **CONTACTING THE HA'S FINANCIAL MANAGEMENT OFFICE**

This financial report is designed to provide citizens, taxpayers, investors, and creditors with a general overview of the HA's finances and to show the HA's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Chad Tanugichi, Executive Director or by calling 832-4670 during regular office hours, Monday through Friday, from 7:45 a.m. to 4:30 p.m., pacific standard time.

Hawaii Public Housing Authority

GOVERNMENT-WIDE  
STATEMENT OF NET ASSETS

June 30, 2007

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash	\$ 30,889,339	\$ 10,859,867	\$ 41,749,206
Receivables			
Accrued interest	-	35,291	35,291
Tenant receivables, less allowance for doubtful receivables of \$4,640,085	-	761,904	761,904
Other	125,117	556,628	681,745
	<u>125,117</u>	<u>1,353,823</u>	<u>1,478,940</u>
Internal balances	1,726,895	(1,726,895)	-
Due from HUD	821,610	7,912,757	8,734,367
Inventories	-	744,948	744,948
Prepaid expenses and other assets	56,202	64,954	121,156
Deposits held in trust	-	25,092	25,092
Total current assets	<u>33,619,163</u>	<u>19,234,546</u>	<u>52,853,709</u>
Notes Agreement	-	426,100	426,100
Accrued Interest	-	517,712	517,712
Restricted Deposits and Funded Reserves	-	8,001,432	8,001,432
Capital Assets, less accumulated depreciation	<u>34,635,921</u>	<u>274,192,891</u>	<u>308,828,812</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 68,255,084</u></u>	<u><u>\$ 302,372,681</u></u>	<u><u>\$ 370,627,765</u></u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE  
STATEMENT OF NET ASSETS (continued)

June 30, 2007

LIABILITIES AND NET ASSETS	Governmental Activities	Business-type Activities	Total
Current Liabilities			
Accounts payable	\$ 4,800,460	\$ 9,711,481	\$ 14,511,941
Accrued expenses			
Interest	-	75,458	75,458
Other	969,613	3,689,773	4,659,386
	<u>969,613</u>	<u>3,765,231</u>	<u>4,734,844</u>
Internal balances	1,874,269	(1,874,269)	-
Due to State of Hawaii	-	1,449,847	1,449,847
Due to HUD	3,673	14,560	18,233
Security deposits	-	928,828	928,828
Other	-	3,583	3,583
Total current liabilities	<u>7,648,015</u>	<u>13,999,261</u>	<u>21,647,276</u>
Mortgage and Note Payables	-	576,001	576,001
Commitments and Contingencies			
Net Assets			
Invested in capital assets, net of related debt	34,635,921	273,616,890	308,252,811
Restricted by legislation and contractual agreements	-	8,001,432	8,001,432
Unrestricted	<u>25,971,148</u>	<u>6,179,097</u>	<u>32,150,245</u>
Total net assets	<u>60,607,069</u>	<u>287,797,419</u>	<u>348,404,488</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 68,255,084</u>	<u>\$ 302,372,681</u>	<u>\$ 370,627,765</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES

June 30, 2007

Functions/Programs	Program Revenues				Net (expense) revenue and changes in net assets		
	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities							
Homeless service and assistance program	\$ 16,583,446	\$ -	\$ 777,911	\$ -	\$ (15,805,535)	\$ -	\$ (15,805,535)
Rental housing and assistance program	40,152,982	-	36,904,214	-	(3,248,768)	-	(3,248,768)
Total governmental activities	<u>56,736,428</u>	<u>-</u>	<u>37,682,125</u>	<u>-</u>	<u>(19,054,303)</u>	<u>-</u>	<u>(19,054,303)</u>
Business-type activities							
Rental assistance program	46,298,887	17,936,769	11,483,409	15,081,718	-	(1,796,991)	(1,796,991)
Rental housing program	7,998,167	4,621,287	-	-	-	(3,376,880)	(3,376,880)
Others	969,700	434,954	-	-	-	(534,746)	(534,746)
Total business-type activities	<u>55,266,754</u>	<u>22,993,010</u>	<u>11,483,409</u>	<u>15,081,718</u>	<u>-</u>	<u>(5,708,617)</u>	<u>(5,708,617)</u>
Total government-wide	<u>\$ 112,003,182</u>	<u>\$ 22,993,010</u>	<u>\$ 49,165,534</u>	<u>\$ 15,081,718</u>	<u>(19,054,303)</u>	<u>(5,708,617)</u>	<u>(24,762,920)</u>
State Allotted Appropriations, net of lapses					36,708,670	-	36,708,670
Net Transfers					(669,947)	669,947	-
Total general revenues and transfers					<u>36,038,723</u>	<u>669,947</u>	<u>36,708,670</u>
Change in net assets					16,984,420	(5,038,670)	11,945,750
Net Assets at July 1, 2006 (As Restated)					<u>43,622,649</u>	<u>292,836,089</u>	<u>336,458,738</u>
Net Assets at June 30, 2007					<u>\$ 60,607,069</u>	<u>\$ 287,797,419</u>	<u>\$ 348,404,488</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENTAL FUNDS  
BALANCE SHEET

June 30, 2007

ASSETS	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Current Assets						
Cash	\$ 14,319,473	\$ 12,894,128	\$ 3,136,624	\$ 538,959	\$ 155	\$ 30,889,339
Other receivables	300	-	1,370	123,447	-	125,117
Due from other funds	-	-	1,705,000	21,895	-	1,726,895
Due from HUD	-	-	-	595,171	226,439	821,610
Prepaid expenses and other assets	56,202	-	-	-	-	56,202
<b>TOTAL ASSETS</b>	<b>\$ 14,375,975</b>	<b>\$ 12,894,128</b>	<b>\$ 4,842,994</b>	<b>\$ 1,279,472</b>	<b>\$ 226,594</b>	<b>\$ 33,619,163</b>
<b>LIABILITIES AND FUND BALANCE</b>						
Current Liabilities						
Accounts payable	\$ 3,161,684	\$ 1,192,758	\$ 23,433	\$ 202,444	\$ 220,141	\$ 4,800,460
Accrued expenses	8,001	-	475,901	241,580	-	725,482
Due to other funds	343,702	-	1,318,818	205,451	6,298	1,874,269
Due to HUD	-	-	3,518	-	155	3,673
<b>Total liabilities</b>	<b>3,513,387</b>	<b>1,192,758</b>	<b>1,821,670</b>	<b>649,475</b>	<b>226,594</b>	<b>7,403,884</b>
Fund Balances - Unrestricted						
Reserved	10,862,588	11,701,370	-	-	-	22,563,958
Unreserved	-	-	3,021,324	629,997	-	3,651,321
<b>Total fund balances</b>	<b>10,862,588</b>	<b>11,701,370</b>	<b>3,021,324</b>	<b>629,997</b>	<b>-</b>	<b>26,215,279</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 14,375,975</b>	<b>\$ 12,894,128</b>	<b>\$ 4,842,994</b>	<b>\$ 1,279,472</b>	<b>\$ 226,594</b>	<b>\$ 33,619,163</b>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE TO THE  
STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance - governmental funds		\$	26,215,279
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.	34,635,921		
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds	<u>244,131</u>		<u>34,391,790</u>
Net assets of governmental activities		\$	<u><u>60,607,069</u></u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2007

	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
<b>Revenues</b>						
Intergovernmental – HUD annual contributions and others	\$ -	\$ -	\$ 16,899,846	\$ 19,403,750	\$ 1,374,438	\$ 37,678,034
State allotted appropriations, net of lapsed funds	27,948,955	8,759,715	-	-	-	36,708,670
Other	-	-	2,031	2,060	-	4,091
<b>Total revenues</b>	<u>27,948,955</u>	<u>8,759,715</u>	<u>16,901,877</u>	<u>19,405,810</u>	<u>1,374,438</u>	<u>74,390,795</u>
<b>Expenditures</b>						
Housing assistance payments	634,229	-	16,226,832	18,133,778	-	34,994,839
Homeless services	12,308,766	-	-	-	-	12,308,766
Personal services	775,473	-	1,470,472	41,196	-	2,287,141
Administration	807,541	-	564,803	939,506	1,374,438	3,686,288
Professional services	-	-	26,742	-	-	26,742
Security	-	-	90	83,063	-	83,153
Repairs and maintenance	749,107	-	316	-	-	749,423
Utilities	69,659	-	-	-	-	69,659
Insurance	-	-	6,112	-	-	6,112
Other	948,410	-	185,961	75,765	-	1,210,136
Rentals	62,740	-	-	-	-	62,740
Capital outlays	6,969,929	2,329,785	-	-	-	9,299,714
<b>Total expenditures</b>	<u>23,325,854</u>	<u>2,329,785</u>	<u>18,481,328</u>	<u>19,273,308</u>	<u>1,374,438</u>	<u>64,784,713</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	4,623,101	6,429,930	(1,579,451)	132,502	-	9,606,082
<b>Other Financing Uses - Transfers Out</b>	-	-	-	(669,947)	-	(669,947)
<b>Total other financing uses</b>	-	-	-	(669,947)	-	(669,947)
<b>NET CHANGE IN FUND BALANCE</b>	4,623,101	6,429,930	(1,579,451)	(537,445)	-	8,936,135
<b>Fund Balance at July 1, 2006 (As Restated)</b>	<u>6,239,487</u>	<u>5,271,440</u>	<u>4,600,775</u>	<u>1,167,442</u>	<u>-</u>	<u>17,279,144</u>
<b>Fund Balance at June 30, 2007</b>	<u>\$ 10,862,588</u>	<u>\$ 11,701,370</u>	<u>\$ 3,021,324</u>	<u>\$ 629,997</u>	<u>\$ -</u>	<u>\$ 26,215,279</u>

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, 2007

Net change in fund balances - total governmental funds		\$ 8,936,135
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.	7,975,718	
Long-term compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds	<u>72,567</u>	<u>8,048,285</u>
Change in net assets of governmental activities		<u>\$ 16,984,420</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS

June 30, 2007

ASSETS	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Assets:						
Cash	\$ 4,544,926	\$ 978,714	\$ 1,670,595	\$ 2,486,424	\$ 9,680,659	\$ 1,179,208
Receivables:						
Accrued interest	-	7,249	17,486	6,481	31,216	4,075
Tenant receivables, less allowance for doubtful accounts of \$4,640,085	657,120	60,556	1,652	42,576	761,904	-
Other	218,117	9,137	1,810	327,564	556,628	-
	<u>875,237</u>	<u>76,942</u>	<u>20,948</u>	<u>376,621</u>	<u>1,349,748</u>	<u>4,075</u>
Due from other funds	3,808,029	292,583	816,933	8,858,160	13,775,705	-
Due from HUD	7,912,757	-	-	-	7,912,757	-
Inventories	568,530	20,745	54,666	101,007	744,948	-
Prepaid expenses and other assets	-	-	1,707	63,247	64,954	-
Deposits held in trust	-	-	-	25,092	25,092	-
	<u>17,709,479</u>	<u>1,368,984</u>	<u>2,564,849</u>	<u>11,910,551</u>	<u>33,553,863</u>	<u>1,183,283</u>
Notes Agreement	-	426,100	-	-	426,100	-
Accrued Interest	-	517,712	-	-	517,712	-
Restricted Deposits and Funded Reserves	-	-	-	8,001,432	8,001,432	-
Capital Assets, less accumulated depreciation	198,604,213	12,420,428	42,616,698	20,413,299	274,054,638	138,253
	<u>\$ 216,313,692</u>	<u>\$ 14,733,224</u>	<u>\$ 45,181,547</u>	<u>\$ 40,325,282</u>	<u>\$ 316,553,745</u>	<u>\$ 1,321,536</u>
<b>TOTAL ASSETS</b>						

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS (continued)

June 30, 2007

LIABILITIES AND NET ASSETS	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Liabilities						
Accounts payable	\$ 7,043,741	\$ 30,987	\$ 167,233	\$ 2,469,520	\$ 9,711,481	\$ -
Accrued expenses						
Interest	-	75,458	-	-	75,458	-
Other	3,090,096	-	34,335	565,342	3,689,773	-
	<u>3,090,096</u>	<u>75,458</u>	<u>34,335</u>	<u>565,342</u>	<u>3,765,231</u>	<u>-</u>
Due to other funds	3,367,341	4,680,251	208,056	5,351,248	13,606,896	21,435
Due to State of Hawaii	-	-	-	1,449,847	1,449,847	-
Due to HUD	-	-	-	14,560	14,560	-
Security deposits	666,587	32,977	150,282	78,982	928,828	-
Other	-	-	-	3,583	3,583	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,583</u>	<u>3,583</u>	<u>-</u>
Total current liabilities	<u>14,167,765</u>	<u>4,819,673</u>	<u>559,906</u>	<u>9,933,082</u>	<u>29,480,426</u>	<u>21,435</u>
Mortgage and Note Payables	-	-	-	576,001	576,001	-
Commitments and Contingencies						
Net Assets:						
Invested in capital assets, net of related debt	198,604,213	12,420,428	42,616,698	19,837,298	273,478,637	138,253
Restricted by legislation and contractual agreements	-	-	-	8,001,432	8,001,432	-
Unrestricted (deficit)	3,541,714	(2,506,877)	2,004,943	1,977,469	5,017,249	1,161,848
	<u>3,541,714</u>	<u>(2,506,877)</u>	<u>2,004,943</u>	<u>1,977,469</u>	<u>5,017,249</u>	<u>1,161,848</u>
Total net assets	<u>202,145,927</u>	<u>9,913,551</u>	<u>44,621,641</u>	<u>29,816,199</u>	<u>286,497,318</u>	<u>1,300,101</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 216,313,692</u>	<u>\$ 14,733,224</u>	<u>\$ 45,181,547</u>	<u>\$ 40,325,282</u>	<u>\$ 316,553,745</u>	<u>\$ 1,321,536</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2007

Total net assets of enterprise funds	\$ 286,497,318
Amounts reported for business-type activities in the statement of net assets are different because certain internal service fund assets and liabilities are included with business-type activities	<u>1,300,101</u>
Net assets of business-type activities	<u><u>\$ 287,797,419</u></u>

The accompanying notes are an integral part of this statements.

Hawaii Public Housing Authority

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

Year ended June 30, 2007

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating Revenues						
Rental	\$ 15,764,210	\$ 849,941	\$ 1,729,408	\$ 1,634,324	\$ 19,977,883	\$ -
Other	1,955,827	-	75,469	747,764	2,779,060	-
Total operating revenues	17,720,037	849,941	1,804,877	2,382,088	22,756,943	-
Operating Expenses						
Project	6,980,784	-	-	-	6,980,784	-
Personal services	12,990,632	1,035,135	259,042	225,968	14,510,777	-
Depreciation	8,168,021	387,794	1,386,272	1,001,921	10,944,008	43,625
Administration	3,392,846	126,812	77,064	752,979	4,349,701	-
Provision for losses	-	-	5,479	-	5,479	-
Professional services	681,949	21,908	-	6,666	710,523	-
Security	1,718,776	-	-	-	1,718,776	-
Insurance	838,323	136,047	-	106,111	1,080,481	-
Repairs and maintenance	1,304,439	97,252	977,615	566,162	2,945,468	-
Utilities	9,002,323	387,532	681,535	218,332	10,289,722	-
Payments in lieu of taxes	500,000	-	-	-	500,000	-
Capital expenditures	720,794	-	-	-	720,794	-
Other	-	(7,603)	106,091	449,790	548,278	-
Total operating expenses	46,298,887	2,184,877	3,493,098	3,327,931	55,304,793	43,625
Operating loss carried forward	(28,578,850)	(1,334,936)	(1,688,221)	(945,842)	(32,547,849)	(43,625)

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2007

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating loss brought forward	\$ (28,578,850)	\$ (1,334,936)	\$ (1,688,221)	\$ (945,842)	\$ (32,547,849)	\$ (43,625)
Nonoperating Revenues (Expenses):						
Interest income - cash and investments	220,974	-	78,046	34,152	333,172	43,585
HUD operating subsidy and others	26,565,127	-	-	-	26,565,127	-
Interest expense	(4,242)	-	-	(14)	(4,256)	-
Other Revenues (Expenses)	-	(92,849)	-	-	(92,849)	38,078
Net nonoperating revenues (expenses)	26,781,859	(92,849)	78,046	34,138	26,801,194	81,663
Income (loss) before transfers	(1,796,991)	(1,427,785)	(1,610,175)	(911,704)	(5,746,655)	38,038
Net Operating Transfers	600,000	-	-	69,947	669,947	-
CHANGE IN NET ASSETS	(1,196,991)	(1,427,785)	(1,610,175)	(841,757)	(5,076,708)	38,038
Fund Net Assets at July 1, 2006 (As Restated)	203,342,918	11,341,336	46,231,816	30,657,956	291,574,026	1,262,063
Fund Net Assets at June 30, 2007	\$ 202,145,927	\$ 9,913,551	\$ 44,621,641	\$ 29,816,199	\$ 286,497,318	\$ 1,300,101

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2007

Net change in fund balances - total enterprise funds	\$ (5,076,708)
Net change in fund balances - internal service funds	<u>38,038</u>
CHANGE IN NET ASSETS OF BUSINESS-TYPE ACTIVITIES	<u>\$ (5,038,670)</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS

Year ended June 30, 2007

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>						
Cash received from renters	\$ 15,614,347	\$ 849,941	\$ 1,910,303	\$ 2,313,885	\$ 20,688,476	\$ -
Cash payments to employees	(19,971,416)	(1,035,135)	(259,042)	(225,968)	(21,491,561)	-
Cash payments to suppliers	(15,418,767)	(825,985)	(1,891,143)	(542,697)	(18,678,592)	-
Cash (payments to) receipts from other funds	1,399,627	1,306,448	(576,622)	(2,796,919)	(667,466)	-
Other cash receipts (payments)	1,832,637	354	(30,622)	825,499	2,627,868	-
Net cash (used in) provided by operating activities	(16,543,572)	295,623	(847,126)	(426,200)	(17,521,275)	-
<b>Cash Flows from Noncapital Financing Activities:</b>						
Interest paid to the Department of Budget and Finance	(4,242)	-	-	(14)	(4,256)	-
HUD operating subsidy and others received	22,285,534	-	-	-	22,285,534	-
Operating transfers in	600,000	-	-	69,947	669,947	-
Net cash provided by noncapital financing activities	22,881,292	-	-	69,933	22,951,225	-
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Principal payments on mortgage loans	-	-	-	22,198	22,198	-
Payments for acquisition of property and equipment	(11,632,014)	-	-	-	(11,632,014)	-
Other	-	(92,848)	-	1,572,021	1,479,173	-
Net cash (used in) provided by capital and related financing activities	(11,632,014)	(92,848)	-	1,594,219	(10,130,643)	-
Subtotal carried forward	(5,294,294)	202,775	(847,126)	1,237,952	(4,700,693)	-

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, 2007

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Subtotal brought forward	\$ (5,294,294)	\$ 202,775	\$ (847,126)	\$ 1,237,952	\$ (4,700,693)	\$ -
Cash Flows from Investing Activities:						
Receipts of interest	220,974	7,249	79,976	33,972	342,171	49,016
Net increase in restricted deposits and funded reserves	-	-	-	(120,311)	(120,311)	-
Net cash provided (used in) by investing activities	220,974	7,249	79,976	(86,339)	221,860	49,016
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,073,320)	210,024	(767,150)	1,151,613	(4,478,833)	49,016
Cash at July 1, 2006	9,618,246	768,690	2,437,745	1,334,811	14,159,492	1,130,192
Cash at June 30, 2007	<u>\$ 4,544,926</u>	<u>\$ 978,714</u>	<u>\$ 1,670,595</u>	<u>\$ 2,486,424</u>	<u>\$ 9,680,659</u>	<u>\$ 1,179,208</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS (continued)

Year ended June 30, 2007

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving 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	\$ (28,578,850)	\$ (1,334,936)	\$ (1,688,221)	\$ (945,842)	\$ (32,547,849)	\$ (43,625)
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities:						
Depreciation	8,168,021	387,794	1,386,272	1,001,921	10,944,008	43,625
Provision for losses	-	-	5,479	-	5,479	-
Changes in assets and liabilities:						
Tenant receivables	(158,337)	-	18,853	15,573	(123,911)	-
Other receivables	(123,190)	(7,249)	-	554,858	424,419	-
Due from other funds	51,290	-	-	(2,144,992)	(2,093,702)	-
Due from HUD	-	-	-	192,570	192,570	-
Inventories	93,349	-	(12,980)	-	80,369	-
Prepaid expenses and other assets	-	-	-	(286,587)	(286,587)	-
Deposits held in trust	-	-	-	34,091	34,091	-
Accounts payable	3,563,631	30,937	-	1,642,482	5,237,050	-
Other accrued expenses	(916,297)	(87,371)	(141,949)	159,369	(986,248)	-
Due to other funds	1,348,337	1,306,448	(576,622)	(651,927)	1,426,236	-
Due to HUD	-	-	-	4,847	4,847	-
Security deposits	8,474	-	162,042	(2,563)	167,953	-
Net cash (used in) provided by operating activities:	<u>\$ (16,543,572)</u>	<u>\$ 295,623</u>	<u>\$ (847,126)</u>	<u>\$ (426,200)</u>	<u>\$ (17,521,275)</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

FIDUCIARY FUND  
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	<u>Private Purpose Trust</u>
ASSETS	
Cash	<u>\$ 5,392,994</u>
TOTAL ASSETS	<u><u>\$ 5,392,994</u></u>
LIABILITIES AND NET ASSETS	
Liability - Accounts Payable	\$ 862,634
Net Assets - Held in Trust	<u>4,530,360</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,392,994</u></u>

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, 2007

	<u>Private Purpose Trust</u>
Addition - Intergovernmental Revenue	\$ 5,500,000
Deductions - Capital Outlays	<u>970,228</u>
CHANGE IN NET ASSETS	4,529,772
Net Assets at July 1, 2006	<u>588</u>
Net Assets at June 30, 2007	<u><u>\$ 4,530,360</u></u>

The accompanying notes are an integral part of this statement.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 1. Organization and Significant Accounting Policies

### a. General

Chapter 201E, Hawaii Revised Statutes and Act 337, Session Laws of Hawaii (SLH) 1987, created the Housing Finance and Development Corporation (HFDC). The HFDC was created to perform housing finance, housing development and residential leasehold functions. The Hawaii Housing Authority, State of Hawaii was organized pursuant to the provisions of Chapter 356, Hawaii Revised Statutes. The Hawaii Housing Authority, State of Hawaii was created to provide safe and sanitary dwelling accommodations for low and moderate-income residents of Hawaii.

In accordance with Act 350, SLH 1997, effective July 1, 1998, the functions and employees of HFDC, as well as those of the Hawaii Housing Authority, State of Hawaii and the Rental Housing Trust Fund Commission were transferred to the newly created Housing and Community Development Corporation of Hawaii (HCDCH). The purpose of Act 350, SLH 1997, was to consolidate all state housing functions previously administered by the Hawaii Housing Authority, State of Hawaii, HFDC and the Rental Housing Trust Fund Commission. HCDCH was a public body and a body corporate and politic and was, for administrative purposes only, considered a part of the State Department of Business, Economic Development and Tourism. In accordance with Act 92, SLH 2003, effective July 1, 2003, the functions and employees of HCDCH were transferred to the State Department of Human Services for administrative purposes.

In accordance with Act 196, SLH 2005, as amended by Act 180, SLH 2006, HCDCH was split into two organizations to more effectively concentrate on the development of affordable housing. Effective July 1, 2006 HCDCH was bifurcated into (1) the Hawaii Public Housing Authority (the Authority) and (2) HFDC.

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.

# Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2007

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

### a. General (continued)

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, 2007, 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.

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 does employ 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.

# Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2007

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

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

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.

#### 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.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

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

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

#### ii. Governmental Fund Financial Statements (continued)

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, which is recorded as expenditure when utilized or paid. The amount of long-term indebtedness related to accumulated vacation at June 30, 2007 has been reported in the government-wide financial statements.

#### 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.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

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

### 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.

### 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.

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).

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

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

### d. Fund Accounting (continued)

#### i. Governmental Funds (continued)

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.

#### 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, Banyan Street Manor Project, Wilikina Apartments Project, Kekumu at Waikoloa Project, Disbursing Fund and Kuhio Park Terrace 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.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

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

### d. Fund Accounting (continued)

#### ii. Proprietary Funds (continued)

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.

#### 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.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

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

### f. Capital Assets

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

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

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

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

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

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

### g. Deferred Revenues

Deferred revenues at the fund level and government-wide level arise when the Authority receives resources before it has a legal claim to them. In subsequent periods, when the revenue recognition criteria is met, or when the Authority has a legal claim to the resources, the liability for deferred revenue is removed from the statement of net assets and revenue is recognized.

# Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2007

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

### h. 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.

### i. Inventories

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

### j. 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.

### k. 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.

### l. 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 \$589,000.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

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

### l. Vacation (continued)

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

<u>Balance at July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2007</u>
<u>\$2,076,991</u>	<u>\$977,525</u>	<u>\$970,275</u>	<u>\$2,084,241</u>

### m. 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.

### n. 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. Actual results could differ from those estimates.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 2. Restatement

During the current year, the Authority restated net assets as of June 30, 2006 to record certain capital assets in the appropriate fund and to correct the Housing Choice Voucher fund's deferred income balance as follows:

	Governmental Activities	Business-Type Activities
Net assets as of June 30, 2006, as previously reported	\$ 53,833,805	\$ 280,431,281
Additions of:		
Capital assets – construction in progress	-	12,404,808
Correction to deferred income	2,193,652	
Less:		
Capital assets – construction in progress	12,404,808	-
Net Assets as of June 30, 2006, as restated	<u>\$ 43,622,649</u>	<u>\$ 292,836,089</u>

In recognition of the correction of the Housing Choice Voucher fund's deferred income balance, the Authority restated the fund balance as follows:

	Housing Choice Voucher Fund Balance
Fund balance as of June 30, 2006, as previously reported	\$ 2,407,123
Less:	
Correction to deferred income balance	<u>2,193,652</u>
Fund Balance as of June 30, 2006, as restated	<u>\$ 4,600,775</u>

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

### 3. Budgeting and Budgetary Control

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

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

The general fund and certain special revenue funds have legally appropriated annual budgets. The final legally adopted budget in the accompanying Required Supplementary Information – Budgetary Comparison Schedule represent the original appropriations, transfers and other legally authorized legislative and executive changes.

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

A comparison of both the original budget and the final budget to the actual revenues and expenditures of the general and certain special revenue funds are presented in the accompanying Required Supplementary Information – Budgetary Comparison Schedule. Differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with 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.

# Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2007

### 3. Budgeting and Budgetary Control (continued)

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

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP for the general and certain special revenue funds for the year ended June 30, 2007 is set forth in the Required Supplementary Information.

### 4. Cash

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

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

At June 30, 2007, total cash reported in the Statement of Net Assets is \$41,774,298, which consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
State pool and petty cash	\$ 27,213,601	\$ 4,658,188	\$ 31,871,789
Cash in bank (book balance)	3,675,738	6,201,679	9,877,417
	30,889,339	10,859,867	41,749,206
Deposits held in trust	-	25,092	25,092
Total Cash	<u>\$ 30,889,339</u>	<u>\$ 10,884,959</u>	<u>\$ 41,774,298</u>

Bank balance of cash in bank was approximately \$16,250,714, of which \$310,000 was covered by federal depository insurance or collateral held by the Authority; \$15,940,714 by collateral held by the pledging financial institution's trust department or agent in the Authority's name.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 5. Notes 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.

## 6. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	(As restated) Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 2,373,410	\$ -	\$ -	\$ 2,373,410
Construction in progress	5,742,918	3,885,884		9,628,802
Total capital assets not being depreciated	<u>8,116,328</u>	<u>3,885,884</u>	<u>-</u>	<u>12,002,212</u>
Capital assets, being depreciated:				
Building and improvements	37,470,991	5,312,635	-	42,783,626
Equipment	1,096,574	101,195	-	1,197,769
Total capital assets being depreciated	<u>38,567,565</u>	<u>5,413,830</u>	<u>-</u>	<u>43,981,395</u>
Less accumulated depreciation for:				
Building and improvements	18,929,946	1,315,099	-	20,245,045
Equipment	1,083,744	18,897	-	1,102,641
Total accumulated depreciation	<u>20,013,690</u>	<u>1,333,996</u>	<u>-</u>	<u>21,347,686</u>
Governmental activities, net	<u>\$ 26,670,203</u>	<u>\$ 7,965,718</u>	<u>\$ -</u>	<u>\$ 34,635,921</u>

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 6. Capital Assets (continued)

	(As restated) Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type activities</b>				
Capital assets, not being depreciated:				
Land	\$ 22,968,176	\$ -	\$ -	\$ 22,968,176
Construction in progress	39,507,527	11,171,999	(21,990,126)	28,689,400
Total capital assets not being depreciated	62,475,703	11,171,999	(21,990,126)	51,657,576
Capital assets being depreciated:				
Building and improvements	452,834,501	21,990,126	(313,091)	474,511,536
Equipment	10,180,139	-	(4,605)	10,175,534
Total capital assets being depreciated	463,014,640	21,990,126	(317,696)	484,687,070
Less accumulated depreciation for:				
Building and improvements	233,909,129	10,253,523	(4,605)	244,158,047
Equipment	17,712,930	280,778	-	17,993,708
Total accumulated depreciation	251,622,059	10,534,301	(4,605)	262,151,755
Business-type activities capital assets, net	<u>\$ 273,868,284</u>	<u>\$ 22,627,824</u>	<u>\$ (22,303,217)</u>	<u>\$ 274,192,891</u>

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

Governmental Activities	
Homeless Service and Assistance Program	\$ 83,007
Rental Housing and Assistance Program	1,250,989
Total depreciation expense – governmental activities	<u>1,333,996</u>
Business-Type Activities	
Federal Low Rent Program	8,168,021
Housing Revolving Fund	387,794
Housing for Elders Revolving Fund	1,386,272
Others	1,045,546
Total depreciation expense – business-type activities	<u>10,987,633</u>
Total depreciation expense	<u>\$ 12,321,629</u>

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 6. Capital Assets (continued)

At June 30, 2007, capital assets for the proprietary funds consisted of the following:

	Proprietary Fund Type						Total
	Federal Low-Rent Fund	Enterprise Funds		Other Funds	Internal Service		
		Housing Revolving Fund	Housing for Elders Revolving Fund		Equipment Rental	Vehicle Rental	
Land	\$ 13,089,005	\$ 2,252,881	\$ 6,104,817	\$ 1,521,473	\$ -	\$ -	\$ 22,968,176
Buildings and Improvements	374,137,804	18,733,288	54,945,545	27,007,990	-	-	474,824,627
Equipment, furniture and fixtures	6,779,953	252,522	208,356	908,391	1,517,825	508,487	10,175,534
Construction in Progress	29,154,020	-	-	-	-	-	29,154,020
Less accumulated Depreciation	224,556,569	8,818,263	18,642,020	9,024,555	1,501,692	386,367	262,929,466
Net property and Equipment	<u>\$ 198,604,213</u>	<u>\$ 12,420,428</u>	<u>\$ 42,616,698</u>	<u>\$ 20,413,299</u>	<u>\$ 16,133</u>	<u>\$ 122,120</u>	<u>\$274,192,891</u>

## 7. 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. Principal and interest are payable in monthly installments of \$11,370, maturing January 1, 2018. At June 30, 2007, the mortgage payable balance was \$404,674. During the current year principal payments of approximately \$150,000 were paid.

Notes payable also consists of a \$171,327 unsecured promissory note payable to an individual (the former owner of Banyan Street). The entire principal balance plus accrued interest, which accrues at the same rate as the residual receipt funds held by GSCI, Inc. (approximately 1.0 percent for the year ended June 30, 2007), 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.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 8. Leases

### a. Lease Commitments

The Authority leases land under noncancellable operating lease expiring at 2008. 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.

The minimum rental commitments under operating lease for 2008 and 2009 are \$185,000 and \$92,000, respectively.

Rent expense for the year ended June 30, 2007 totaled approximately \$141,000.

## 9. Commitments and Contingencies

### a. Construction Contracts

At June 30, 2007, the Federal Low Rent Program fund had outstanding commitments to expend approximately \$488,000 for the construction and renovation of housing projects.

The General Fund, Capital Projects Fund and the Fiduciary Fund had outstanding construction contract commitments of approximately \$3,500,00, \$6,505,000 and \$10,000,000, respectively at June 30, 2007.

### 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 lawsuit 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 Authority has a retrospectively rated workers' compensation insurance policy. Based on available claim experience information, the minimum premium accrued for financial statement reporting purposes approximates the Authority's ultimate workers' compensation cost.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 9. Commitments and Contingencies (continued)

### 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, 2007 amounted to approximately \$5,228,000.

### 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.

### 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.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 9. Commitments and Contingencies (continued)

### f. Litigation (continued)

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

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

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

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

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

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 9. Commitments and Contingencies (continued)

### f. Litigation (continued)

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

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

On June 30, 1997, the Governor approved Act 329, Session Laws of Hawaii, 1997. The purpose of this Act was to achieve a comprehensive, just and lasting resolution of all controversies relating to the proper management and disposition of the lands subject to public trust, and of the proceeds and income, which the lands generate. The Act also fixes the amount of proceeds and income OHA will receive during the two-year period at \$15.1 million per year, and requires the completion, continued maintenance, and use of a comprehensive inventory of the public trust lands.

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

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 9. Commitments and Contingencies (continued)

### f. Litigation (continued)

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

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

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

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 stayed pending the Hawaii Supreme Court's decision in the State's appeal.

The State's potential liability, if any, therefore, may be determined either (1) by the ruling by the Hawaii Supreme Court on the State's interlocutory appeal and, if such ruling is adverse to the State, the conclusion of any subsequent trial and related appeals, or (2) by legislation enacted as a result of the process set out in Act 329. Given all of the above, and the uncertain timing of any final disposition of the case, the State is not able to predict either the ultimate outcome of the case, or the magnitude of its potential liability, if any, with any reasonable certainty. A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the State's financial condition.

A legislative resolution or judicial decision adverse to the State could have a material adverse effect on the Authority's financial condition if an adverse resolution or decision against the State includes liability for gross rental income derived by the Authority from rental housing projects situated on lands in the public trust and the liability is imposed upon the Authority.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 9. Commitments and Contingencies (continued)

### f. Litigation (continued)

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

However, 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.

### g. HUD Examination

In September 2002, HUD conducted a limited review of the Authority's policies and procedures over procurement and contracting and the obligation and expenditure of Comprehensive Grant and Capital Fund Program funds. Based on the results of this limited review, HUD found several findings in these areas. The findings include the improper procurement of a construction contract totaling approximately \$771,000 to a construction company for repairs and maintenance of a housing project operated by the Authority. During the fiscal year 2004, the Authority made a payment to HUD of \$771,000 for the amounts paid under the construction contract.

As a result of the review, in September 2002, HUD issued a Corrective Action Order (CAO) for the Authority. The CAO required that the Authority, to perform certain corrective actions, including, but not limited to performing an assessment to identify improvements in its operations.

During 2005, as a result of the corrective action taken by the Authority, HUD closed all findings identified in the CAO. Subsequently, allowing the Authority to take the maximum points allowed under the Public Housing Assessment System (PHAS).

PHAS scores the Authority on its Capital Fund Program by reviewing the unexpended funds, timeliness of fund obligation, contract administration, quality of physical work and budget controls. An on-site confirmatory review completed in December 2005 by the HUD Honolulu Office confirmed that the Authority has met the highest level of performance under the Capital Fund Programs as required under PHAS.

### h. Memorandum of Agreement with HUD

In accordance with the provisions of its Low Rent Public Housing Annual Contribution Contract with HUD, if the Authority's performance evaluation results in a designation as a "troubled" public housing agency, as defined by the provisions of Public Housing Assessment

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 9. Commitments and Contingencies (continued)

### h. Memorandum of Agreement with HUD (continued)

System (PHAS) as codified at 24 CFR Part 902, the Authority must enter into a binding contractual agreement designated as a Memorandum of Agreement (MOA) with HUD for the purpose of improving its performance.

On September 30, 2004, the Authority and HUD entered into an MOA, thereby requiring the Authority to comply with certain terms and conditions, including but not limited to meeting certain performance targets, implementing prescribed strategies, and meeting certain timelines for improvement, including written progress reports.

On November 22, 2005, HUD removed the “troubled” agency status noting that the Authority made significant progress in achieving the targets and strategies under the MOA. The Authority received a PHAS score of 73 points out of 100 points.

## 10. Retirement Plan

### a. Plan Description

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

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

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 10. Retirement Plan (continued)

### b. Funding Policy

Most covered employees of the contributory plan are required to contribute 7.8 percent of their salary. Police officers, firefighters, investigators of the department of the prosecuting attorney and the attorney general, narcotics enforcement investigators, and public safety investigators are required to contribute 12.2 percent of their salary. The actuarial cost or funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Under this method, the total employer contributions to the ERS is comprised of normal cost plus level annual payments required to amortize the unfunded actuarial accrued liability over the closed period ending June 30, 2029.

The Authority's contribution was approximately \$1,556,000 for the year ended June 30, 2007.

## 11. Post Retirement Health care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all employees hired prior to July 1, 1996 who retire from State employment on or after attaining age 62 with at least ten years of service or age 55 with at least thirty years of service under the noncontributory plan and age 55 with at least five years of service under the contributory plan. Retirees credited with at least ten years of service excluding sick leave credit qualify for free medical insurance premiums; however, retirees with less than ten years must assume a portion of the monthly premiums. All service-connected disability retirees who retired after June 30, 1984, with less than ten years of service also qualify for free medical insurance premiums. Free life insurance coverage for retirees and free dental coverage for dependents under age 19 is also available. Retirees covered by the medical portion of Medicare are eligible to receive a reimbursement of a portion of the basic medical coverage premiums.

For employees hired after July 1, 1996 and retire with fewer than twenty-five years of service, the State shall pay to a fund a monthly contribution equal to one-half of the retired employee's monthly Medicare or non-Medicare premium for certain medical benefits for retired employees with ten or more years of service; and seventy-five percent of the retired employee's monthly Medicare or non-Medicare premium for retired employees with at least fifteen but fewer than twenty-five years of service.

Contributions are based upon negotiated collective bargaining agreements, and are funded by the Authority as accrued.

# Hawaii Public Housing Authority

Notes to Financial Statements  
June 30, 2007

## 11. Post Retirement Health care and Life Insurance Benefits (continued)

The Authority's general fund share of the post-retirement benefits expense for the year ended June 30, 2007 has not been separately computed and is not reflected in the Authority's financial statements. The Authority's enterprise funds' and special revenue funds' share of the post-retirement health care and life insurance benefits expense for the year ended June 30, 2007 approximated \$813,000 and is included in the financial statements.

## 12. Related Party Transactions

The Housing Voucher Programs provide rent subsidies to certain lessees of the Hawaii Housing Finance Development Corporation's (HFDC) various projects. Total rent subsidies provided to lessees of the HFDC's various projects approximated \$421,000 during the year ended June 30, 2007. Also, HFDC's Rental Assistance Program provides rent subsidies to certain lessees of the Authority's various projects, which amounted to approximately \$67,000. These amounts amounts have been recorded by the Authority as rental income in the Wilikina Apartments Project and Kekumu at Waikoloa Project.

## 13. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2007 is as follows:

Due from	Housing Voucher Program	Section 8	Federal Low Rent Program	Housing Revolving Fund	Housing For Elders Revolving Fund	Nonmajor – Proprietary
General Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 343,702
Housing Choice Voucher Program	-	-	1,437	-	-	1,317,381
Section 8 Contract Administration	-	-	1,594	-	-	203,857
Federal Low-Rent Program	-	-	369,835	-	-	2,997,506
Housing Revolving Fund	-	-	151,244	-	686,933	3,727,742
Housing for Elders Revolving Fund	-	-	-	-	-	208,057
Internal Services	-	-	-	-	-	21,435
Nonmajor – Proprietary	1,705,000	21,895	3,283,919	178,251	130,000	32,183
Nonmajor – Government	-	-	-	-	-	6,297
Total	\$ 1,705,000	\$ 21,895	\$ 3,808,029	\$ 178,251	\$ 816,933	\$ 8,858,160

# Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2007

## 13. Interfund Receivables and Payables (continued)

All other balances are due to interfund goods or services provided or reimbursable expenditures and payments between funds.

## 14. New Pronouncements for Financial Reporting

The Governmental Accounting Standards Board (GASB) has issued the following Statements applicable to the Authority:

- Statement No. 45 “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities/assets, note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. This Statement is effective for financial statements period beginning after December 15, 2007. The Authority has not yet analyzed the potential effect on the financial statements, if any, of adopting Statement No. 45.
- Statement No. 48 “Sales and Pledges of Receivables and Future Revenues of Intra-Entity Transfers of Assets and Future Revenues” establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables for specific future revenues. This Statement is effective for financial statements period beginning after December 15, 2006 and is not expected to have a material effect on the Authority’s financial statements.
- Statement No 50 “Pension Disclosures” more closely aligns current pension disclosure requirements for governments with those that governments are beginning to implement for retiree health insurance and other post-employment benefits. This Statement is effective for financial statement periods beginning after June 15, 2007. The Authority has not yet analyzed the potential effect on the financial statements, if any, of adopting Statement No. 50.

**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, 2007

	General Fund		
	<u>Original budget</u>	<u>Final budget</u>	<u>Budgetary Actual</u>
Revenues -			
State allotted appropriations	<u>\$ 36,370,963</u>	<u>\$ 34,070,263</u>	<u>\$ 27,948,952</u>
Expenditures:			
Homeless service and assistance program	<u>30,457,766</u>	<u>30,457,766</u>	<u>25,379,984</u>
Rental housing and assistance program	<u>5,913,197</u>	<u>3,612,497</u>	<u>2,568,968</u>
REVENUES EQUALS			
EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	Housing Voucher Program		
	<u>Original budget</u>	<u>Final budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>\$ 18,169,721</u>	<u>\$ 17,514,404</u>	<u>\$ 16,899,846</u>
Expenditures -			
Rental housing and assistance program	<u>18,169,721</u>	<u>17,514,404</u>	<u>18,262,107</u>
DEFICIENCY OF REVENUES			
UNDER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,362,261)</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -  
MAJOR GOVERNMENTAL FUNDS (continued)

Year ended June 30, 2007

	<u>Section 8 Contract Administration</u>		
	<u>Original budget</u>	<u>Final budget</u>	<u>Budgetary Actual</u>
Revenues			
HUD contributions	<u>\$ 28,686,927</u>	<u>\$ 28,686,927</u>	<u>\$ 19,403,750</u>
Expenditures			
Rental housing and assistance program	<u>28,686,927</u>	<u>28,686,927</u>	<u>19,273,308</u>
 EXCESS OF REVENUES OVER EXPENDITURES	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 130,442</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -  
BUDGET-TO-GAAP RECONCILIATION

Year ended June 30, 2007

	<u>General Fund</u>	<u>Housing Voucher Program</u>	<u>Section 8 Contract Administration</u>
Excess of revenues over expenditures and other sources and uses - actual on budgetary basis	\$ -	\$ (1,362,261)	\$ 130,442
Reserve for encumbrance at year end*	10,862,588	-	-
Expenditures for liquidation of prior year's encumbrances	(6,487,625)	-	-
Reversion of prior year's allotments	(17,955)	-	-
Accrual adjustments and other	<u>266,093</u>	<u>(217,190)</u>	<u>(667,887)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER USES - US GAAP BASIS</b>	<u><u>\$ 4,623,101</u></u>	<u><u>\$ (1,579,451)</u></u>	<u><u>\$ (537,445)</u></u>

\* 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, 2007

ASSETS	Shelter Plus Care	HOPWA Program	Emergency Shelter Program	Justice Program	ROSS	Supportive Housing Program	Boys and Girls Club	Total
Current Assets								
Cash	\$ 34	\$ 24	\$ 23	\$ 6	\$ 17	\$ 49	\$ 2	\$ 155
Due from HUD	29,583	2,699	26,534	435	131,315	17,767	18,106	226,439
<b>TOTAL ASSETS</b>	<b>\$ 29,617</b>	<b>\$ 2,723</b>	<b>\$ 26,557</b>	<b>\$ 441</b>	<b>\$ 131,332</b>	<b>\$ 17,816</b>	<b>\$ 18,108</b>	<b>\$ 226,594</b>
<b>LIABILITIES AND FUND BALANCES</b>								
Current Liabilities								
Accounts payable	\$ 29,583	\$ 2,699	\$ 26,534	\$ -	\$ 130,880	\$ 13,296	17,150	\$ 220,141
Due to other funds	-	-	-	435	435	4,471	956	6,298
Due to HUD	34	24	23	6	17	49	2	155
Total current liabilities	29,617	2,723	26,557	441	131,332	17,816	18,108	226,594
Fund Balance - Unreserved	-	-	-	-	-	-	-	-
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 29,617</b>	<b>\$ 2,723</b>	<b>\$ 26,557</b>	<b>\$ 441</b>	<b>\$ 131,332</b>	<b>\$ 17,816</b>	<b>\$ 18,108</b>	<b>\$ 226,594</b>

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, 2007

	Shelter Plus Care	HOPWA Program	Emergency Shelter Program	Justice Program	ROSS	Supportive Housing Program	Boy and Girls Club	Total
Revenue								
Intergovernmental – HUD annual contributions and others	\$ 446,850	\$ 155,678	\$ 175,383	\$ -	\$ 476,839	\$ 107,183	\$ 12,505	\$ 1,374,438
Expenditure - Administration	<u>446,850</u>	<u>155,678</u>	<u>175,383</u>	<u>-</u>	<u>476,839</u>	<u>107,183</u>	<u>12,505</u>	<u>1,374,438</u>
NET CHANGE IN FUND BALANCES	-	-	-	-	-	-	-	-
Fund Balance at July 1, 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balance at June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET ASSETS – NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2007

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	\$ 972,890	\$ 424,463	\$ 693,291	\$ 3,438	\$ 103,995	\$ 288,347	\$ 2,486,424
Receivables							
Accrued interest	6,481	-	-	-	-	-	6,481
Tenant receivables, less allowance for doubtful accounts	38,219	295	-	4,062	-	-	42,576
Other	1,500	111	-	-	274,111	51,842	327,564
	<u>46,200</u>	<u>406</u>	<u>-</u>	<u>4,062</u>	<u>274,111</u>	<u>51,842</u>	<u>376,621</u>
Due from other funds	20,000	-	-	-	8,838,160	-	8,858,160
Inventories	-	-	-	-	101,007	-	101,007
Prepaid expenses and other assets	(250)	63,392	-	-	105	-	63,247
Deposits held in trust	-	-	-	25,092	-	-	25,092
	<u>1,038,840</u>	<u>488,261</u>	<u>693,291</u>	<u>32,592</u>	<u>9,317,378</u>	<u>340,189</u>	<u>11,910,551</u>
Total current assets							
Restricted Deposits and Funded Reserves	-	2,441,819	5,558,495	1,118	-	-	8,001,432
Capital Assets, less accumulated depreciaton	1,239,962	2,271,442	4,993,279	-	-	11,908,616	20,413,299
	<u>1,239,962</u>	<u>2,271,442</u>	<u>4,993,279</u>	<u>-</u>	<u>-</u>	<u>11,908,616</u>	<u>20,413,299</u>
TOTAL ASSETS	<u>\$ 2,278,802</u>	<u>\$ 5,201,522</u>	<u>\$ 11,245,065</u>	<u>\$ 33,710</u>	<u>\$ 9,317,378</u>	<u>\$ 12,248,805</u>	<u>\$ 40,325,282</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

June 30, 2007

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
<b>Current Liabilities</b>							
Accounts payable	\$ 13,802	\$ 33,295	\$ 18,471	\$ 3,400	\$ 2,390,426.00	\$ 10,126	\$ 2,469,520
Accrued expenses - other	4,992	-	12,275	482,669	57,449	7,957	565,342
Due to other funds	6,965	-	-	-	5,295,706	48,577	5,351,248
Due to State of Hawaii	-	-	-	-	1,449,847	-	1,449,847
Due to HUD	-	1,901	12,659	-	-	-	14,560
Security deposits	22,375	10,396	21,119	25,092	-	-	78,982
Other	-	-	3,583	-	-	-	3,583
Deferred income	-	-	-	-	-	-	-
<b>Total current liabilities</b>	<u>48,134</u>	<u>45,592</u>	<u>68,107</u>	<u>511,161</u>	<u>9,193,428</u>	<u>66,660</u>	<u>9,933,082</u>
Mortgage Payable, net of current portion	-	576,001	-	-	-	-	576,001
<b>Net Assets</b>							
Invested in capital assets, net of related debt	1,239,962	1,695,441	4,993,279	-	-	11,908,616	19,837,298
Restricted by legislation and contractual agreements	-	2,441,819	5,558,495	1,118	-	-	8,001,432
Unrestricted	990,706	442,669	625,184	(478,569)	123,950	273,529	1,977,469
<b>Total net assets</b>	<u>2,230,668</u>	<u>4,579,929</u>	<u>11,176,958</u>	<u>(477,451)</u>	<u>123,950</u>	<u>12,182,145</u>	<u>29,816,199</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,278,802</u>	<u>\$ 5,201,522</u>	<u>\$ 11,245,065</u>	<u>\$ 33,710</u>	<u>\$ 9,317,378</u>	<u>\$ 12,248,805</u>	<u>\$ 40,325,282</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2007

	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Operating Revenues							
Rental	\$ 215,557	\$ 557,238	\$ 539,637	\$ 321,892	\$ -	\$ -	\$ 1,634,324
Other	1,779	12,511	285,686	13,023	-	434,765	747,764
Total operating revenues	<u>217,336</u>	<u>569,749</u>	<u>825,323</u>	<u>334,915</u>	<u>-</u>	<u>434,765</u>	<u>2,382,088</u>
Operating Expenses							
Personal services	7,577	-	-	28,482	-	189,909	225,968
Depreciation	52,397	137,640	315,692	-	-	496,192	1,001,921
Administration	9,906	71,783	150,201	374,509	-	146,581	752,979
Professional services	-	-	-	6,666	-	-	6,666
Insurance	-	17,193	66,048	22,870	-	-	106,111
Repairs and maintenance	158,698	69,355	269,109	35,177	-	33,823	566,162
Utilities	7,011	41,870	92,938	76,514	-	-	218,332
Other	14,085	42,300	252,172	-	-	141,233	449,790
Total operating expenses	<u>249,674</u>	<u>380,140</u>	<u>1,146,160</u>	<u>544,218</u>	<u>-</u>	<u>1,007,738</u>	<u>3,327,931</u>
Operating (loss) income	(32,338)	189,609	(320,837)	(209,303)	-	(572,973)	(945,842)
Nonoperating Revenues (Expenses)							
Interest income - cash and investments	33,963	-	-	-	-	189	34,152
Interest expense	(14)	-	-	-	-	-	(14)
Total nonoperating revenues (expenses)	<u>33,949</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189</u>	<u>34,138</u>
Income (loss) before operating transfers	1,611	189,609	(320,837)	(209,303)	-	(572,784)	(911,704)
Operating Transfers In	-	-	-	69,947	-	-	69,947
CHANGE IN NET ASSETS	<u>\$ 1,611</u>	<u>\$ 189,609</u>	<u>\$ (320,837)</u>	<u>\$ (139,356)</u>	<u>\$ -</u>	<u>\$ (572,784)</u>	<u>\$ (841,757)</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2007

	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, 2006	\$ 2,229,057	\$ 4,390,320	\$ 11,497,795	\$ (338,095)	\$ 123,950	12,754,929	\$ 30,657,956
Change in Net Assets	1,611	189,609	(320,837)	(139,356)	-	(572,784)	(841,757)
Net Assets at June 30, 2007	<u>\$ 2,230,668</u>	<u>\$ 4,579,929</u>	<u>\$ 11,176,958</u>	<u>\$ (477,451)</u>	<u>\$ 123,950</u>	<u>\$ 12,182,145</u>	<u>\$ 29,816,199</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2007

	Teacher Housing Revolving Fund	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
<b>Cash Flows from Operating Activities</b>							
Cash received from renters	\$ 215,557	\$ 759,434	\$ 558,851	\$ 321,892	\$ -	\$ 458,151	\$ 2,313,885
Cash payments to employees	(7,577)	-	-	(28,482)	-	(189,909)	(225,968)
Cash payments to suppliers	(165,499)	(206,743)	(836,711)	(373,066)	1,390,903	(351,581)	(542,697)
Cash (payments to) receipts from other funds	2,653	(65,000)	-	-	(2,734,572)	-	(2,796,919)
Other cash receipts (payments)	(12,306)	(6,823)	831,605	13,023	-	-	825,499
Net cash provided by (used in) operating activities	32,828	480,868	553,745	(66,633)	(1,343,669)	(83,339)	(426,200)
<b>Cash Flows from Noncapital Financing Activities</b>							
Interest paid to Department of Budget and Finance	(14)	-	-	-	-	-	(14)
Operating transfers in (out)	-	-	-	69,947	-	-	69,947
Net cash provided by (used in) noncapital financing activities	(14)	-	-	69,947	-	-	69,933
<b>Cash Flows from Capital and Related Financing Activities</b>							
Principal payments on mortgage loans	-	22,198	-	-	-	-	22,198
Other	-	(103,621)	250,796	-	1,424,846	-	1,572,021
Net cash provide by (used in) capital and related financing activities	-	(81,423)	250,796	-	1,424,846	-	1,594,219
<b>Cash Flows from Investing Activities</b>							
Receipts of interest	33,783	-	-	-	-	189	33,972
Net decrease (increase) in restricted deposits and funded reserves	-	1,657	(121,967)	(1)	-	-	(120,311)
Net cash provided by (used in) investing activities	33,783	1,657	(121,967)	(1)	-	189	(86,339)
<b>NET INCREASE (DECREASE) IN CASH</b>	66,597	401,102	682,574	3,313	81,177	(83,150)	1,151,613
Cash at July 1, 2006	906,293	23,362	10,717	125	22,818	371,497	1,334,812
Cash at June 30, 2007	\$ 972,890	\$ 424,464	\$ 693,291	\$ 3,438	\$ 103,995	\$ 288,347	\$ 2,486,425

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2007

	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) income to net cash provided by (used in) operating activities:							
Operating (loss) income	\$ (32,338)	\$ 189,609	\$ (320,837)	\$ (209,303)	\$ -	\$ (572,973)	\$ (945,842)
Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities:							
Depreciation	52,397	137,640	315,692	-	-	496,192	1,001,921
Changes in assets and liabilities:							
Tenant receivables	-	(295)	15,868	-	-	-	15,573
Other receivables	-	7,462	524,010	-	-	23,386	554,858
Due from other funds	-	-	-	-	(2,144,992)	-	(2,144,992)
Due from HUD	-	191,381	1,189	-	-	-	192,570
Inventories	-	-	-	-	-	-	-
Prepaid expenses and other assets	1,400	(13,876)	-	-	(274,111)	-	(286,587)
Deposits held in trust	-	10,786	21,079	2,226	-	-	34,091
Accounts payable	11,997	29,529	(7,834)	(56,223)	1,665,013	-	1,642,482
Other accrued expenses	(3,281)	(7,891)	1,591	198,893	1	(29,944)	159,369
Due to other funds	2,653	(65,000)	-	-	(589,580)	-	(651,927)
Due to HUD	-	1,901	2,947	-	-	-	4,847
Security deposits	-	(377)	40	(2,226)	-	-	(2,563)
Net cash provided by (used in) operating activities	<u>\$ 32,828</u>	<u>\$ 480,868</u>	<u>\$ 553,745</u>	<u>\$ (66,633)</u>	<u>\$ (1,343,669)</u>	<u>\$ (83,339)</u>	<u>\$ (426,200)</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET ASSETS – INTERNAL SERVICE FUNDS

Year ended June 30, 2007

ASSETS	Equipment Rental	Vehicle Rental	Total
Current Assets:			
Cash	\$ 752,466	\$ 426,742	\$ 1,179,208
Accrued interest receivable	2,629	1,446	4,075
Total current assets	755,095	428,188	1,183,283
Capital Assets, less accumulated depreciation	16,132	122,121	138,253
TOTAL ASSETS	<u>\$ 771,227</u>	<u>\$ 550,309</u>	<u>\$ 1,321,536</u>
LIABILITIES AND NET ASSETS			
Current Liability -			
Due to other funds	\$ 19,526	\$ 1,909	\$ 21,435
Total liabilities	19,526	1,909	21,435
Net Assets:			
Invested in capital assets	16,132	122,121	138,253
Unrestricted	735,569	426,279	1,161,848
Total net assets	751,701	548,400	1,300,101
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 771,227</u>	<u>\$ 550,309</u>	<u>\$ 1,321,536</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2007

	<u>Equipment Rental</u>	<u>Vehicle Rental</u>	<u>Total</u>
Operating Revenue - Rental	\$ -	\$ -	\$ -
Total operating revenues	-	-	-
Operating Expenses: Depreciation	<u>4,684</u>	<u>38,941</u>	<u>43,625</u>
Total operating expenses	<u>4,684</u>	<u>38,941</u>	<u>43,625</u>
Operating loss	(4,684)	(38,941)	(43,625)
Nonoperating Revenue - Interest Income - Cash and Investments	28,008	15,577	43,585
Others	<u>38,078</u>	<u>-</u>	<u>38,078</u>
Net nonoperating revenues	66,086	15,577	81,663
Change in net assets	61,402	(23,364)	38,038
Net Assets at July 1, 2006	<u>690,299</u>	<u>571,764</u>	<u>1,262,063</u>
Net Assets at June 30, 2007	<u>\$ 751,701</u>	<u>\$ 548,400</u>	<u>\$ 1,300,101</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS

Year ended June 30, 2007

	Equipment Rental	Vehicle Rental	Total
Cash Flows from Operating Activities:			
Cash received from renters	\$ -	\$ -	\$ -
Cash payments to suppliers	-	-	-
Net cash (used in) provided by operating activities	-	-	-
Cash Flows from Capital and Related Financing Activity -			
Payments for acquisition of property and equipment	-	-	-
Net cash used in capital and related financing activities	-	-	-
Cash Flows Provided by Investing Activity -			
Receipts of interest	31,489	17,527	49,016
Net cash provided by investing activities	31,489	17,527	49,016
NET INCREASE IN CASH	31,489	17,527	49,016
Cash and Cash Equivalents at July 1, 2006	720,977	409,215	1,130,192
Cash and Cash Equivalents at June 30, 2007	<u>\$ 752,466</u>	<u>\$ 426,742</u>	<u>\$ 1,179,208</u>
Cash Flows from Operating Activities:			
Reconciliation of operating loss to net cash			
(used in) provided by operating activities:			
Operating loss	\$ (4,684)	\$ (38,941)	\$ (43,625)
Adjustments to reconcile operating loss			
to net cash provided by operating activities -			
Depreciation	4,684	38,941	43,625
Changes in assets and liabilities -			
Accounts payable	-	-	-
Net cash (used in) provided by operating activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

June 30, 2007

The Corporation's cash and short-term investments consists of the following as of June 30, 2007:

Equity in State Treasury investment pool - Gov't Wide	\$ 31,871,789
Equity in State Treasury investment pool - Fiduciary Funds	5,392,994
Cash in banks	9,877,417
Deposits held in trust	25,092
	<u>47,167,292</u>
	<u>\$ 47,167,292</u>

Total cash and short-term investments are in agreement with the State Comptroller's central accounting records as of June 30, 2007, as reconciled below:

	Appropriation symbol	June 30, 2007
Cash in State Treasury		
General Fund	G-03-022-K	\$ 4,050
	G-04-020-K	585
	G-04-022-K	20,718
	G-05-020-K	810
	G-05-022-K	43,000
	G-06-020-K	18,810
	G-06-022-K	220,536
	G-07-020-K	194,720
	G-07-022-K	846,822
	G-07-327	262,500
	G-07-328	606,264
	G-07-329	1,128,335
	G-07-330	9,000
	G-07-331	5,000,000
	G-07-332	50,000
	G-07-334-K	3,391,720
	G-07-335-K	1,025,194
	G-07-336-K	236,289
	G-07-337-K	1,142,251
	S-04-330-K	22,500
	S-05-330-K	19,280
	S-06-330-K	117,871
Bond Funds	B-97-479-K	28,179
	B-97-481-K	4,662
	B-00-404-K	22,542
	B-00-405-K	6,191
	B-01-411-K	31,713
	B-02-431-K	1,831
	B-04-410-K	1,303,114
	B-04-412-K	16,551
	B-04-415-K	16,187
	B-04-416-K	621,727
	B-04-420-K	213,900
	B-05-412-K	140,977
	B-05-413-K	1,558,286
	B-05-417-K	465,000
	B-05-418-K	2,463,201
	B-06-410-K	300,000
	B-06-418-K	1,500,000
	B-06-411-K	1,700,000
	B-06-412-K	500,000
	B-06-413-K	1,500,000
Subtotal carried forward	B-06-420-K	10,000
	B-06-421-K	10,000
	B-06-422-K	480,000
		<u>27,255,314</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS (continued)

June 30, 2007

	<u>Appropriation symbol</u>	<u>June 30, 2007</u>
Subtotal brought forward		27,255,314
Special Funds	S-06-210-K	391,209
	S-07-210-K	164,829
	S-07-320-K	573
	S-04-337-K	36,835
	S-05-337-K	20,773
	S-06-337-K	143,770
	S-07-337-K	1,305,149
	S-00-308-K	8,790
	S-02-308-K	1,062
	S-03-308-K	1,088
	S-05-308-K	70
	S-06-308-K	1,027
	S-07-308-K	32,600
	S-06-332-K	6,726
	S-07-332-K	176,536
	S-04-310-K	33,498
	S-06-310-K	16,289
	S-07-310-K	17,936
	S-06-334-K	7,366
	S-07-334-K	897,802
	S-97-801-K	6,509
	S-97-803-K	1,241
	S-07-336-K	752,466
	S-07-335-K	426,742
Trust Funds	T-06-927-K	3,143
	T-07-920-K	5,389,851
	T-06-913-K	<u>24,225</u>
Subtotal carried forward		37,123,419

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS (continued)

June 30, 2007

	<u>Appropriation symbol</u>	<u>June 30, 2007</u>
Subtotal brought forward		37,123,419
Total cash held in State Treasury as reported by State Comptroller's accounting records carried forward		<u>37,123,419</u>
Reconciling items:		
Other		<u>141,364</u>
		<u>141,364</u>
Cash and short-term investments held outside State Treasury:		
Cash in bank		9,877,417
Deposits held in trust		<u>25,092</u>
		<u>9,902,509</u>
Cash and short-term investments on statement of net assets		<u><u>\$ 47,167,292</u></u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended June 30, 2007

Federal Grantor/Program or Cluster Title	Federal CFDA Number	Federal expenditures
<u>U.S. Department of Housing and Urban Development:</u>		
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments - Special Allocations	14.195	\$ 19,403,750
Emergency Shelter Grants Program	14.231	175,383
Supportive Housing Program	14.181	107,183
Shelter Plus Care	14.238	446,850
Housing Opportunities for Persons with AIDS Program	14.241	155,678
Public and Indian Housing	14.850	11,483,410
Section 8 Housing Choice Vouchers Program	14.871	17,490,443
Public Housing Capital Fund	14.872	15,081,628
Resident Opportunity & Self Sufficiency	14.870	476,839
Community Development Block Grants/Economic Development Initiative -	14.246	12,505
TOTAL FEDERAL EXPENDITURES		\$ 64,833,669

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, 2007

### 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.

Hawaii Public Housing Authority

SCHEDULE OF MODERNIZATION FUNDS AND MODERNIZATION COSTS  
FOR PROJECTS HI-08-P001-150103 and HI-08-P001-150203

Year ended June 30, 2007

	Grant No. <u>HI-08-P001-150103</u>	Grant No. <u>HI-08-P001-150203</u>
Original modernization funds approved	<u>\$ 11,522,486</u>	<u>\$ 2,561,324</u>
Modernization funds disbursed	<u>\$ 11,522,486</u>	<u>\$ 2,561,324</u>
Modernization funds expended (actual modernization cost)	<u>\$ 11,522,486</u>	<u>\$ 2,561,324</u>
Amounts to be recaptured	<u>\$ -</u>	<u>\$ -</u>
EXCESS OF MODERNIZATION FUNDS DISBURSED	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Notes:

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

**FDS Supplemental Schedule  
June 30, 2007**

Line Item No.	Account Description	SHP	S8CA	ESG	SPC	HOPWA	CDBG	FLRP	CGP	H6	ROSS	HCV	CFP	JUV JUST	State/Local	Bus Act	INT SVC	FIDUC	TOTALS
111	Cash - Unrestricted	49	538,959	23	34	24	2	3,878,339	0	0	17	1,280,680	0	6	27,213,601	4,352,999	1,179,208	862,634	39,306,575
115	Cash - restricted payment of cl															557,821			557,821
		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
113	Cash - Other Restricted	0	0	0	0	0	0	0	0	0	0	1,855,944	0	0	0	0	0	4,530,360	6,386,304
114	Tenant security deposits							666,587								250,005			916,592
100	<b>Total Cash</b>	<b>49</b>	<b>538,959</b>	<b>23</b>	<b>34</b>	<b>24</b>	<b>2</b>	<b>4,544,926</b>	<b>0</b>	<b>0</b>	<b>17</b>	<b>3,136,624</b>	<b>0</b>	<b>6</b>	<b>27,213,601</b>	<b>5,160,825</b>	<b>1,179,208</b>	<b>5,392,994</b>	<b>47,167,292</b>
122	Accounts Receivable - HUD Other Projects	17,767	595,171	26,534	29,583	2,699	18,106	840,866	0	0	131,315	0	7,071,891	435	0	0	0	0	8,734,367
124	Accounts Receivable - Other Government	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
125	Accounts Receivable - Miscellaneous	0	123,447	0	0	0	0	218,117	0	0	0	1,370	0	0	300	293,553	0	0	636,787
126	Accounts Receivable - Tenants - Dwelling Rents	0	0	0	0	0	0	4,481,730	0	0	0	0	0	0	0	1,069,505	0	0	5,551,235
126	Allowance for Doubtful Accounts - Dwelling Rents	0	0	0	0	0	0	(3,824,610)	0	0	0	0	0	0	0	(919,763)	0	0	(4,744,373)
126	Allowance for Doubtful Accounts - Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
127	Notes, Loans, & Mortgages Receivable - Current	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
129	Accrued Interest Receivable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	31,216	4,075	0	35,291
120	<b>Total Receivables, net of allowances for doubtful accounts</b>	<b>17,767</b>	<b>718,618</b>	<b>26,534</b>	<b>29,583</b>	<b>2,699</b>	<b>18,106</b>	<b>1,716,103</b>	<b>0</b>	<b>0</b>	<b>131,315</b>	<b>1,370</b>	<b>7,071,891</b>	<b>435</b>	<b>300</b>	<b>474,511</b>	<b>4,075</b>	<b>0</b>	<b>10,213,307</b>
													0	0					0
131	Investments - Unrestricted	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8,001,432	0	0	8,001,432
142	Prepaid Expenses and Other Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	56,202	7,470	0	0	63,672
143	Inventories	0	0	0	0	0	0	580,101	0	0	0	0	0	0	0	187,528	0	0	767,629
143	Allowance for Obsolete Inventories	0	0	0	0	0	0	(11,571)	0	0	0	0	0	0	0	(11,110)	0	0	(22,681)
144	Interprogram Due From	0	21,895	0	0	0	0	3,808,029	0	0	0	1,705,000	0	0	0	9,967,676	0	0	15,502,600
150	<b>Total Current Assets</b>	<b>17,816</b>	<b>1,279,472</b>	<b>26,557</b>	<b>29,617</b>	<b>2,723</b>	<b>18,108</b>	<b>10,637,588</b>	<b>0</b>	<b>0</b>	<b>131,332</b>	<b>4,842,994</b>	<b>7,071,891</b>	<b>441</b>	<b>27,270,103</b>	<b>23,788,332</b>	<b>1,183,283</b>	<b>5,392,994</b>	<b>81,693,251</b>
													0	0					0
161	Land	0	0	0	0	0	0	13,093,629	0	0	0	0	0	0	2,373,410	10,184,251	0	0	25,651,290
162	Buildings	0	0	0	0	0	0	373,869,829	0	0	0	0	0	0	42,783,626	99,668,859	0	0	516,322,314
163	Furniture, Equipment & Machinery - Dwelling	0	0	0	0	0	0	7,043,305	0	0	0	0	0	0	1,090,456	371,164	0	0	8,504,925
164	Furniture, Equipment & Machinery - Administration	0	0	0	0	0	0	0	0	0	0	0	0	0	107,313	1,390,019	2,026,311	0	3,523,643
166	Accumulated Depreciation	0	0	0	0	0	0	(224,556,570)	0	0	0	0	0	0	(21,347,686)	(36,163,868)	(1,888,058)	0	(283,956,182)
167	Construction In Progress	0	0	0	0	0	0	1,023,580	0	135,000	0	0	28,130,440	0	9,628,802	0	0	0	38,917,822
160	<b>Total Fixed Assets, Net of Accumulated Depreciation</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>170,473,773</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>28,130,440</b>	<b>0</b>	<b>34,635,921</b>	<b>75,450,425</b>	<b>138,253</b>	<b>0</b>	<b>308,828,812</b>
171	Notes, Loans, & Mortgages Receivable - Non Current	0	0	0	0	0	0	0	0	0	0	0	0	0	0	943,812	0	0	943,812
174	Other Assets	0	0	0	0	0	0	0	0	0	0	0	0	0	0	57,484	0	0	57,484
180	<b>Total Non-Current Assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>170,473,773</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>28,130,440</b>	<b>0</b>	<b>34,635,921</b>	<b>76,451,721</b>	<b>138,253</b>	<b>0</b>	<b>309,830,108</b>
													0	0					0
190	<b>Total Assets</b>	<b>17,816</b>	<b>1,279,472</b>	<b>26,557</b>	<b>29,617</b>	<b>2,723</b>	<b>18,108</b>	<b>181,111,361</b>	<b>0</b>	<b>0</b>	<b>131,332</b>	<b>4,842,994</b>	<b>35,202,331</b>	<b>441</b>	<b>61,906,024</b>	<b>100,240,053</b>	<b>1,321,536</b>	<b>5,392,994</b>	<b>391,523,359</b>
312	Accounts Payable <= 90 Days	17,768	202,444	21,192	29,583	2,699	17,152	2,148,062	0	0	131,315	28,214	1,998,414	435	4,354,442	2,657,614	0	862,634	12,471,968
321	Accrued Wage/Payroll Taxes Payable	0	0	0	0	0	0	254,507	0	0	0	71,078	0	0	8,001	14,675	0	0	348,261
322	Accrued Compensated Absences - Current Portion	0	0	0	0	0	0	275,155	0	0	0	0	0	0	0	7,731	0	0	282,886
325	Accrued Interest Payable	0	0	0	0	0	0	0	0	0	0	0	0	0	0	87	0	0	87
331	Accounts Payable - HUD PHA Programs	48	0	23	34	24	0	0	0	0	17	0	0	6	0	14,560	0	0	14,712
	Accounts Payable - Other government							537,538								1,449,847			1,987,385

**FDS Supplemental Schedule  
June 30, 2007**

Line Item No.	Account Description	SHP	S8CA	ESG	SPC	HOPWA	CDBG	FLRP	CGP	H6	ROSS	HCV	CFP	JUV JUST	State/Local	Bus Act	INT SVC	FIDUC	TOTALS
341	Tenant Security Deposits	0	0	0	0	0	0	666,587	0	0	0	0	0	0	0	272,367	0	0	938,954
342	Deferred Revenues	0	0	0	0	0	0	139,770	0	0	0	0	0	0	0	3,583	0	0	143,353
343	Current Portion of Long-term Debt - Capital Projects/Mortgage Revenue Bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	103,530	0	0	103,530
345	Other Current Liabilities	0	241,580	0	0	0	0	0	0	0	0	0	0	0	0	547,988	0	0	789,568
346	Accrued Liabilities - Other	0	0	0	0	0	0	0	0	0	0	1,087	2,753,208	0	0	35,070	0	0	2,789,365
347	Interprogram Due To	0	205,451	5,342	0	0	956	1,047,072	0	0	0	1,318,818	2,320,269	0	343,702	10,239,555	21,435	0	15,502,600
310	<b>Total Current Liabilities</b>	<b>17,816</b>	<b>649,475</b>	<b>26,557</b>	<b>29,617</b>	<b>2,723</b>	<b>18,108</b>	<b>5,068,691</b>	<b>0</b>	<b>0</b>	<b>131,332</b>	<b>1,419,197</b>	<b>7,071,891</b>	<b>441</b>	<b>4,706,145</b>	<b>15,346,607</b>	<b>21,435</b>	<b>862,634</b>	<b>35,372,669</b>
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue Bonds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	472,471	0	0	472,471
354	Accrued Compensated Absences - Non Current	0	0	0	0	0	0	2,019,755	0	0	0	0	0	0	0	69,584	0	0	2,089,339
353	Noncurrent Liabilities - Other	0	0	0	0	0	0	7,428	0	0	0	402,473	0	0	0	0	0	0	409,901
350	<b>Total Noncurrent Liabilities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>2,027,183</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>402,473</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>542,055</b>	<b>0</b>	<b>0</b>	<b>2,971,711</b>
300	<b>Total Liabilities</b>	<b>17,816</b>	<b>649,475</b>	<b>26,557</b>	<b>29,617</b>	<b>2,723</b>	<b>18,108</b>	<b>7,095,874</b>	<b>0</b>	<b>0</b>	<b>131,332</b>	<b>1,821,670</b>	<b>7,071,891</b>	<b>441</b>	<b>4,706,145</b>	<b>15,888,662</b>	<b>21,435</b>	<b>862,634</b>	<b>38,344,380</b>
508	Debt	0	0	0	0	0	0	170,473,773	0	0	0	0	28,130,440	0	34,635,921	74,874,424	138,253	0	308,252,811
511	Restricted Net Assets	0	0	0	0	0	0	0	0	0	0	1,453,471	0	0	0	8,000,314	0	4,530,360	13,984,145
512	Unrestricted Net Assets	0	629,997	0	0	0	0	3,541,714	0	0	0	1,567,853	0	0	22,563,958	1,476,653	1,161,848	0	30,942,023
513	<b>Total Equity/Net Assets</b>	<b>0</b>	<b>629,997</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>174,015,487</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,021,324</b>	<b>28,130,440</b>	<b>0</b>	<b>57,199,879</b>	<b>84,351,391</b>	<b>1,300,101</b>	<b>4,530,360</b>	<b>353,178,979</b>
600	<b>Total Liabilities and Equity/Net Assets</b>	<b>17,816</b>	<b>1,279,472</b>	<b>26,557</b>	<b>29,617</b>	<b>2,723</b>	<b>18,108</b>	<b>181,111,361</b>	<b>0</b>	<b>0</b>	<b>131,332</b>	<b>4,842,994</b>	<b>35,202,331</b>	<b>441</b>	<b>61,906,024</b>	<b>100,240,053</b>	<b>1,321,536</b>	<b>5,392,994</b>	<b>391,523,359</b>
		0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

**FDS Supplemental Schedule  
June 30, 2007**

Line Item No.	Account Description	SHP	S8CA	ESG	SPC	HOPWA	CDBG	FLRP	CGP	H6	ROSS	HCV	CFP	JUV JUST	State/Local	Bus Act	INT SVC	FIDUC	TOTALS
703	Net Tenant Rental Revenue	0	0	0	0	0	0	15,591,530	0	0	0	0	0	0	0	4,584,449	0	0	20,175,979
704	Tenant Revenue - Other	0	0	0	0	0	0	172,680	0	0	0	0	0	0	0	63,989	0	0	236,669
705	Total Tenant Revenue	0	0	0	0	0	0	15,764,210	0	0	0	0	0	0	0	4,648,438	0	0	20,412,648
													0		0				0
706	HUD PHA Operating Grants	107,183	19,403,750	175,383	446,850	155,678	12,505	11,483,410	0	0	476,839	17,490,443	2,952,143	0	0	0	0	0	52,704,184
	Capital Grants												12,129,485						12,129,485
708	Other Government Grants	0	0	0	0	0	0	0	0	0	0	67,202	0	0	36,708,670	0	0	5,500,000	42,275,872
711	Investment Income - Unrestricted	0	606	0	0	0	0	221,063	0	0	0	0	0	0	0	0	43,585	0	265,254
712	Mortgage Interest Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Loss on disposition															(92,847)			(92,847)
715	Other Revenue	0	1,454	0	0	0	0	1,955,827	0	0	0	975	0	0	0	392,984	38,077	0	2,389,317
720	Investment Income - Restricted	0	0	0	0	0	0	0	0	0	0	1,056	0	0	0	112,198	0	0	113,254
700	Total Revenue	107,183	19,405,810	175,383	446,850	155,678	12,505	29,424,510	0	0	476,839	17,559,676	15,081,628	0	36,708,670	5,060,773	81,662	5,500,000	130,197,167
								0											
911	Administrative Salaries	0	36,466	0	0	0	0	3,569,552	0	0	0	1,446,715	1,171,037	0	617,402	1,413,112	0	0	8,254,284
912	Auditing Fees	0	0	4,471	0	0	0	146,466	0	0	0	21,924	0	0	0	46,843	0	0	219,704
913	Outside Management Fees	0	0	0	0	0	0	1,321,916	0	0	0	0	0	0	0	95,519	0	0	1,417,435
914	Compensated Absences	0	0	0	0	0	0	(902,081)	0	0	0	0	0	0	0	1,229	0	0	(900,852)
	Employee Benefit Contributions -																		
915	Administrative	0	4,730	0	0	0	0	2,925,533	0	0	0	248,164	240,866	0	158,071	136,215	0	0	3,713,579
916	Other Operating - Administrative	107,183	910,708	170,912	446,850	155,678	0	596,109	0	0	476,839	74,457	1,540,240	0	1,818,691	721,566	0	0	7,019,233
	Tenant services - other												0		12,308,766				12,308,766
931	Water	0	0	0	0	0	0	1,934,960	0	0	0	0	0	0	12,515	218,471	0	0	2,165,946
932	Electricity	0	0	0	0	0	0	3,514,826	0	0	0	0	0	0	57,144	763,411	0	0	4,335,381
933	Gas	0	0	0	0	0	0	1,489,961	0	0	0	0	0	0	0	116,920	0	0	1,606,881
938	Other Utilities Expense	0	0	0	0	0	0	2,062,576	0	0	0	0	0	0	0	329,575	0	0	2,392,151
	Ordinary Maintenance and Operations -																		
941	Labor	0	0	0	0	0	0	4,536,364	0	0	0	0	0	0	0	238,339	0	0	4,774,703
	Ordinary Maintenance and Operations -																		
942	Materials and Other	0	0	0	0	0	0	1,881,338	0	0	0	316	0	0	48,005	404,676	0	0	2,334,335
	Ordinary Maintenance and Operations -																		
943	Contract Costs	0	28,798	0	0	0	12,505	5,162,581	0	0	0	270,757	0	0	701,102	1,095,140	0	0	7,270,883
	Ordinary Maintenance and Operations -																		
	EE benefits							2,664,137								44,046			2,708,183
952	Protective Services - Other Contract Costs	0	83,063	0	0	0	0	0	0	0	0	90	0	0	0	22,862	0	0	106,015
953	Protective Services - Other	0	0	0	0	0	0	1,718,776	0	0	0	0	0	0	0	0	0	0	1,718,776
961	Insurance Premiums	0	0	0	0	0	0	838,323	0	0	0	6,112	0	0	0	242,158	0	0	1,086,593
962	Other General Expenses	0	75,765	0	0	0	0	725,036	0	0	0	185,961	0	0	0	334,528	0	0	1,321,290
963	Payments in Lieu of Taxes	0	0	0	0	0	0	500,000	0	0	0	0	0	0	0	0	0	0	500,000
964	Bad Debt - Tenant Rents	0	0	0	0	0	0	496,592	0	0	0	0	0	0	0	5,479	0	0	502,071
965	Bad Debt - Mortgages	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
966	Bad Debt - Other	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
967	Interest Expense	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4,361	0	0	4,361
969	Total Operating Expenses	107,183	1,139,530	175,383	446,850	155,678	12,505	35,182,965	0	0	476,839	2,254,496	2,952,143	0	15,721,696	6,234,450	0	0	64,859,718
															0				0
970	Excess Operating Revenue over Operating Expenses	0	18,266,280	0	0	0	0	(5,758,455)	0	0	0	15,305,180	12,129,485	0	20,986,974	(1,173,677)	81,662	5,500,000	65,337,449
															0				0
973	Housing Assistance Payments	0	18,133,778	0	0	0	0	0	0	0	0	16,226,832	0	0	634,229	0	0	0	34,994,839
974	Depreciation Expense	0	0	0	0	0	0	8,168,021	0	0	0	0	0	0	1,333,996	2,775,987	43,625	0	12,321,629
900	Total Expenses	107,183	19,273,308	175,383	446,850	155,678	12,505	43,350,986	0	0	476,839	18,481,328	2,952,143	0	17,689,921	9,010,437	43,625	0	112,176,186
													0		0				0
1001	Operating Transfers In	0	0	0	0	0	0	600,000	0	0	0	0	0	0	0	69,947	0	0	669,947

**FDS Supplemental Schedule  
June 30, 2007**

Line Item No.	Account Description	SHP	S8CA	ESG	SPC	HOPWA	CDBG	FLRP	CGP	H6	ROSS	HCV	CFP	JUV JUST	State/Local	Bus Act	INT SVC	FIDUC	TOTALS
1002	Operating Transfers Out	0	(669,947)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(669,947)
1003	Operating Transfers from/to Primary Government	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	(970,228)	(970,228)
1008	Special Items (net gain/loss)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
1010	Total Other Financing Sources (Uses)	0	(669,947)	0	0	0	0	600,000	0	0	0	0	0	0	0	69,947	0	(970,228)	(970,228)
													0		0				0
1000	Excess (Deficiency) of Operating Revenue Over (Under) Expenses	0	(537,445)	0	0	0	0	(13,326,476)	0	0	0	(921,652)	12,129,485	0	19,018,749	(3,879,717)	38,037	4,529,772	17,050,753
															0				0
1103	Beginning Equity	0	1,167,442	0	0	0	0	176,240,199	888,580	135,000	0	2,407,123	26,079,139	0	50,259,240	358,796,139	<b>1,262,064</b>	55,531	617,290,457
1104	Prior Period Adjustments, Equity Transfers and Correction of Errors	0	0	0	0	0	0	11,101,764	(888,580)	(135,000)	0	1,535,853	(10,078,184)	0	(12,078,110)	(270,565,031)	0	(54,943)	(281,162,231)
1120	Unit Months Available	0	37,596	0	530	0	0	62,640	0	0	0	25,140	0	0	4,872	14,276	0	0	145,054
1121	Number of Unit Months Leased	0	37,586	0	529	0	0	56,629	0	0	0	23,757	0	0	4,860	12,898	0	0	136,259
1120	Hap Equity	0	0	0	0	0	0	0	0	0	0	1,453,471	0	0	0	0	0	0	1,453,471
1121	Admi fee Eq	0	0	0	0	0	0	0	0	0	0	1,567,853	0	0	0	0	0	0	1,567,853

**PART II**

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



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A Hawaii Limited Liability Partnership

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

Board of Directors  
Hawaii Public Housing Authority

We have audited the financial statements of the Hawaii Public Housing Authority (the Authority), as of and for the fiscal year ended as of and for the year ended June 30, 2007, and have issued our report thereon dated March 20, 2008. 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 2007-01 through 2007-03 and 2007-08, 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.

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 2007-01 through 2007-03 and 2007-08 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 20, 2008.

#### 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 2007-04 through 2007-08.

We noted certain matters that we reported to management of the Hawaii Public Housing Authority in a separate letter dated March 20, 2008.

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 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 20, 2008

**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**



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A Hawaii Limited Liability Partnership

**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, 2007. 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 items 2007-04 and 2007-05 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.

As described in items 2007-06 through 2007-08 in the accompanying Schedule of Findings and Questioned Costs, the Hawaii Public Housing Authority did not comply with requirements regarding eligibility and

equipment and real property 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.

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, 2007.

### **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 2007-04 through 2007-08 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 2007-06 and 2007-08 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 Authority's responses to the findings identified in our audit are described in the Response by Affected Agency section. We did not audit 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 20, 2008

**PART IV**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2007

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## Section I – Summary of Auditor’s Results:

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### *Financial Statements*

Type of auditors’ report issued: Unqualified.

Internal control over financial reporting:

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

### *Federal Awards*

Internal control over major programs:

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
14.871	Section 8 Housing Choice Vouchers Program
14.195	Section 8 Housing Assistance Payments - Special Allocations
14.850	Public and Indian Housing

Dollar threshold used to distinguish between type A and type B programs: \$1,945,001 (3% of federal award expended)

Auditee qualified as low-risk auditee?  Yes  No

# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

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## Section II – Financial Statement Findings

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### **Finding No.: 2007-01 Financial Management Deficiencies-Material Weakness:**

During the past fiscal year, HPHA experienced a severe shortage of adequate staffing, including the Fiscal Officer and Chief Accountant positions. These vacancies had a significant impact on the HPHA's ability to perform its core accounting functions. In certain cases, individuals were performing functions in which they did not have the proper formal training or experience.

*Condition & cause:* With the bifurcation of the Housing and Community Development Corporation into two separate agencies, HPHA was operating without a Chief Accountant or Fiscal Officer during all of the 2007 fiscal year. Although HPHA subsequently hired a Chief Accountant in July 2007, accounting personnel did not have proper oversight and supervision during of the fiscal year, including appropriate reviews and approval of transactions. Consequently, numerous adjustments were recorded subsequent to the year-end closing, which resulted in the completion of the audit being significantly delayed. This lack of dedicated leadership and overall management of its accounting and financial reporting function during the 2007 fiscal year has limited the effectiveness of HPHA's ability to record and report accurate and timely financial information. Some of conditions noted includes but not limited to the following.

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

Additionally, as of our report date, subsequent internal monthly general ledgers, reconciliations and financial statements were not being completed on a timely basis.

# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

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## Section II – Financial Statement Findings (continued)

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### **Finding No.: 2007-01 Financial Management Deficiencies-Material Weakness (continued)**

**Context:** Although the HPHA has subsequently filed the Fiscal Officer (FO) and Chief Accountant position, the lack of proper training is one of the most significant shortcomings 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 in 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, will further accentuate the need for proper training and supervision. The lack of proper oversight and supervision is a fundamental deficiency in the organization’s internal control environment.

**Questioned costs:** None

**Effect:** Failure to obtain adequate staffing levels and related controls can lead to misstatement of financial results and non-compliance. As a result of the above, the HPHA’s financials were restated for a correction of an error in its accounting for deferred income, see Note 2 of the financial statements.

**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 Fiscal Officer and Chief Accountant should perform an assessment of current processes to:
  - Gain an understanding of each program’s objectives and type of major transaction. Perform interviews with the various branch chiefs, program managers, and with 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.

# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

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## Section II – Financial Statement Findings (continued)

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### **Finding No.: 2007-01 Financial Management Deficiencies-Material Weakness (continued)**

- Identify any missing key internal controls, including but not limited to the following:
    - Review and approvals of monthly bank reconciliations,
    - Perform month end reconciliation to detail supporting documents. E.g. Review and approval 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.
  - Monitor control systems to ensure effectiveness. Timely review and approvals by appropriate personnel.
  - As a majority of the agency's funding are HUD subsidies, need to establish and maintain 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 experienced personnel to provide the appropriate oversight and supervision over the accounting and reporting functions.

***PHA Reply (Corrective Action Plan):*** We acknowledge the problems caused by the lack of adequate staffing and internal controls, and concur with the above recommendations. Recognizing the need for management level leadership, HPHA created the position of a chief financial officer (formally known as the Chief Financial Management Advisor -- CFMA) in August 2007 and has been recruiting ever since without success, even with the services of a placement firm. The maximum rate of pay (\$70,000 - \$80,000) allowed for the position given HPHA's attached agency status is relatively low. CFOs are compensated at higher rates in other state departments and in the public housing authority sector. As an alternative, HPHA developed a request for proposals in October to contract with CPA firms that provided accounting services and financial management combined with knowledge of HUD. Despite advertising several times, no firms were able to meet our needs. HPHA attempted to have HUD deploy staff from Hawaii or mainland offices to oversee the fiscal management office, with no success. In December 2007, the state Department of Accounting & General Services deployed a senior manager and several staff accountants, and HPHA hired a

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

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

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CPA firm to provide basic accounting services under DAGS's direction. This resulted in the financial information that went to the auditor for FY 2007, as well as FY 2008 summary financial information for the period 7/1/2007 through 12/31/2007. HUD stepped in to provide technical assistance in March 2008, and is set to contract with a financial consultant beginning May 2008 to work on HPHA's behalf for 6 to 12 months. HPHA also contracted with a short term bridge financial consultant in late March 2008. Search to fill the CFMA position has been ongoing. Due to lack of qualified accounting applicants (affecting industry and government), as of March 2008 the agency has filled only 9 of 15 accounting positions, and still has not filled its budget analyst position. HPHA intends to supplement staff positions by evaluating the gaps with current staffing levels, then contracting to fill those gaps with temporary accounting services under the guidance of the financial consultant contracted by HUD.

Despite the lack of financial management information, HPHA presented for board review and approval a FY 2008 budget in October 2007, the first time an Authority-wide consolidated budget has been presented to the board in at least 30 years. The HPHA accounting staff started to develop a general ledger beginning 1/1/08. The Fiscal Officer and Chief Accountant are assessing current staff proficiency levels and scheduled initial training in January 2008 for staff to insure that the emPHAsys ECS financial management software system will be used as designed and that the transition to project based accounting will be in compliance with all applicable Federal regulations and generally accepted accounting procedures. Staff received training in encumbrances from Department of Human Services managers in February 2008. HPHA is currently implementing internal controls in response to the cited deficiencies. In March 2008, in response to the HUD technical assistance recommendations, HPHA formed an Asset Management Implementation Committee to drive preparation for July 1, 2008 implementation of asset management.

**Contact Person:** Ch had Taniguchi, Executive Director (808) 832-4694; (Fax) 832-4679

**Target Completion Date:** June 30, 2009

# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

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## Section II – Financial Statement Findings (continued)

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### **Finding No.: 2007-02 No General Ledger and Non-reconciliations of General Ledger Accounts- Material Weakness:**

**Criteria:** Internal Control deficiencies 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 year, HPHA had installed the “emPHAsys” general ledger system software to provide HPHA with a general ledger system that would also be able to address HUD’s new reporting requirements. However, the use of the system had been very limited and in some instances not used at all. This lack of understanding of the “emPHAsys” computer system coupled with no Chief Accountant have resulted in monthly general ledgers not being prepared during the fiscal year. Consequently, the key internal control activity of routine monthly reconciliations of the general ledger accounts balances to the corresponding transaction or activity details was not performed during the year. For example, several major cash balances, account receivables, payables and accrued liabilities general ledger accounts, including amounts due from federal programs and from tenants, were not reconciled until the performance of the audit. Accordingly, numerous adjustments were recorded subsequent to the year end closing to correct various general ledger accounts. Without “reliable and timely” financial information, management decisions related to operations may be comprised. The following is a list of issues 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

As of our report date, subsequent general ledgers and account reconciliations were not being completed. With the HUD required implementation of “asset-management” and “project-based” accounting, this situation would be further exacerbated. The lack of proper understanding of general ledger system and lack of account reconciliations is a fundamental deficiency in the organization’s internal control environment.

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

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

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#### **Finding No.: 2007-02 No General Ledger and Non-reconciliations of General Ledger Accounts- Material Weakness (continued)**

**Questioned costs:** None

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

**Recommendation:** HPHA’s policy is post journal vouchers to the general ledger and to perform monthly reconciliations for 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 and post journal vouchers to the general ledger and perform account reconciliations in a timely manner.

**PHA Reply (Corrective Action Plan):** We will review all books of account, policies & procedures and other items to insure that all transactions are correctly recorded and adequately monitored. In addition, journal vouchers and related accrual will be recorded on a regular basis to prevent recurrence of this deficiency. The agency acknowledges the lack of training in the use of its computer system “emPHAsys”. While training was scheduled to occur during Fiscal Year 2007 the trainer’s time was largely focused on development of the general ledger system. Training was also hindered due to hardware and software failures by the “emPHAsys” system and HPHA’s internet connections, which prevented the timely input of information for the completion of the general ledger. Starting with January 2008, all information was been inputted and updated in the “emPHAsys” system, hardware was upgraded and training was scheduled for May, June, and July 2008 to increase the accountants’ proficiency in the use of the software. These actions should be sufficient to eliminate all cited deficiencies.

**Contact Person:** Gary Nakatsu, Information Technology Chief (808) 832-5937

**Target Completion Date:** July 30, 2009

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

<b>Section II – Financial Statement Findings (continued)</b>
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**Finding No.: 2007-03 Lack of Clear Policies and Procedures-Material Weakness**

**Criteria:** Internal controls; General Accounting Standards. In addition, the requirements for appropriate controls over Federal programs are contained in the Code of Federal Regulations and the Low-Rent Housing Financial Management Handbook, 7475.1. Also, good 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 budgets 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.

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 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.

**PHA Reply (Corrective Action Plan):** We will review all Fiscal Management Office functions in light of the above recommendations. During Fiscal year 2007, HPHA developed a policy and procedures manual but due to department vacancies it was never implemented. At present, the manual is being verified and updated by current FMO management and will be presented to the HUD contracted financial consultant before being submitted to the Board for approval. All staff will be provided copies and training related to these policies so the HPHA will have these controls in place by the end of Fiscal 2008 so that this will not be an issue in subsequent periods.

**Contact Person:** Patti Miyamoto, Chief Compliance Officer (808)832-5904 ;( Fax) 832-3943

**Target Completion Date:** June 30, 2008

# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

<b>Section III – Federal Award Findings and Questioned Costs</b>
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## **Section 8 Housing Choice Vouchers Program CFDA No. 14.871**

### **Finding No.: 2007-04 Special Test and Provision-HUD Income Targeting Requirements**

**Criteria:** 24 CFR 982.201(b) (2) (iii)

**Condition, cause, and context:** Based on our testing of the Housing Choice Voucher Program's waiting list, we noted the HPHA does not monitor its compliance with HUD Income Targeting Requirements which requires at least 75% of new admissions to be in the extremely low income and 25% very low income range (24 CFR 982.201(b)(2)(iii)). We also noted that the HPHA could not provide a report to ascertain whether or not it is in compliance with the income targets aforementioned. It was further noted that the HPHA failed to obtain a wavier from HUD.

**Effect:** Non-compliance.

**Questioned costs:** None

**Recommendation:** We recommend the HPHA structure program monitoring in such a manner that allows for compliance monitoring over admissions in order to adequately address HUD Income Targeting Requirements.

**PHA Reply (Corrective Action Plan):** HPHA will step up its efforts to monitor HUD Income Targeting requirements and will activate the ECS crystal reports writer module that will generate this report to document its attempts to maintain compliance with these requirements. If HPHA is unable to meet these requirements, it will request a waiver from HUD. HPHA will also set up a binder where reports will be housed and reviewed on a regular basis to document attempts at meeting HUD program requirements.

**Contact Person:** Dexter Ching, Section 8 Subsidy Program Branch Chief (808)832-5933 ;( Fax) 832-3461

**Target Completion Date:** June 30, 2008

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

<b>Section III – Federal Award Findings and Questioned Costs (continued)</b>
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**Finding No.: 2007-05 Special Tests and Provisions - Waiting List**

**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 the waiting list was opened during the year for a short period, which resulted in approximately 3,400 new applicants during the fiscal year. When reviewing controls over these new applicants, we noted that not all applicants were properly entered into the system. This is not in compliance with the Housing Choice Voucher Program's Administrative Plan submitted and approved by HUD and as a result we were not able to adequately test system controls. We noted that only eligible applicants from the first day were placed on the waiting list and all applicants after the first day, whether eligible or ineligible, were labeled as "INACTIVE" and excluded from the waiting list. Accordingly to Housing Choice Voucher Program management, this was done to give preference to the people who applied on the first day.

**Effect:** Failure to adequately maintain the waiting list and follow administrative the administrative plan results in non-compliance and represents a scope limitation for the tests of controls and compliance with OMB A-133 requirements.

**Questioned costs:** None

**Recommendation:** We recommend that the HPHA complies with its Administration Plan guidelines for the waiting list that were submitted to HUD.

**PHA Reply (Corrective Action Plan):** HPHA will go back into the system and restore all applicants who applied in December to active status to insure that they are contacted in the correct order in relation to the application time and preferences, if any. HPHA will review the policies and procedures for opening the waiting list and in the future will provide greater details to be fair and to provide potential voucher recipients a realistic timetable for when they will be eligible for application processing.

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

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

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#### **Finding No.: 2007-05 Special Tests and Provisions - Waiting List (continued)**

**Contact Person:** Dexter Ching, Section 8 Subsidy Program Branch Chief (808)832-5933 ;( Fax) 832-3461

**Target Completion Date:** June 30, 2008

#### **Public and Indian Housing Program CFDA No. 14.850**

#### **Finding No.: 2007-06 Eligibility - Tenant Files-Material weakness:**

**Criteria:** 24 CFR section 5.601 and 24 CFR sections 960.253, 960.255 and 960.259 require the HPHA to gather information on income, family size and housing conditions for both new and continuing participants on an annual basis. Based on the information gathered, 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 18 tenant files, we noted that the required eligibility checklist was included in the tenant file but not properly checked off and or signed by the housing specialist. Nine out of the 18 files were missing either required 3<sup>rd</sup> party verifications, completion of forms or signatures on required forms.
- 2) For 2 tenant files, we noted that 3<sup>rd</sup> party verification of income was missing.
- 3) For 1 tenant file, we noted that the birth certificate was missing and for 1 tenant file, we noted that eligible income was miscalculated.

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

**Questioned costs:** None

**Recommendation:** We recommend that the HPHA enforce proper implementation of its eligibility checklists 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.

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

<b>Section III – Federal Award Findings and Questioned Costs (continued)</b>
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### **Public and Indian Housing Program CFDA No. 14.850 (continued)**

#### **Finding No.: 2007-06 Eligibility - Tenant Files-Material weakness (continued)**

**PHA Reply (Corrective Action Plan):** The HPHA will establish additional quality control procedures to better identify areas for improvement. This will include regular reviews by on-site personnel and management staff. HPHA will document the results of these reviews including the follow-up process for any identified deficiencies. This will insure that all initial certifications and ongoing re-certifications are conducted in accordance with HPHA and HUD policies and procedures.

**Contact Person:** Michi Kanoura-Hatae, Application Services Supervisor (808) 832-3427; (Fax) 832-5964

**Target Completion Date:** June 30, 2008

#### **Finding No.: 2007-07 Eligibility - Waiting List**

**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 the proper documentation and verification, were admitted to the program.

**Condition, cause, and context:** During our discussions with management, we noted that in the past housing specialists re-sequenced the waiting list on a daily basis, which is in accordance with the Administration Plan submitted and approved by HUD. Applicants are ranked by preference points. As such, when sequencing was done daily, the applicants would fluctuate on the waitlist, depending on changes to existing applicants' preference status and new applicants' preferences. As such, management initiated a quarterly re-sequencing to alleviate such fluctuations and to standardize the waitlist. The waitlist is now re-sequenced quarterly (1st working day of month). This policy is neither documented nor approved by HUD.

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

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

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

##### **Finding No.: 2007-07 Eligibility - Waiting List (continued)**

In our discussions with management and in the performance of our audit, we noted several instances during the 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 when they should have been. We also noted that there still remains a “back log” of applications submitted during the fiscal year that had not been entered into the system.

*Effect:* The fact that several applicants were not properly placed on the waiting list limits our scope for testing controls over compliance with OMB A-133 and test of compliance with OMB A-133 requirements.

**Questioned costs:** None

*Recommendation:* We recommend that the HPHA follow its Administration Plan guidelines for the waiting list that were submitted to HUD or resubmit a revised Administration Plan that incorporates management’s decision noted above. We also recommend that the HPHA evaluate its Application Department and its various functions, 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 eliminated.

*PHA Reply (Corrective Action Plan):* Management will review the current waiting list to insure that any backlogged applications have been input into the system. In addition, the list will be reviewed to make sure that all applicants are sequenced in accordance with the current approved Administrative Plan. This will help to insure that persons on the waiting list will be contacted in the correct order in relation to the initial application time and preferences. In the future, HPHA will review the policies and procedures for opening the waiting list and will obtain HUD approval prior to any future re-sequencing provisions. HPHA is in the process of transferring some of the responsibilities for applications final processing from the central applications section to the staff where the housing units are located. This move is intended to speed up placements by providing better coordination between those fixing units and those filling units. HPHA also approved, effective November 2007, for applicants to have only one choice of housing placements (instead of three previously). Since December, HPHA has worked with the Bank of Hawaii to evaluate processing speed with the eye to streamline procedures.

*Contact Person:* Michi Kanoura-Hatae, Application Services Supervisor (808) 832-3427; (Fax) 832-5964

*Target Completion Date:* June 30, 2008.

# Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

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

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### **Finding No.: 2007-08 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 maintaining of appropriate accounting records and the conducting of physical inventories was an annual requirement 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 roll forward of fixed assets and CIP was not maintained and 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, 2007 was not updated for 2007 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:** Non-compliance.

**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) could be made regarding the status, completion and transfer of assets from construction in progress to active fixed assets which are being depreciated.

## Hawaii Public Housing Authority

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2007

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

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

#### **Finding No.: 2007-08 Equipment and Real Property Deficiencies-Material weakness (continued)**

*PHA Reply (Corrective Action Plan):* We are in agreement with this finding. HPHA will take the appropriate steps to insure that an inventory of all capital assets will be taken in May and June 2008, so that all required adjustments can be recorded in the general ledger prior to the closing of the June 30, 2008 financial statements. We are currently assessing all inter-department functions to determine the appropriate staffing assignments for this task and related emPHAsys ECS software functions to insure adequate controls will be in place by the year-end close. Since January 2008 HPHA has been publishing the completion date of projects in its reports to the board of directors for greater transparency and better record keeping.

*Contact Person:* Derek Fujikami, Construction Management Branch (808) 832-5374; (Fax) 832-4679

*Target Completion Date:* July 15, 2008

**PART V**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

# Hawaii Public Housing Authority

Summary of Schedule of Prior-Year Audit Findings  
Year Ended June 30, 2007

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## Section I - Financial Statement Findings

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### **Finding No.: 2006-1 Financial Management**

During the past year, the Corporation's Accounting Department lacked appropriate leadership and overall management of its accounting and reporting functions. With the departure of the "Chief Accountant," who essentially was responsible for the day-to-day accounting functions, the accounting department did not have proper oversight and supervision for the majority of the year. Consequently, numerous adjustments were recorded subsequent to the year-end closing, which resulted in the completion of the audit being significantly delayed. The following is a list of issues during the audit as a result of the lack of leadership and overall management of its accounting and reporting functions:

- Accruals incorrectly recorded or not recorded at all
- Certain revenues and expense items recorded on a cash basis
- Approved journal entries recorded incorrectly
- Expenses were not allocated on a timely basis
- Retention payables were not properly recorded
- Depreciation expense not recorded
- Transfer of assets not properly accounted for between funds

Additionally, as of our report date, subsequent internal monthly financial statements were not being completed. With the subsequent bifurcation of the Corporation into two separate entities, this situation would be further exacerbated. The lack of proper oversight and supervision is a fundamental deficiency in the organization's internal control environment.

### **Status**

Finding level escalated as there was no proper oversight and supervision for then entire period under audit. See finding 2007-01.

# Hawaii Public Housing Authority

Summary of Schedule of Prior-Year Audit Findings  
Year Ended June 30, 2007

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## Section I - Financial Statement Findings (continued)

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### **Finding No.: 2006-2 Non-reconciliations of General Ledger Accounts**

During the past year, several major general ledger accounts balances were not reconciled to the corresponding transaction or activity details. For example, several major account receivables, payables and accrued liabilities general ledger accounts, including amounts due from federal programs and from tenants, were not reconciled until the performance of the audit. Consequently, numerous adjustments were recorded subsequent to the year end closing to correct various general ledger accounts. Several of these adjustments were in excess of \$500,000. Without timely account reconciliations, information provided to management may not be accurate, and may jeopardize subsequent management decisions.

#### **Status**

Finding level escalated as there were no general ledger and no reconciliations performed during the year under audit. See finding 2007-02.

### **Finding No.: 2006-3 Insufficient Staffing and Lack of Training**

During the past year, the Corporation experienced a severe shortage of adequate staffing. These vacancies had a significant impact on the Corporation's ability to perform its core accounting functions. In certain cases, individuals were performing functions in which they did not have the proper training or experience.

Additionally, the shortage of proper training, in combination with a lack of proper supervision, clearly documented policies and procedures and the presence of multiple accounting and reporting systems, limited the effectiveness of the Corporation's internal control environment and procedures. Consequently, certain transactions were improperly accounted for and incorrect journal entries were approved.

#### **Status**

Finding still applicable. See finding 2007-01.

# Hawaii Public Housing Authority

Summary of Schedule of Prior-Year Audit Findings  
Year Ended June 30, 2007

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## Section I - Financial Statement Findings (continued)

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### **Finding No.: 2006-4 Cash Reconciliations**

During the past year, several cash reconciliations were not prepared for several months. Reconciliation of general ledger and cash balances should be completed on a timely basis to provide assurance that all transactions have been entered by the bank and recorded in the general ledger properly. Ideally, all cash accounts should be reconciled no later than by the 10th working day of the following month or within a week of receipt of the cash bank statements. If cash reconciliations are to serve as an effective control over the cash accounts, they must be prepared on a timely basis and all reconciling items should be investigated and disposed of properly. The following fund's cash reconciliations were not completed until several months after year end, resulting in subsequent general ledger adjustments exceeding \$1 million.

- General fund
- Capital projects fund
- Housing Voucher fund
- Section 8
- Trust & Agency
- Federal Low Rent Program
- Various non-major government and proprietary funds

### **Status**

Finding level escalated as there were no cash reconciliations performed during the year under audit. See finding 2007-01 and 2007-02

### **Finding No.: 2006-5 Fixed Asset – Construction in Progress**

Within the Federal Low Rent Program Fund (Fund), the Corporation maintains a manual Construction in Progress (CIP) schedule which details the projects and related costs. However, during the past year, the CIP schedule as of June 30, 2006 was not updated for 2006 transactions on a timely basis.

Also, the CIP schedule did not detail when projects were completed. Consequently, projects listed within CIP schedule were completed and not transferred to the appropriate fixed assets accounts. This resulted in a reclassification of CIP assets to property and equipment and an adjustment to record the corresponding depreciation expense.

### **Status**

Finding still applicable. See finding 2007-08.

# Hawaii Public Housing Authority

Summary of Schedule of Prior-Year Audit Findings  
Year Ended June 30, 2007

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## Section II – Federal Award Findings and Questioned Costs

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### **Public Housing Capital Fund CFDA No. 14.872**

#### **Finding No.: 2006-6 Equipment & Real Property Management – Reconciliations to the General Ledger**

Circular A-133 Part 3 – F, *Equipment and Real Property Management* states that equipment records shall be maintained and a physical inventory of equipment shall be taken at least once every two years and reconciled to the general ledger. Circular A-133 also refers to Circular A-102 Common Rule (§.21(d)) which states that a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

During the past year, we noted that the Department of Accounting and General Services (DAGS) equipment and property inventory listing was not reconciled to the general ledger on a timely basis. Without timely reconciliation, the Corporation cannot effectively account for and manage its equipment and property.

#### **Status**

Finding still applicable. See finding 2007-08.

### **Emergency Shelter Grant Program CFDA No. 14.231**

#### **Finding No.: 2006-7 Reporting in Integrated Disbursement & Information System (IDIS)**

Circular A-133 part 4 CFDA 14.231 L, states that the submission of the IDIS reports is required. Circular A-133 also refers to the Emergency Shelter Grant Desk Guide Section 6.3 which states that by the end of each program year, grantees must provide information on the accomplishments, as well as the number and characteristics of the population served by each ESG project by finishing the IDIS completion path. In order to avoid the over counting of the population served, only the IDIS completion screens for the first activity for each ESG project should be completed. The completion path includes a short narrative, which should highlight the accomplishments and successes for the whole project in serving its formerly homeless persons.

During the past year, two programs, PID 2003-0007 & PID 2003-2008, were not closed in the IDIS system within the appropriate time periods.

#### **Status**

We noted no similar instances in the current year.