

2012 HPHA

Financial

Statements

Fiscal Year

Audit

Hawaii Public Housing Authority

Financial Statements

June 30, 2012

Together with Independent Auditor's Report

Submitted by

**THE AUDITOR
STATE OF HAWAII**

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A Hawaii Limited Liability Partnership

Independent Auditor's Report

The Auditor
State of Hawaii

Board of Directors
Hawaii Public Housing Authority:

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, 2012. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 opinion.

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, 2012, 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, 2012, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison schedules on pages 5 through 16 and pages 66 to 68, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Combining Financial Statements of Nonmajor Governmental and Nonmajor Other Enterprise and Internal Service Funds and Reconciliation of Cash schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Financial Statements of Nonmajor Governmental and Nonmajor Other Enterprise and Internal Service Funds and Reconciliation of Cash schedules are fairly stated in all material respects in relation to the financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
December 17, 2012

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

The Management Discussion and Analysis (MD&A) provides the highlights of the Hawaii Public Housing Authority's (HPHA) financial performance for the fiscal year ended June 30, 2012. The HPHA's MD&A is designed to: focus on significant financial issues; review the HPHA's financial activity; highlight changes in the HPHA's financial position (its ability to address the next and subsequent year challenges); and identify individual fund issues or concerns. Since the MD&A is designed to focus on the financial activities of the HPHA for the last fiscal year ended June 30, 2012, readers should review this in conjunction with the financial statements that follow.

INTRODUCTION

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

During the audited period of July 1, 2011 to June 30, 2012, the HPHA administered the following major programs:

- Federal and State public housing programs
The HPHA administered over 5,300 federal public housing units in Hawaii with funds received from the United States Department of Housing and Urban Development (HUD), and 860 state public housing units developed with State funds.
- Federal and State rent subsidy programs
The HPHA administered two federally funded rental assistance programs - Section 8 Housing Choice Voucher Program, Veterans Affairs Supportive Housing Program and the State funded rental assistance program, subsidizing monthly rental payments to qualified households. HPHA also has a Special Allocation Program which administers a project based program under a contract with the federal government through a subcontract, Contract Management Services (a subsidiary of the Bremerton, Washington Housing Authority).

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the assets of the HPHA exceeded its liabilities by \$372,028,342 (net assets). Of this amount, \$296,503,732 is invested in capital assets. (As detailed on *Government-Wide Statement of Net Assets, page 18*)
- The HPHA's government wide net assets decreased by \$15,181,648. The decrease in net assets is the offsetting activities in government activities and business-type activities as follows:
 - a. Governmental activities decrease in net assets of \$21,076,609 is primarily due to the lapsed funds of \$10,873,763 and Capital Outlays of \$8,521,033 under the Capital Project Fund (as detailed on *Government-Wide Statement of Activities, pages 19 & 22*).
 - b. Business-type activities increase in net assets of approximately \$5,894,961 (as detailed on *Government-Wide Statement of Activities, page 19*) is primarily due to capital contribution transfers of \$8,521,033; net operating transfers of \$5,721,234 from Governmental Activities and loss before transfers of \$8,347,306 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 28*).

The capital contribution transfers are related to the Capital Project fund's current year capital outlay (\$8,521,033) (as detailed on *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, pages 22*) expended for the benefit of business-type activities funds.

Similar to the prior year, the net operating transfers are related to rental housing shortfalls paid for by the General Fund and Capital Project Funds (as detailed on *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, pages 22*).

The loss before transfers of \$8,347,306 is due to a decrease in HUD capital and operating subsidies from prior year of approximately \$13,810,858 and from the gain from sale of Wilikina Apartments Project of approximately \$2,003,456 million (as detailed on *Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 28*).

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

- **Business-type activities.** Business type activities (*also referred to as "proprietary funds"*) are financed and operated in a manner similar to private business enterprises, where funding to recover costs of providing goods and services to the general public is derived through user charges. Business-type activities are reported using an accrual basis of accounting and the economic resources measurement focus.
- **Fiduciary funds.** Fiduciary funds account for assets held by the HPHA in a trustee capacity or as an agent for others. Activities from fiduciary funds are not included in the government-wide financial statements because the HPHA cannot use these assets for its operations. Fiduciary funds of the HPHA, consisting of agency funds and private-purpose trust funds, are reported in the Statement of Fiduciary Net Assets using an accrual basis of accounting. Agency funds held by the HPHA involve only the receipt, temporary investment, and remittance of resources to individuals, private organizations, or other governments in a purely custodial capacity.

Detailed information on HPHA's most significant funds is represented in the fund financial statements, but the fund statements are not a representation of the HPHA as a whole.

Fund Financial Statements: The HPHA uses fund accounting to ensure and demonstrate fiscal accountability. A fund is defined as a grouping of related accounts used to keep track of specific sources of funding and spending for particular purposes (*sometimes referred to as a "self-balancing" set of accounts*). This means a fund's assets will equal the total of its liabilities and its fund balance (or net assets), similar to the way financial statements are presented.

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

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

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

HAWAII PUBLIC HOUSING AUTHORITY Condensed Statement of Net Assets June 30, 2012 & June 30, 2011 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 26,829	\$ 49,643	\$ 66,441	\$ 53,788	\$ 93,270	\$ 103,431
Capital assets	4,784	5,435	291,720	293,172	296,504	298,607
Other assets	-	-	5,837	8,303	5,837	8,303
Total Assets	\$ 31,613	\$ 55,078	\$ 363,998	\$ 355,263	\$ 395,611	\$ 410,341
Current and other liabilities	\$ 2,773	\$ 5,135	\$ 10,051	\$ 9,301	\$ 12,824	\$ 14,436
Long-term liabilities	111	137	10,647	8,558	10,758	8,695
Total Liabilities	2,884	5,272	20,698	17,859	23,582	23,131
Net assets:						
Invested in capital assets, net of related debt	4,784	5,435	291,720	293,173	296,504	298,608
Restricted	4,952	3,984	-	5,829	4,952	9,813
Unrestricted	18,993	40,387	51,580	38,402	70,573	78,789
Total net assets	28,729	49,806	343,300	337,404	372,029	387,210
Total liabilities & net assets	\$ 31,613	\$ 55,078	\$ 363,998	\$ 355,263	\$ 395,611	\$ 410,341

Statement of net assets

Net assets may serve over time as a useful indicator of the HPHA's financial position. At the close of the fiscal year, the HPHA's assets exceeded its liabilities by \$372,028,342. \$296,503,732 of net assets is invested in capital assets, net of related debt. As discussed in the financial highlights, net assets decreased by \$15,181,648 during the fiscal period. (as detailed in the *Government-Wide Statement of Net Assets and Statement of Activities, pages 18 and 19*).

Of the HPHA's total assets, \$296,503,732 (or 75%) represents capital assets, net of related debt, Cash and Due from the State of Hawaii (as presented in the detailed *Government-Wide Statement of Net Assets, page 17*) in the amount of \$86,107,085 and comprises 22% of total assets. Amounts that are "Due from the state of Hawaii" represent available State allotted appropriations as of the end of the fiscal year and are primarily designated for capital improvement projects. Net assets for the previous fiscal year had a similar composition with the majority of total net assets represented by capital assets, net of related debt.

Accounts payable and accrued current expenses of \$10,563,696 (as detailed in the *Government-Wide Statement of Net Assets, page 18*) comprise 82% of the HPHA's total current liabilities.

Hawaii Public Housing Authority

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Long term liabilities increased by \$2,063,088 from the prior year. This is primarily due to the net increase in other post retirement employee benefits liability of \$2,257,745 (as detailed in the *Notes to the Financial Statements, #9, page 62.*) The HPHA's obligations related to other post retirement employee benefits are based on reports provided by the State's Department of Accounting and General Services.

HAWAII PUBLIC HOUSING AUTHORITY Government-Wide Statement of Activities Years Ended June 30, 2012 and June 30, 2011 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for services	\$ -	\$ -	\$ 18,435	\$ 20,442	\$ 18,435	\$ 20,442
Operating grants and contributions	52,292	48,409	21,814	22,412	74,106	70,821
Capital grants and contributions	-	-	11,029	24,242	11,029	24,242
Other income	-	-	2,008	3,993	2,008	3,993
General Revenues:						
State allotted appropriations, net of lapsed funds	(5,415)	9,274	-	-	(5,415)	9,274
Total revenues	46,877	57,683	53,286	71,089	100,163	128,772
Expenses						
Governmental Activities						
Rental housing assistance program	61,881	61,856	-	-	61,881	61,856
Business-type activities						
Rental assistance program	-	-	49,078	50,870	49,078	50,870
Housing development program	-	-	8,635	8,637	8,635	8,637
Other	-	-	3,921	1,538	3,921	1,538
Total governmental-wide expenses	61,881	61,856	61,634	61,045	123,515	122,901
Excess of revenues over expenses	(15,004)	(4,173)	(8,348)	10,044	(23,352)	5,871
Capital contributions	-	-	8,521	12,716	8,521	12,716
Transfers	(6,071)	(26,718)	5,721	4,799	(350)	(21,919)
CHANGES IN NET ASSETS	(21,075)	(30,891)	5,894	27,559	(15,181)	(3,332)
Total net assets, beginning of year	49,806	80,697	337,404	309,845	387,210	390,542
Total net assets, end of year	\$ 28,731	\$ 49,806	\$ 343,298	\$ 337,404	\$ 372,029	\$ 387,210

Statement of Activities

Operating grants and contributions increased \$3,284,273 in the current year from \$70,821,478 to \$74,105,751. Capital grants and contributions decreased by \$13,212,485 in the current year from \$24,242,031 to \$11,029,546. Included in those decrease are the HUD operating and capital subsidies

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Management Discussion and Analysis
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which decreased from \$46,654,508 to \$32,843,650 a decrease of \$13,810,858 or 29.6% from prior year. Those amounts contributed to the business-type activities operating loss of \$10,355,280 for the year (as detailed in the *Government – Wide Statement of Activities, Page 19*). Consequently, business-type activities recognized net loss, before capital contributions and transfers, of \$8,347,306 for the year.

Governmental activities net assets decreased by \$21,076,609. This decrease is primarily due to lapsed capital funds of \$10,873,763 and net transfers of \$5,721,234 to business-type activities (as detailed in *Government-Wide Statement of Activities, Page 19*).

FINANCIAL ANALYSIS OF THE HPHA'S FUNDS

Governmental funds

The focus of the HPHA's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the HPHA's financing requirements. In particular, unreserved fund balances may serve as a useful measure of the HPHA's net resource available for spending at the end of the fiscal year. (Detailed on *Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balance, page 22*.)

- At the end of the fiscal year, combined fund balances amounted to \$24,056,266, of which \$16,407,637 is reserved for capital projects, a decrease of \$20,451,382 in comparison with the prior year's combined fund balance (as detailed on *Governmental Funds, Balance Sheet, pages 20 and 22*).
- The general fund balance excess of revenues over expense at the end of the fiscal year was \$4,196,669. However, \$4,540,628 was transferred out of the General Fund to support the HPHA's business type activities (as detailed on *Governmental Funds, Statement of Activities, page 22, and Note #11, page 64*).
- The key factors in this decrease were the net transfers out of \$5,721,234, and the lapsed funds of \$10,873,763 (as detailed on *Statement of Activities, page 22, and Note #2, page 47*).
- The remaining change is related to the net change in Capital Projects Fund of approximately \$18,923,018 which consists of capital outlay of approximately \$8,534,957 net of current year appropriations of approximately \$485,702 (as detailed on *Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balances, page 22*).
- At the end of the fiscal year, the HPHA had an unexpended fund balance of \$16,407,637 for Capital Projects (as detailed on *Governmental Funds, Balance Sheet, page 20*).
- The Housing Choice Voucher Program subsidy for the current year showed an increase of \$3,915,743 from prior year primarily due to funding for tenant protection and Veterans Affairs Supportive Housing vouchers. Approximately \$442,573 (as detailed on *Governmental Funds, Balance Sheet,*

Hawaii Public Housing Authority

Management Discussion and Analysis
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page 20) of HUD contributions have been recorded as deferred income. HUD contributions are paid based on budget of expected voucher payments. As such, HUD contributions in excess of housing assistance payments are reported as deferred income.

Proprietary funds

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

- With the implementation of HUD's Asset Management and Project Based Budgeting, the HPHA established the Central Office Cost Center (COCC) fund to account for costs related to the general oversight of its housing projects and other indirect and administrative costs of the Authority. The COCC fund charges fees to the HPHA's various housing projects for administrative services and general oversight.
- Overall loss before transfers amounted to approximately \$8,347,306 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 28*) compared with prior year income of \$10,044,845. The change is primarily due to a decrease in gain on sale of projects of \$2,004,007 from prior year net of decrease in HUD operating and capital subsidies of \$13,810,858 (*Combining Statement of Revenues and Expenses – Nonmajor Other Enterprise Funds Page 75*).
- The COCC loss before transfers increased from \$487,291 to a loss of \$2,612,537 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 28*). This is primarily due to the overall decrease in "Fee-for-service" income of approximately \$579,185 to \$5,332,216 or 9.8%. The majority of the decrease is related to the decrease in capital fund management fee and a \$677,504 increase in Personnel Services related to increases in staffing and related OPEB expenses. The COCC also still reflects bad debt expense of approximately \$440,000 related to the amounts due from the Department of Human Services for management fee and interfund reimbursements owed by the former Homeless Programs.

During the fiscal year, the COCC received approximately \$10,386,003 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 28*) of operating transfers compared with prior year transfers of \$11,339,122. Of this amount, \$10,000,000 is from the sale of the Wilikina Apartments Project.

- Under the Federal Low Rent Program, net loss before transfers amounted to approximately \$2,245,110 compared to the prior year net income of \$11,380,100. The total net variance was \$13,625,210 due to overall HUD operating and capital subsidies decreasing to \$32,634,794 from prior year \$46,193,203 due to the infusion of Federal Capital Funds under the American Reinvestment and Recovery Act in the prior fiscal period. Operating expenses decreased by \$1,792,308 to \$49,077,696 from prior year (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 27*). The majority of the decreases is related to a \$579,185 decrease in COCC management fee charges (*see related decreased COCC revenues above*).

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- Housing Revolving Fund and Housing for Elderly was consistent with prior year, the rental income received for the two funds are not sufficient to support each of the fund's operational expenditures. Consequently, Housing Revolving fund and Housing for Elderly losses before transfers amounted to \$1,883,564 and \$2,480,210, respectively (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 28*). The shortfall for the Housing Revolving Fund and Housing for Elders Revolving Funds were addressed by Operating Transfers in the amount of \$1,318,630 and \$1,048,489, respectively (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 28*).
- Other Enterprise Funds income before transfers amounted to approximately \$905,523 (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Assets, page 28*) compared with prior year income of approximately \$2,859,378. The decrease in income is due primarily to the gain from sale of Project of \$4,007,463 in prior year compared to \$2,003,456 in the current year, before transfer.

Ke Kumu Ekahi and the Kuhio Park Terrace Resource Center continue to operate at a deficit (as detailed on *Combining Statement of Revenues and Expenses – Nonmajor Other Enterprise Funds, page 75*).

CAPITAL ASSETS AND DEBT ADMINISTRATION

The HPHA's investment in capital assets for its governmental and business-type activities for the fiscal year ended June 30, 2012 is \$296,503,732 (*net of related debt*). This investment in capital assets includes land, buildings and improvements, equipment, furniture, and fixtures. (Detailed in *Notes to the Financial Statements, #5, page 51 and 52*.)

HPHA Capital Assets Years ended June 30, 2012 and June 30, 2011 (In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,373	\$ 2,373	\$ 22,966	\$ 22,966	\$ 25,339	\$ 25,339
Buildings and improvements	15,041	15,041	529,204	536,419	544,245	551,460
Equipment	1,198	1,198	8,797	9,721	9,995	10,919
Construction in progress	-	350	35,664	35,991	35,664	36,341
Total	18,612	18,962	596,631	605,097	615,243	624,059
Accumulated Depreciation	(13,828)	(13,527)	(304,911)	(311,924)	(318,739)	(325,451)
Total Capital Assets Net	\$ 4,784	\$ 5,435	\$ 291,720	\$ 293,173	\$ 296,504	\$ 298,608

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

Major Projects Outstanding FY2012 (work-in-progress) at the end of the year

- AMP 30 Puuwai Momi Electrical System Repairs I and II- \$2,139,560
- AMP 30 Salt Lake Apartment and Elevator Renovation and Installation of a New Elevator - \$1,388,888
- AMP 31 Kalihi Valley Homes, Site & Dwelling Improvements Phase IVA - \$4,651,779
- AMP 31 Puahala Homes Site Improvements - \$2,783,231
- AMP 32 Mayor Wright Emergency Security Improvements - \$100,000
- AMP 32 Mayor Wright Homes, Reroofing - \$715,266
- AMP 34 Kalakaua Homes Roof Improvements, Painting and ADA - \$1,446,562
- AMP 34 Kalakaua Homes ADA and 504 Interior and Exterior Paint and Miscellaneous Repairs - \$2,069,313
- AMP 34 Makua Alii Structural and Spall Repairs and 2nd Phase - \$4,200,917
- AMP 37 Lanakila Homes Fair Housing Renovations - \$2,207,822
- AMP 38 LCCC for Federal and State Projects on the Islands, Kauai - \$2,832,000
- AMP 38 Kawailehua Improvements - \$3,503,434
- AMP 42 Hale Po'ai Building Improvements - \$2,400,000
- AMP 49 Wahiawa Terrace Re-Roof - \$827,999
- AMP 49 Kupuna Home O'Waiialua Sewage Treatment Plant Improvements - \$942,081
- AMP 50 Palolo Valley Homes Physical Improvements - \$2,789,960
- AMP 50 Palolo Valley Homes Physical Improvements Phase I and II - \$11,140,600
- PHA-Wide PHA-Wide Vacant Unit Repairs - \$5,638,480

Debt Activity

As of June 30, 2012, HPHA has no Mortgage and Notes Payable debt outstanding. The two loans for the Banyan Street Manor development were paid in full during the fiscal year ended June 30, 2011. During the fiscal year ended June 30, 2011, approximately \$294,605 was paid as part of the planned amortization and the sale of Banyan Street Manor development. No additional debt was incurred during the fiscal year ended June 30, 2012.

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ECONOMIC FACTORS

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

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

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

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

During the 2012 Legislative session, the Hawaii State Legislature appropriated an unprecedented \$91.0 million in Capital Improvement Program Funds to the HPHA for capital repairs. The majority of these funds will be expended on capital assets of various activities over the next several fiscal periods.

On April 21, 2011, the plaintiffs Fetu Kolio, et al., filed two lawsuits in federal and state courts naming the State of Hawaii, et al., as defendant. The plaintiffs are residents of Mayor Wright Homes, a 364 public housing project built in 1953 and financed by HUD. In the federal action, the plaintiffs seek declaratory and injunctive relief and damages for alleged violations of the ADA, the Rehabilitation Act, and the Fair Housing Amendments. The plaintiffs' state court complaint alleges lack of hot water, vermin infestation, inadequate security. The plaintiffs seek class action status in both actions as well as statutory attorneys' fees. Plaintiffs were denied Class Action Certification in both the State and Federal cases in September, 2012. The parties have actively engaged in several mediation sessions with Keith Hunter of

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2012

Alternative Dispute Resolution Hawaii (ADR) since these lawsuits were filed. At this point, the parties are still discussing possible settlement of both cases.

In August 2009, Iris Rodrigues-Kaikana was murdered by Corbit Ahn at the Kamehameha Homes ("KH") in Kalihi. KH is operated by the Hawaii Public Housing Authority. Neither Iris, who was 18 years old, or Ahn were residents at KH and may have visited residents of KH on the evening of the murder, although this has not been confirmed. The complaint alleges, among other things, that the State: failed to secure, properly monitor and light the premises; "encouraged hoodlums like Defendant Ahn to enter the premises"; removed gates to keep "gangsters" out; "allowed sexual predators onto the premises"; and refused to enforce a curfew for hoodlums. Defendant Ahn was criminally convicted of murder in July 2012. He is appealing his conviction and he filed a Motion to Stay, this civil action until his criminal appeal is resolved. His Motion to Stay, this civil action pending his criminal appeal was granted in October, 2012. The State intends to vigorously defend this case and plans to file dispositive motions once Defendant Ahn's criminal appeal is decided.

CONTACT INFORMATION

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

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET ASSETS

June 30, 2012

ASSETS

	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash	\$ 5,451,744	\$ 61,372,710	\$ 66,824,454
Restricted cash	117,605	-	117,605
Due from State of Hawaii	19,165,026	-	19,165,026
Receivables:			
Accrued interest	-	796	796
Tenant receivables, less allowance for doubtful receivables of \$2,182,382	-	344,662	344,662
Other	192,987	10,975	203,962
	<u>192,987</u>	<u>356,433</u>	<u>549,420</u>
Internal balances	(189,959)	189,959	-
Due from other state agencies	-	104,945	104,945
Due from HUD	106,853	3,442,294	3,549,147
Inventories	-	931,322	931,322
Prepaid expenses and other assets	1,984,528	17,139	2,001,667
Deposits held in trust	-	26,647	26,647
Total current assets	<u>26,828,784</u>	<u>66,441,449</u>	<u>93,270,233</u>
Notes Receivable	-	5,242,729	5,242,729
Accrued Interest	-	594,410	594,410
Capital Assets, less accumulated depreciation	<u>4,783,599</u>	<u>291,720,133</u>	<u>296,503,732</u>
Total assets	<u>\$ 31,612,383</u>	<u>\$ 363,998,721</u>	<u>\$ 395,611,104</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET ASSETS (continued)

June 30, 2012

LIABILITIES AND NET ASSETS

	Governmental Activities	Business-Type Activities	Total
Current Liabilities:			
Accounts payable	\$ 1,858,791	\$ 4,224,598	\$ 6,083,389
Accrued expenses			
Due to State of Hawaii	471,116	4,009,191	4,480,307
Due to HUD	-	571,402	571,402
Security deposits	38	-	38
Deferred income	-	837,403	837,403
Total current liabilities	442,573	409,312	851,885
	<u>2,772,518</u>	<u>10,051,906</u>	<u>12,824,424</u>
Accrued Expenses	110,726	10,647,612	10,758,338
Commitments and Contingencies			
Net Assets:			
Invested in capital assets, net of related debt	4,783,599	291,720,133	296,503,732
Restricted by legislation and contractual agreements	4,951,841	-	4,951,841
Unrestricted	18,993,699	51,579,070	70,572,769
Total net assets	<u>28,729,139</u>	<u>343,299,203</u>	<u>372,028,342</u>
Total liabilities and net assets	<u>\$ 31,612,383</u>	<u>\$ 363,998,721</u>	<u>\$ 395,611,104</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Functions/Programs:	Program Revenues			Net (expense) revenue and changes in net assets			
	Expenses	Charges for services and other revenues	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activity --							
Rental Housing and Assistance Program	\$ 61,881,342	\$ -	\$ 52,291,647	\$ -	\$ (9,589,695)	\$ -	\$ (9,589,695)
Total governmental activities	61,881,342	-	52,291,647	-	(9,589,695)	-	(9,589,695)
Business-type activities:							
Rental assistance program	49,077,696	14,197,792	21,605,248	11,029,546	-	(2,245,110)	(2,245,110)
Rental housing program	8,634,927	3,579,967	208,856	-	-	(4,846,104)	(4,846,104)
Others	3,921,030	656,964	-	-	-	(3,264,066)	(3,264,066)
Total business-type activities	61,633,653	18,434,723	21,814,104	11,029,546	-	(10,355,280)	(10,355,280)
Total government-wide	\$ 123,514,995	\$ 18,434,723	\$ 74,105,751	\$ 11,029,546	(9,589,695)	(10,355,280)	(19,944,975)
State Allotted Appropriations, net of lapsed funds of \$10,873,763							
Other Non-Program Revenue					(5,415,331)	-	(5,415,331)
Capital Contributions					-	2,007,974	2,007,974
Net Transfers					(5,721,234)	8,521,033	8,521,033
Intergovernmental Transfer					(350,349)	5,721,234	-
Total general (expenses) revenues and transfers					(11,486,914)	16,250,241	4,763,327
Change in net assets					(21,076,609)	5,894,961	(15,181,648)
Net Assets at July 1, 2011					49,805,748	337,404,242	387,209,990
Net Assets at June 30, 2012					\$ 28,729,139	\$ 343,299,203	\$ 372,028,342

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2012

ASSETS

Current Assets:	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Cash	\$ -	\$ -	\$ 3,562,616	\$ 1,889,090	\$ 38	\$ 5,451,744
Restricted cash	-	-	117,605	-	-	117,605
Due from State of Hawaii	1,153,286	18,011,740	-	-	-	19,165,026
Other receivables	-	-	192,987	-	-	192,987
Due from other funds	-	-	662,939	128,375	-	791,314
Due from HUD	-	-	-	97,646	9,207	106,853
Prepaid expenses and other assets	47,805	-	1,936,723	-	-	1,984,528
Total assets	\$ 1,201,091	\$ 18,011,740	\$ 6,472,870	\$ 2,115,111	\$ 9,245	\$ 27,810,057

LIABILITIES AND FUND BALANCES

Current Liabilities:	Accounts payable	Accrued expenses	Due to other funds	Deferred income	Due to HUD	Total liabilities
Accounts payable	\$ 216,631	\$ 1,604,103	\$ 38,035	\$ 22	\$ -	\$ 1,858,791
Accrued expenses	8,777	-	227,988	234,351	-	471,116
Due to other funds	128,711	-	812,433	30,922	9,207	981,273
Deferred income	-	-	442,573	-	-	442,573
Due to HUD	-	-	-	-	38	38
Total liabilities	354,119	1,604,103	1,521,029	265,295	9,245	3,753,791
Fund Balances:						
Restricted by legislation and contractual agreements	-	-	4,951,841	-	-	4,951,841
Committed	-	10,088,283	-	-	-	10,088,283
Assigned	846,972	6,319,354	-	1,849,816	-	9,016,142
Total fund balances	846,972	16,407,637	4,951,841	1,849,816	-	24,056,266
Total liabilities and fund balances	\$ 1,201,091	\$ 18,011,740	\$ 6,472,870	\$ 2,115,111	\$ 9,245	\$ 27,810,057

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

June 30, 2012

Total fund balance - governmental funds		\$	24,056,266
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	4,783,599		
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds	(110,726)		4,672,873
Net assets of governmental activities		\$	<u>28,729,139</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2012

	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Other Funds	Total Governmental Funds
Revenues:						
Intergovernmental – HUD annual contributions and others	\$ -	\$ -	\$ 25,263,030	\$ 27,011,608	\$ -	\$ 52,274,638
State allotted appropriations, net of lapsed funds of \$10,873,763	4,972,730	(10,388,061)	-	-	-	(5,415,331)
Other	-	-	16,825	184	-	17,009
Total revenues	<u>4,972,730</u>	<u>(10,388,061)</u>	<u>25,279,855</u>	<u>27,011,792</u>	<u>-</u>	<u>46,876,316</u>
Expenditures:						
Housing assistance payments	626,169	-	23,441,913	25,704,769	-	49,772,851
Personnel services	63,160	-	1,170,978	-	-	1,234,138
Administration	47,865	-	791,037	1,009,676	-	1,848,578
Professional services	30,373	-	62,675	40,262	-	133,310
Capital outlays	-	8,521,033	-	-	-	8,521,033
Other	8,494	13,924	74,136	-	-	96,554
Total expenditures	<u>776,061</u>	<u>8,534,957</u>	<u>25,540,739</u>	<u>26,754,707</u>	<u>-</u>	<u>61,606,464</u>
Excess (deficiency) of revenues over (under) expenditures	<u>4,196,669</u>	<u>(18,923,018)</u>	<u>(260,884)</u>	<u>257,085</u>	<u>-</u>	<u>(14,730,148)</u>
Other Financing Uses - Transfers Out	<u>(4,540,628)</u>	<u>(1,032,450)</u>	<u>-</u>	<u>(148,156)</u>	<u>-</u>	<u>(5,721,234)</u>
Net change in fund balances	<u>(343,959)</u>	<u>(19,955,468)</u>	<u>(260,884)</u>	<u>108,929</u>	<u>-</u>	<u>(20,451,382)</u>
Fund Balances at July 1, 2011	<u>1,190,931</u>	<u>36,363,105</u>	<u>5,212,725</u>	<u>1,740,887</u>	<u>-</u>	<u>44,507,648</u>
Fund Balances at June 30, 2012	<u>\$ 846,972</u>	<u>\$ 16,407,637</u>	<u>\$ 4,951,841</u>	<u>\$ 1,849,816</u>	<u>\$ -</u>	<u>\$ 24,056,266</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, 2012

Net change in fund balances - total governmental funds		\$ (20,451,382)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those governmental activities assets, net of \$8,521,033 of capital contribution outlays, is allocated over their estimated useful lives and reported as depreciation expense. Depreciation expense of those governmental activity assets amounted to approximately \$301,000.	(301,343)	
Intergovernmental transfers, capital related items	(350,349)	
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>26,465</u>	<u>(625,227)</u>
Change in net assets of governmental activities		<u>\$ (21,076,609)</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

June 30, 2012

ASSETS	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Assets:							
Cash	\$ 30,766,321	\$ 897,905	\$ 2,324,285	\$ 22,254,443	\$ 3,778,602	\$ 60,021,556	\$ 1,351,154
Receivables:							
Accrued interest	-	-	423	-	-	423	373
Tenant receivables, less allowance for doubtful accounts of \$2,181,846	302,794	35,743	-	-	6,125	344,662	-
Other	302,794	10,975	-	-	-	10,975	-
		46,718	423	-	6,125	356,060	373
Due from other funds	-	77,262	-	12,540,778	1,131,650	13,749,690	939
Due from other state agencies	-	-	-	76,240	28,705	104,945	-
Due from HUD	3,395,833	-	-	-	46,461	3,442,294	-
Inventories	795,398	27,928	88,316	19,680	-	931,322	-
Prepaid expenses and other assets	-	-	-	17,139	-	17,139	-
Deposits held in trust	-	-	-	-	26,647	26,647	-
Total current assets	35,260,346	1,049,813	2,413,024	34,908,280	5,018,190	78,649,653	1,352,466
Notes Receivable	4,816,629	426,100	-	-	-	5,242,729	-
Accrued Interest	-	594,410	-	-	-	594,410	-
Capital Assets, less accumulated depreciation	221,185,513	20,750,616	38,758,934	80,427	10,942,529	291,718,019	2,114
Total assets	\$ 261,262,488	\$ 22,820,939	\$ 41,171,958	\$ 34,988,707	\$ 15,960,719	\$ 376,204,811	\$ 1,354,580

The accompanying notes are an integral part of this statement

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (continued)

June 30, 2012

LIABILITIES AND NET ASSETS

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Liabilities:							
Accounts payable	\$ 3,732,168	\$ 111,080	\$ 108,556	\$ 84,967	\$ 187,827	\$ 4,224,598	\$ -
Accrued expenses	1,786,177	60,220	11,470	1,141,377	1,009,947	4,009,191	-
Due to other funds	8,993,494	391,794	228,380	59,137	3,886,839	13,559,644	-
Due to State of Hawaii	-	-	-	-	571,402	571,402	1,026
Security deposits	616,387	37,971	146,955	-	36,090	837,403	-
Deferred income	379,353	29,959	-	-	-	409,312	-
Total current liabilities	15,507,579	631,024	495,361	1,285,481	5,692,105	23,611,550	1,026
Accrued Expenses	760,224	56,404	-	9,830,984	-	10,647,612	-
Commitments and Contingencies							
Net Assets:							
Invested in capital assets, net of related debt	221,185,513	20,750,616	38,758,934	80,427	10,942,529	291,718,019	2,114
Unrestricted	23,809,172	1,382,895	1,917,663	23,791,815	(673,915)	50,227,630	1,351,440
Total net assets	244,994,685	22,133,511	40,676,597	23,872,242	10,268,614	341,945,649	1,353,554
Total liabilities and net assets	\$ 261,262,488	\$ 22,820,939	\$ 41,171,958	\$ 34,988,707	\$ 15,960,719	\$ 376,204,811	\$ 1,354,580

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

June 30, 2012

Total net assets of enterprise funds	\$ 341,945,649
Amounts reported for business-type activities in the statement of net assets are different because internal service fund assets and liabilities are included with business-type activities	<u>1,353,554</u>
Net assets of business-type activities	<u>\$ 343,299,203</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2012

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Eliminating Entries	Total Enterprise Funds	Internal Service Funds
Operating Revenues:								
Rental	\$ 14,146,334	\$ 1,047,490	\$ 1,934,387	\$ -	\$ 942,137	\$ -	\$ 18,070,348	\$ 2,553
Fee-for-service	-	-	-	5,332,216	-	(5,332,216)	-	-
Other	235,049	21,807	69,429	96,966	72,586	-	495,837	-
Total operating revenues	14,381,383	1,069,297	2,003,816	5,429,182	1,014,723	(5,332,216)	18,566,185	2,553
Operating Expenses:								
Project	5,127,643	-	-	-	-	-	5,127,643	-
Personnel services	8,849,774	781,058	-	5,996,327	-	-	15,627,159	-
Depreciation	11,658,902	706,403	1,399,224	9,065	799,490	-	14,573,084	2,437
Administration	5,523,425	300,016	1,285,637	819,234	664,596	(4,910,797)	3,682,111	36,058
Provision for losses	428,015	44,456	-	443,242	37,908	-	933,621	-
Professional services	134,720	29,365	20,192	527,501	83,941	-	795,719	2,243
Security	1,848,887	-	516	11,481	-	-	1,860,884	-
Insurance	671,545	30,982	125,299	60,675	19,801	-	908,302	-
Repairs and maintenance	3,661,505	241,168	283,702	93,608	285,550	(421,419)	4,144,114	-
Utilities	10,966,753	821,570	1,371,874	112,115	430,177	-	13,702,489	-
Payments in lieu of taxes	206,527	-	-	-	-	-	206,527	-
Capital expenditures	-	-	-	11,262	-	-	11,262	-
Total operating expenses	49,077,696	2,955,018	4,486,444	8,084,510	2,321,463	(5,332,216)	61,592,915	40,738
Operating loss carried forward	(34,696,313)	(1,885,721)	(2,482,628)	(2,655,328)	(1,306,740)	-	(43,026,730)	(38,185)

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2012

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Eliminating Entries	Total Enterprise Funds	Internal Service Funds
Operating loss brought forward	(34,696,313)	(1,885,721)	(2,482,628)	(2,655,328)	(1,306,740)	-	(43,026,730)	(38,185)
Nonoperating Revenues (Expenses):								
Interest income (expense)	2,669	2,157	2,418	42,791	(263)	-	49,772	6,777
Gain on sale of Project	-	-	-	-	2,003,456	-	2,003,456	-
HUD operating subsidies	21,605,248	-	-	-	208,856	-	21,814,104	-
HUD capital fund subsidies	11,029,546	-	-	-	-	-	11,029,546	-
Other (expenses) revenues	(186,260)	-	-	-	214	-	(186,046)	-
Net nonoperating revenues	32,451,203	2,157	2,418	42,791	2,212,263	-	34,710,832	6,777
(Loss) income before transfers	(2,245,110)	(1,883,564)	(2,480,210)	(2,612,537)	905,523	-	(8,315,898)	(31,408)
Capital Contributions	5,142,566	1,997,111	1,381,356	-	-	-	8,521,033	-
Net Transfers	3,396,027	1,318,630	1,173,451	9,747,556	(9,914,430)	-	5,721,234	-
Change in net assets	6,293,483	1,432,177	74,597	7,135,019	(9,008,907)	-	5,926,369	(31,408)
Net Assets at July 1, 2011	238,701,202	20,701,334	40,602,000	16,737,223	19,277,521	-	336,019,280	1,384,962
Net Assets at June 30, 2012	\$ 244,994,685	\$ 22,133,511	\$ 40,676,597	\$ 23,872,242	\$ 10,268,614	\$ -	\$ 341,945,649	\$ 1,353,554

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year ended June 30, 2012

Change in net assets - total enterprise funds	\$ 5,926,369
Change in net assets - internal service funds	<u>(31,408)</u>
Change in net assets of business-type activities	<u>\$ 5,894,961</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, 2012

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:							
Cash received from renters	\$ 13,884,407	\$ 996,958	\$ 1,948,970	\$ -	\$ 992,873	\$ 17,823,208	\$ -
Cash payments to employees	(9,252,619)	(782,782)	-	(5,042,922)	-	(15,078,323)	-
Cash payments to suppliers	(27,716,449)	(1,363,953)	(3,136,975)	(1,505,758)	(1,583,964)	(35,307,099)	-
Cash receipts from (payments to) other funds	4,963,367	688,205	1,455,146	3,513,105	(411,098)	10,208,725	46,531
Other cash receipts (payments)	235,049	18,617	72,093	11,354	86,782	423,895	(25,885)
Net cash (used in) provided by operating activities	(17,886,245)	(442,955)	339,234	(3,024,221)	(915,407)	(21,929,594)	20,646
Cash Flows from Noncapital Financing Activities:							
HUD operating subsidy received	22,868,253	-	-	-	388,500	23,256,753	-
Net operating transfers	-	1,016,113	226,464	10,079,634	(9,914,430)	1,407,781	-
Other	-	-	-	-	(49)	(49)	-
Net cash provided by (used in) noncapital financing activities	22,868,253	1,016,113	226,464	10,079,634	(9,525,979)	24,664,485	-
Cash Flows from Capital and Related Financing Activities:							
HUD capital subsidy received	11,433,963	-	-	-	-	11,433,963	-
Net proceeds from sale of Project	-	-	-	-	10,000,000	10,000,000	-
Payments for acquisition of property and equipment	(9,644,770)	-	-	-	-	(9,644,770)	-
Release of restricted deposits and funded reserves	-	-	-	-	79,634	79,634	-
Other	-	-	-	-	13,073	13,073	-
Net cash provided by capital and related financing activities	1,789,193	-	-	-	10,092,707	11,881,900	-
Subtotal carried forward	6,771,201	573,158	565,698	7,055,413	(348,679)	14,616,791	20,646

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, 2012

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Subtotal brought forward	6,771,201	573,158	565,698	7,055,413	(348,679)	14,616,791	20,646
Cash Flows from Investing Activity --							
Receipts of Interest	2,669	12,034	53,846	29,074	-	97,623	40,398
Net cash provided by investing activities	2,669	12,034	53,846	29,074	-	97,623	40,398
Net increase (decrease) in cash	6,773,870	585,192	619,544	7,084,487	(348,679)	14,714,414	61,044
Cash at July 1, 2011	23,992,451	312,713	1,704,741	15,169,956	4,127,281	45,307,142	1,290,110
Cash at June 30, 2012	\$ 30,766,321	\$ 897,905	\$ 2,324,285	\$ 22,254,443	\$ 3,778,602	\$ 60,021,556	\$ 1,351,154

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, 2012

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:							
Reconciliation of operating loss to net cash (used in) provided by operating activities	\$ (34,696,313)	\$ (1,885,721)	\$ (2,482,628)	\$ (2,655,328)	\$ (1,306,740)	\$ (43,026,730)	\$ (38,185)
Operating loss	11,658,902	706,403	1,399,224	9,065	799,490	14,573,084	2,437
Adjustments to reconcile operating loss to net cash (used in) provided by operating activities	428,015	44,456	-	443,242	37,908	953,621	-
Depreciation	(358,630)	(44,214)	1,906	-	(1,954)	(402,892)	-
Provision for losses	-	(3,190)	2,664	-	82,121	81,595	-
Changes in assets and liabilities:	-	773,813	1,440,344	(3,080,592)	106,731	(759,704)	115,808
Tenant receivables	-	-	-	11,354	-	11,354	-
Due from other funds	-	-	-	6,672	-	(19,737)	-
Due from other state agency	(29,955)	(429)	3,975	(11,639)	-	(11,639)	-
Inventories	-	-	-	-	-	(611)	-
Prepaid expenses and other assets	-	-	-	-	-	(79,533)	-
Deposits held in trust	(270,580)	59,577	(53,912)	38,119	(79,533)	(306,329)	-
Accounts payable	322,246	(1,724)	182	2,758,369	(20,242)	3,058,831	-
Accrued expenses	4,963,367	(85,608)	14,802	(543,483)	(517,829)	3,831,249	(59,414)
Due to other funds	30,397	(480)	12,677	-	(14,748)	27,846	-
Security deposits	66,306	(5,838)	-	-	-	60,468	-
Deferred income	-	-	-	-	-	-	-
Net cash (used in) provided by operating activities	\$ (17,886,245)	\$ (442,955)	\$ 339,234	\$ (3,024,221)	\$ (915,407)	\$ (21,929,594)	\$ 20,646

The accompanying notes are an integral part of this statement

Hawaii Public Housing Authority

FIDUCIARY FUND
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2012

	<u>Private Purpose Trust</u>
ASSET	
Cash	\$ <u>1,655</u>
NET ASSETS	
Total Net Assets - Held in Trust	\$ <u>1,655</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, 2012

	<u>Private Purpose Trust</u>
Net Assets at July 1, 2011	<u>\$ 1,655</u>
Net Assets at June 30, 2012	<u><u>\$ 1,655</u></u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies

a. General

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

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

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

The financial statements of the Authority are intended to present the financial position, changes in financial position, and cash flows where applicable, of only that portion of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the State of Hawaii that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2012, 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

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

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

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

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

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

c. Measurement Focus and Basis of Accounting

i. Government-Wide Financial Statements

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

ii. Governmental Fund Financial Statements

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

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation and other post-retirement benefits, which are recorded as expenditures when utilized or paid. The amount of indebtedness related to accumulated vacation and other post-retirement benefits at June 30, 2012 has been reported in the government-wide financial statements.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

iii. Proprietary Funds and Fiduciary Fund

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

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

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

d. Fund Accounting

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

i. Governmental Funds

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

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

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

The Authority reports the following major governmental funds:

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

ii. Proprietary Funds

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

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

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

The Authority reports the following as major proprietary funds:

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

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

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

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

Hawaii Public Housing Authority

Notes to Financial Statements

June 30, 2012

1. Organization and Significant Accounting Policies (continued)

d. Fund Accounting (continued)

iii. Fiduciary Fund

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

e. Department of Housing and Urban Development (HUD) Subsidized Programs

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

f. Capital Assets

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

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

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

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

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

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

g. Cash and Cash Equivalents

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

h. Inventories

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

i. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and service type transactions are classified as “due to and from other funds.” Interfund receivables and payables between funds (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.

j. HUD Annual Contributions

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

k. Vacation

Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$774,000.

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

Balance at July 1, 2011	Additions	Reductions	Balance at June 30, 2012
<u>\$2,314,000</u>	<u>\$1,060,000</u>	<u>\$1,130,000</u>	<u>\$2,244,000</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

k. Vacation (continued)

As of June 30, 2012, approximately \$170,000 and \$2,074,000 of the unpaid vacation balance was for government-wide activities and business-type activities, respectively, and is included in accrued expenses in the accompanying statement of net assets.

l. Allocated Costs

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

m. Restrictions of Fund Balances

The Authority classifies fund balances into specifically defined classifications for governmental fund types. Classifications include the following:

Restricted. Balances that are restricted for specific purposes by external parties such as creditors, grantors or other governments.

Committed. Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the state legislature. Committed fund balances also include contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned. Balances that are constrained by management to be used for specific purposes but are neither restricted nor committed. The general and capital projects fund balances are assigned for continuing appropriations, which are comprised of encumbrances and unencumbered allotment balances. Encumbrances represent outstanding commitments, which generally are liquidated in the subsequent fiscal year. Unencumbered allotment balances represent amounts that have been released and made available for encumbrance or expenditure and are legally segregated for a specific future use.

Unassigned. Residual balances that are not contained in the other classifications.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

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. Management's Use of Estimates

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

p. Recently Issued Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement incorporates FASB, APB, and ARB pronouncements, not conflicting with GASB pronouncements, and issued on or before November 30, 1989, into the GASB authoritative literature. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Management is currently assessing the impact of GASB Statement No. 62 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Management is currently assessing the impact of GASB Statement No. 63 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

1. Organization and Significant Accounting Policies (continued)

p. Recently Issued Accounting Pronouncements (continued)

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pension*. This Statement requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability, and to more comprehensively and comparably measure the annual costs of pension benefits. The provisions of this Statement are effective for periods beginning after June 15, 2014. Management is currently assessing the impact of GASB Statement No. 68 on its financial position and results of operations and has not determined if the adoption will have a material effect on its financial statements.

2. Budgeting and Budgetary Control

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

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

2. Budgeting and Budgetary Control (continued)

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

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

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

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP for the general and certain special revenue funds for the year ended June 30, 2012 is set forth in the required supplementary information.

3. Cash

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

3. Cash (continued)

At June 30, 2012, total cash, including restricted cash and deposits, reported in the statement of net assets is \$66,968,706 which consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
State pool and petty cash	\$ -	\$ 7,490,702	\$ 7,490,702
Cash in bank (book balance)	<u>5,569,349</u>	<u>53,882,008</u>	<u>59,451,357</u>
	5,569,349	61,372,710	66,942,059
Deposits held in trust	<u>-</u>	<u>26,647</u>	<u>26,647</u>
Total Cash	<u>\$ 5,569,349</u>	<u>\$ 61,399,357</u>	<u>\$ 66,968,706</u>

During 2012, the Authority recorded a valuation loss of approximately \$12,000 for its State pool cash balances included in interest income. The valuation adjustment relates primarily to the State of Hawaii auction rate securities and is reported in interest income (expense) in the accompanying statement of revenues, expenses and changes in net assets.

Bank balance of cash in bank was approximately \$61,863,000, of which \$3,646,000 was covered by federal depositary insurance and \$58,217,000 by collateral held by the pledging financial institution's trust department or agent in the name of the Authority.

4. Notes Receivable

a. Uncollateralized Promissory Note Receivable

The note receivable consists of a \$426,100 uncollateralized promissory note receivable, bearing interest at 9%, from a developer who had leased certain building improvements under a sublease agreement with the Authority. The entire payment of principal and unpaid interest was due and payable on January 1, 2009, unless the Authority acquired such building improvements constructed by the developer for a sum equal to the amount owed under this note. During 2009, the Authority had agreed with the developer to acquire such building improvements. However, as of June 30, 2012, the legal title transfer has not been executed. Consequently, the financial statements reflect a note receivable balance of \$426,100 and the related accrued interest receivable balance of approximately \$594,000. The Authority is currently addressing this issue.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

4. Notes Receivable (continued)

b. Note Receivable for Sale of Kuhio Park Terrace Towers

On May 1, 2011, the Authority entered into an Acquisitions Financing Agreement (Agreement) to sell, transfer and convey unto a third party the buildings, structures, equipment, machinery, apparatus, fixtures and fittings (Improvements) of the two high rise buildings known as Kuhio Park Terrace Towers (Project), and for the execution of a ground lease for the land underlying the Improvements (Property), as defined in the Agreement. The ground lease annual rent is one dollar (\$1) and expires on May 11, 2076, with an option for an additional ten (10) years. The buyer, as defined in the Agreement, is required to redevelop the Project to include 555 units, 347 of which will be operated as public housing. In order to assist the buyer in financing the rehabilitation of the Project, the State of Hawaii, Hawaii Housing and Finance Development Corporation issued revenue bonds in the amount of \$66,000,000 for which the proceeds were used to make a mortgage loan to the buyer.

The buyer, pursuant to the Agreement, agreed to pay the Authority an acquisition fee of \$4,665,000 in consideration for acquiring the leasehold interest in the Property and \$45,000,000 for the Improvements, such that the total purchase price was \$49,665,000. Of the total purchase price, \$3,162,943 was paid in cash and the remaining balance of \$46,502,057 is being financed pursuant to the Agreement by a note. The note, which is secured by a leasehold mortgage and security agreement, matures in May 2051 and accrues interest at the greater of 4.19 percent per annum or the long term annually compounding applicable federal rate. The note is payable from cash flows from the Property in the amounts and priority set forth in the note, provided that the payments due shall not exceed seventy-five percent (75%) of the borrower's surplus cash, as defined in the note. Additionally, the note is subordinate to the rights of certain financing agreements related to the issuance of revenue bonds for the redevelopment of the Project. Any remaining unpaid principal and accrued interest balance is due and payable on the maturity date of the note.

Additionally, prior to the execution of the ground lease and sale of the Improvements, several planned capital improvements related to the Project had not been completed. As both the Authority and the buyer agreed that the work is necessary, the buyer agreed to complete the work and the Authority agreed to provide the financing. Accordingly, the Authority agreed to loan the buyer up to \$3,900,000 from Public Housing Capital Funds and State of Hawaii Capital Improvement Projects Funds. Payment of principal would be deferred until the maturity date, whereupon all principal is due, subject to the availability of surplus cash, as defined in the note agreement. As of June 30, 2012, the Authority has not provided such financing.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

4. Notes Receivable (continued)

b. Note Receivable for Sale of Kuhio Park Terrace Towers (continued)

The sale of the Project is being accounted for under the cost recovery method. Under this method, the gain on sale is deferred until the total payments made by the buyer exceed the cost of the Project. However, a portion of the deferred gain is recognized as income to the extent that the deferred gain exceeds the note receivable from the buyer plus the maximum contingent liability to the Authority for other debt on the Project.

During 2012, the Authority identified an additional \$3,363,794 of capital assets under the Federal Low Rent Program related to the Kuhio Park Terrace Towers and adjusted the deferred gain balance accordingly as of June 30, 2012. As of June 30, 2012, the net note receivable, inclusive of all principal, accrued interest and deferred gain related to the Project, is as follows and reflected under the Federal Low Rent Program statement of net assets:

Principal and accrued interest	\$ 46,502,057
Deferred gain	<u>(41,685,428)</u>
Net note receivable	<u>\$ 4,816,629</u>

5. Capital Assets

Capital assets activity for the year ended June 30, 2012 was as follows:

	<u>July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2012</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 2,373,410	\$ -	\$ -	\$ 2,373,410
Construction in progress	350,349	-	(350,349)	-
Total capital assets not being depreciated	<u>2,723,759</u>	<u>-</u>	<u>(350,349)</u>	<u>2,373,410</u>
Capital assets, being depreciated:				
Building and improvements	15,040,694	-	-	15,040,694
Equipment	1,197,769	-	-	1,197,769
Total capital assets being depreciated	<u>16,238,463</u>	<u>-</u>	<u>-</u>	<u>16,238,463</u>
Less accumulated depreciation for:				
Building and improvements	12,365,358	284,722	-	12,650,080
Equipment	1,161,573	16,621	-	1,178,194
Total accumulated depreciation	<u>13,526,931</u>	<u>301,343</u>	<u>-</u>	<u>13,828,274</u>
Governmental activities, net	<u>\$ 5,435,291</u>	<u>\$ 301,343</u>	<u>\$ (350,349)</u>	<u>\$ 4,783,599</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

5. Capital Assets (continued)

	July 1, 2011	Increases	Decreases	June 30, 2012
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 22,966,200	\$ -	\$ -	\$ 22,966,200
Construction in progress	35,990,652	19,084,969	(19,411,560)	35,664,061
Total capital assets not being depreciated	<u>58,956,852</u>	<u>19,084,969</u>	<u>(19,411,560)</u>	<u>58,630,261</u>
Capital assets being depreciated:				
Building and improvements	536,419,347	15,695,902	(22,911,224)	529,204,025
Equipment	9,721,050	13,717	(938,029)	8,796,738
Total capital assets being depreciated	<u>546,140,397</u>	<u>15,709,619</u>	<u>(23,849,253)</u>	<u>538,000,763</u>
Less accumulated depreciation for:				
Building and improvements	302,463,406	14,560,851	(20,759,300)	296,264,957
Equipment	9,461,276	14,670	(830,012)	8,645,934
Total accumulated depreciation	<u>311,924,682</u>	<u>14,575,521</u>	<u>(21,589,312)</u>	<u>304,910,865</u>
Business-type activities capital assets, net	<u>\$ 293,172,567</u>	<u>\$ 20,219,067</u>	<u>\$ (21,671,501)</u>	<u>\$ 291,720,133</u>

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

Governmental Activity -	
Rental Housing and Assistance Program	<u>\$ 301,343</u>
Business-Type Activities:	
Federal Low Rent Program	11,658,902
Housing Revolving Fund	706,403
Housing for Elders Revolving Fund	1,399,224
Central Office Cost Center Fund	9,065
Internal Services	2,437
Others	<u>799,490</u>
Total depreciation expense – business-type activities	<u>14,575,521</u>
Total depreciation expense	<u>\$ 14,876,864</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

5. Capital Assets (continued)

At June 30, 2012, capital assets for the proprietary funds consisted of the following:

	Enterprise Funds						Internal Service Funds	Total
	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center	Other Enterprise Funds	Total Enterprise Funds		
Land	\$ 13,093,629	\$ 2,252,881	\$ 6,104,817	\$ -	\$ 1,514,873	\$ 22,966,200	\$ -	\$ 22,966,200
Buildings and improvements	432,253,888	28,880,216	55,622,256	42,857	12,404,808	529,204,025	-	529,204,025
Equipment, Furniture and fixtures	6,543,964	252,521	208,356	79,274	-	7,084,115	1,712,623	8,796,738
Construction in Progress	32,326,143	878,045	2,459,873	-	-	35,664,061	-	35,664,061
Less accumulated depreciation	<u>263,032,111</u>	<u>11,513,047</u>	<u>25,636,368</u>	<u>41,704</u>	<u>2,977,152</u>	<u>303,200,382</u>	<u>1,710,509</u>	<u>304,910,891</u>
Net property and Equipment	<u>\$ 221,185,513</u>	<u>\$ 20,750,616</u>	<u>\$ 38,758,934</u>	<u>\$ 80,427</u>	<u>\$ 10,942,529</u>	<u>\$ 291,718,019</u>	<u>\$ 2,114</u>	<u>\$ 291,720,133</u>

6. Sale of Wilikina Apartments

On May 22, 2012, with the approval of HUD, the Authority consummated the sale of the Project building, reserves and operating funds for \$10,000,000. \$10,000,000 was allocated and paid in consideration for the building and related improvements and \$1 for the ground lease interest, as defined in the agreement. The purchase price was paid by a combination of proceeds from the sale of federal and state low-income housing tax credits and tax-exempt private activity bonds allocated by Hawaii Housing Finance and Development Corporation. The Authority recognized a gain of \$2,003,456 from the sale which is included under other enterprise funds in the statement of revenues and expenses, and changes in net assets.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

7. Commitments and Contingencies

a. Lease Commitments

The Authority leases from the City and County of Honolulu the land upon which its former Banyan Street Manor Project building is situated on, and subleases it to the Project's new owner. The lease is for a term of 55 years beginning May 27, 2011. Lease rent in the amount of \$75 was prepaid by the new owner for the entire term of the lease. As part of the sales price of the Project building, reserves and operating funds on May 27, 2011, \$75 was allocated for the ground lease interest and other property, as defined in the agreement.

The Authority leases the land upon which its former Wilikina Apartments Project building is situated on to its new owner. The lease is for a term of 65 years beginning May 22, 2012. Lease rent in the amount of \$1 was prepaid by the new owner for the entire term of the lease.

b. Construction Contracts

At June 30, 2012, the Federal Low Rent Program fund and the Capital Projects fund had outstanding construction contract commitments to expend approximately \$9,136,538 and \$10,088,283, respectively, for the construction and renovation of housing projects.

c. Torts

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

d. Workers' Compensation Policy

The State is self-insured for workers' compensation. Accordingly, the Authority is liable for workers' compensation claims filed by its employees. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. The basis for estimating the liabilities for unpaid claims include the effects of specific incremental claim adjustment expenses, salvage and subrogation, and other allocated or unallocated claim adjustment expenses. These liabilities include an amount for claims that have been incurred but not reported. The workers' compensation reserve amounted to approximately \$313,000 at June 30, 2012.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

7. Commitments and Contingencies (continued)

e. 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, 2012 amounted to approximately \$4,014,000.

f. 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.

g. 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, 2012

7. Commitments and Contingencies (continued)

g. 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, 2012

7. Commitments and Contingencies (continued)

g. 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, 2012

7. Commitments and Contingencies (continued)

g. 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.

Fetu Kolio, et al. v. State of Hawaii, et al., Civil No. 11-1-0795-04 GWBC (1st Cir.)

On April 21, 2011, the plaintiffs filed two lawsuits in federal and state courts. The plaintiffs are residents of the Mayor Wright Homes, a 364 public housing project built in 1953 and financed by HUD. In the federal action, the plaintiffs seek declaratory and injunctive relief and damages for alleged violations of the ADA, the Rehabilitation Act, and the Fair Housing Amendments. The plaintiffs' state court complaint alleges causes of action for breach of implied warranty of habitability and breach of lease, and alleges lack of hot water, vermin infestation, and inadequate security. The plaintiffs seek class action status in both actions as well as statutory attorneys' fees.

The parties have been actively engaged in several mediation sessions. The parties have agreed to limited discovery while discussing settlement. The Authority believes it is unlikely that it will obtain a favorable outcome. In addition to injunctive relief and monetary damages, the plaintiffs will likely obtain attorney's fees in excess of \$50,000. Accordingly, an accrual for \$50,000 has been recorded in the accompanying statement of net assets of the Authority.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

7. Commitments and Contingencies (continued)

g. Litigation (continued)

Steven Rodrigues v. Corbit Ahn, et al., Civil No 10-1-1411-06 (1st Cir.)

In August 2009, Iris Rodrigues-Kaikana was murdered by Corbit Ahn at the Kamehameha Homes in Kalihi. Kamehameha Homes ("KH") is operated by the Hawaii Public Housing Authority (which is administratively attached to DHS). Neither Iris, who was 18 years old, or Ahn were residents at KH. Both may have visited residents of KH on the evening of the murder, although this has not been confirmed. The Complaint alleges, among other things, that the State: failed to secure, to properly monitor and light the premises; "encouraged hoodlums like Defendant Ahn to enter the premises"; removed gates to keep "gangsters" out; "allowed sexual predators onto the premises"; and refused to enforce a curfew for hoodlums. Defendant Ahn was criminally convicted of murder in July 2012. He is appealing his conviction, and he was granted a Motion to Stay his civil action in October 2012 until his criminal appeal is resolved.

The State intends to vigorously defend this case and plans to file a dispositive motion after discovery has been completed. If the State is found liable, the potential loss is estimated at \$150,000. However, as the likelihood of an unfavorable outcome against the State is low, the Authority has not provided for any loss provision.

h. HUD Examination

In September 2011, as a result of HUD's limited review of the Authority's fiscal year 2010 policies and procedures, and operations, HUD issued a performance evaluation resulting in the Authority as being designated as a "troubled" public housing agency. Subsequently HUD performed a review of the Authority's fiscal year 2011 policies and procedures, and operations. HUD issued its 2011 performance evaluation results in 2012 and designated the Authority as a "sub-standard" public housing agency.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

8. Retirement Plan

a. Plan Description

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

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

8. 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. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability.

The Authority's contributions requirements as of June 30, 2012, 2011 and 2010 were approximately \$1,571,000, \$1,537,000, and \$1,603,000, respectively.

9. Other Post Retirement Employee Benefits

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

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

9. Other Post Retirement Employee Benefits (continued)

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

Annual OPEB Cost and Net OPEB Obligation

It is the State's policy that measurement of the actuarial valuation and the annual required contribution (ARC) for postretirement healthcare and life are made for the state as a whole and are not separately computed for the individual state departments and agencies such as the Authority. The state allocates the ARC to the various departments and agencies based upon a systematic methodology. The Authority's contribution for the year ended June 30, 2012, was approximately \$834,000, which represented 30% of the Authority's share of the ARC for postretirement healthcare and life insurance benefits of approximately \$3,092,000. The Authority's contribution for the years ended June 30, 2011 and 2010 were approximately \$737,000 and \$703,000, respectively.

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2012:

Balance at June 30, 2011	\$ 7,031,554
Additions	3,091,746
Deletions	<u>(834,001)</u>
Balance at June 30, 2012	<u>\$ 9,289,299</u>

As of June 30, 2012, the postretirement liability balance of approximately \$9,289,000 was included in long-term accrued expenses under the Central Office Cost Center Fund.

The State's Comprehensive Annual Financial Report includes the required footnote disclosure and required supplementary information on the State's OPEB benefit plans.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

10. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2012 is as follows:

<u>Due from</u>	Housing Choice Voucher	Section 8 Contract Admin	Housing Revolving Fund	Central Office Cost Center Fund	Internal Services Fund	Non-major Enterprise
General Fund	\$ -	\$ -	\$ -	\$ 42,142	\$ -	\$ 86,569
Housing Choice Voucher	-	-	-	812,433	-	-
Section 8 Contract Admin	-	-	-	-	-	30,922
Federal Low-Rent Program	-	-	2,578	8,432,435	-	558,481
Housing Revolving Fund	-	-	-	391,794	-	-
Housing for Elders Revolving Fund	-	-	-	-	-	228,380
Central Office Cost Center	-	-	-	-	-	59,137
Internal Services Fund	-	-	-	-	-	1,026
Nonmajor – Enterprise	662,939	128,375	74,684	2,861,974	939	157,928
Nonmajor – Government	-	-	-	-	-	9,207
Total	<u>\$ 662,939</u>	<u>\$ 128,375</u>	<u>\$ 77,262</u>	<u>\$12,540,778</u>	<u>\$ 939</u>	<u>\$ 1,131,650</u>

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

11. Net Transfers

The composition of net transfer balances reflected in the financial statements as of June 30, 2012 is as follows:

Transfer From	Federal Low Rent Program	Housing Revolving Fund	Housing For Elders Revolving Fund	Central Office Cost Center Fund	Non-Major Enterprise Funds
General Fund	\$ 1,867,601	\$1,318,169	\$ 1,295,481	\$ 59,377	\$ -
Capital Projects	1,014,941	461	-	-	17,048
Section 8 Contract					
Administration	-	-	-	-	148,156
Housing Elders Revolving Fund	-	-	-	246,992	-
Federal Low Rent Program	-	-	124,962	13,717	-
Central Office Cost Center	652,164	-	-	-	-
Nonmajor – Enterprise	-	-	-	10,079,634	-
Nonmajor – Government	-	-	-	-	-
Total	<u>\$ 3,534,706</u>	<u>\$1,318,630</u>	<u>\$ 1,420,443</u>	<u>\$ 10,399,720</u>	<u>\$ 165,204</u>

The following describes the transfers noted above:

General Fund: The General Fund expended approximately \$4,541,000 from the current year annual State of Hawaii appropriations to pay for rental housing service shortfalls under certain enterprise funds.

Section 8 Contract: The Section 8 Contract expended approximately \$148,000 to pay for Non-Major Enterprise service shortfalls.

Capital Projects: The Capital Projects Fund expended approximately \$1,032,000 from the current year annual State of Hawaii appropriations to pay for rental housing service repairs and maintenance shortfalls under certain enterprise funds.

Federal Low Rent Program: The Federal Low Rent Program expended approximately \$139,000 to pay for capital outlays for certain enterprise funds.

Central Office Cost Center: The Central Office Cost Center expended approximately \$652,000 to pay for capital outlays for certain enterprise funds.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2012

11. Net Transfers (continued)

Housing for Elders Revolving Fund: The Housing for Elders Revolving Fund expended approximately \$247,000 to pay for administrative shortfalls under the Central Office Cost Center fund.

Nonmajor - Enterprise: The Wilikina Apartments Project transferred the net proceeds from the sale of the Wilikina Apartments of approximately \$10,000,000 to the Central Office Cost Center Fund. The amount has been restricted by the Authority's Board of Directors for future housing service and development plans.

12. Capital Contributions

During 2012, the Capital Projects Fund expended approximately \$8,521,000 from the current year annual State of Hawaii appropriations to pay for capital outlays that were contributed to enterprise funds. The composition of capital contribution balances reflected in the financial statements as of June 30, 2012 is as follows:

<u>Contributed From</u>	<u>Federal Low Rent Program</u>	<u>Housing Revolving Fund</u>	<u>Housing For Elders Revolving Fund</u>
Capital Projects Fund	\$5,142,566	\$1,997,111	\$1,381,356

**Required Supplementary Information
Other Than Management's Discussion and Analysis**

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS

Year ended June 30, 2012

	General Fund		
	Original Budget	Final Budget	Budgetary Actual
Revenues - State allotted appropriations	\$ 5,458,432	\$ 5,458,432	\$ 5,458,432
Expenditures - Rental housing and assistance program	5,458,432	5,458,432	4,972,730
EXCESS OF REVENUES UNDER EXPENDITURES	\$ -	\$ -	\$ 485,702
	Housing Choice Voucher Program		
	Original Budget	Final Budget	Budgetary Actual
Revenues - HUD contributions	\$ 24,299,861	\$ 24,299,861	\$ 24,299,861
Expenditures - Rental housing and assistance program	24,299,861	24,299,861	25,540,738
DEFICIENCY OF REVENUES UNDER EXPENDITURES	\$ -	\$ -	\$ (1,240,877)

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS (continued)

Year ended June 30, 2012

	<u>Section 8 Contract Administration</u>		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>\$ 27,011,608</u>	<u>\$ 27,011,608</u>	<u>\$ 27,011,608</u>
Expenditures -			
Rental housing and assistance program	<u>27,011,608</u>	<u>27,011,608</u>	<u>26,714,445</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 297,163</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, 2012

	<u>General Fund</u>	<u>Housing Choice Voucher Program</u>	<u>Section 8 Contract Administration</u>
Excess (deficiency) of revenues over (under) expenditures and other sources and uses - actual on budgetary basis	\$ 485,702	\$ (1,240,877)	\$ 297,163
Reserve for encumbrance at year end*	1,153,286	-	-
Expenditures for liquidation of prior year's encumbrances	(1,041,017)	-	-
Reversion of prior year's allotments	(485,702)	-	-
Accrual adjustments, operating transfers and other	<u>(456,228)</u>	<u>979,993</u>	<u>(188,234)</u>
(DEFICIENCY) EXCESS OF REVENUES (UNDER) OVER EXPENDITURES AND OTHER USES - US GAAP BASIS	<u>\$ (343,959)</u>	<u>\$ (260,884)</u>	<u>\$ 108,929</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, 2012

ASSETS	<u>ROSS</u>	<u>Boys and Girls Club</u>	<u>Total</u>
Current Assets:			
Cash	\$ 34	\$ 4	\$ 38
Due from HUD	8,304	903	9,207
Total assets	<u>\$ 8,338</u>	<u>\$ 907</u>	<u>\$ 9,245</u>
LIABILITIES AND FUND BALANCES			
Current Liabilities:			
Due to other funds	\$ 8,304	\$ 903	\$ 9,207
Due to HUD	34	4	38
Total current liabilities	8,338	907	9,245
Fund Balances - Restricted	-	-	-
Total liabilities and fund balances	<u>\$ 8,338</u>	<u>\$ 907</u>	<u>\$ 9,245</u>

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, 2012

	<u>ROSS</u>	<u>Boys and Girls Club</u>	<u>Total</u>
Revenues - Intergovernmental – HUD annual contributions	\$ -	\$ -	\$ -
Expenditures - Administration	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	-	-	-
Net change in fund balances	-	-	-
Fund Balances at July 1, 2011	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances at June 30, 2012	<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, 2012

ASSETS	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Current Assets:						
Cash	\$ 13,433	\$ 531,983	\$ 37,003	\$ 3,196,183	\$ -	\$ 3,778,602
Tenant receivables, less allowance for doubtful accounts	-	-	4,172	-	1,953	6,125
Due from other funds	14,863	5,270	-	1,066,221	45,296	1,131,650
Due from other state agencies	-	-	-	28,705	-	28,705
Due from HUD	-	46,461	-	-	-	46,461
Deposits held in trust	-	-	26,647	-	-	26,647
Total current assets	28,296	583,714	67,822	4,291,109	47,249	5,018,190
Capital Assets, less accumulated depreciation	-	1,514,873	-	-	9,427,656	10,942,529
Total assets	\$ 28,296	\$ 2,098,587	\$ 67,822	\$ 4,291,109	\$ 9,474,905	\$ 15,960,719

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

June 30, 2012

	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
LIABILITIES AND NET ASSETS						
Current Liabilities:						
Accounts payable	\$ -	\$ 67,509	\$ 4,875	\$ 115,443	\$ -	\$ 187,827
Accrued expenses - other	-	-	931,592	109	78,246	1,009,947
Due to other funds	28,296	100,325	151,987	3,606,231	-	3,886,839
Due to State of Hawaii	-	-	-	571,402	-	571,402
Security deposits	-	-	24,981	-	11,109	36,090
Total current liabilities	28,296	167,834	1,113,435	4,293,185	89,355	5,692,105
Net Assets:						
Invested in capital assets, net of related debt	-	1,514,873	-	-	9,427,656	10,942,529
Unrestricted	-	415,880	(1,045,613)	(2,076)	(42,106)	(673,915)
Total net assets	-	1,930,753	(1,045,613)	(2,076)	9,385,550	10,268,614
Total liabilities and net assets	\$ 28,296	\$ 2,098,587	\$ 67,822	\$ 4,291,109	\$ 9,474,905	\$ 15,960,719

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF REVENUES AND EXPENSES - NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2012

	Banyan Street Manor Project	Wiikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Operating Revenues:						
Rental	-	\$ 122,656	\$ 311,612	\$ -	\$ 507,869	\$ 942,137
Other	-	68,049	4,537	-	-	72,586
Total operating revenues	-	190,705	316,149	-	507,869	1,014,723
Operating Expenses:						
Depreciation	-	303,298	-	-	496,192	799,490
Administration	-	163,054	192,885	-	308,657	664,596
Provision for losses	-	-	-	-	37,908	37,908
Professional services	-	71,276	9,905	-	2,760	83,941
Insurance	-	19,341	-	-	460	19,801
Repairs and maintenance	-	175,662	58,010	-	51,878	285,550
Utilities	-	111,619	88,415	-	230,143	430,177
Total operating expenses	-	844,250	349,215	-	1,127,998	2,321,463
Operating loss	-	(653,545)	(33,066)	-	(620,129)	(1,306,740)
Nonoperating (Expense) Revenue:						
Interest (expense) income	-	(271)	-	-	8	(263)
Gain on sale of Project	-	2,003,456	-	-	-	2,003,456
HUD operating subsidy	-	208,856	-	-	-	208,856
Other Revenues	-	214	-	-	-	214
Net nonoperating revenue	-	2,212,255	-	-	8	2,212,263
Income (loss) before transfers	-	1,558,710	(33,066)	-	(620,121)	905,523
Net Transfers	-	(10,062,586)	148,156	-	-	(9,914,430)
Change in net assets	-	\$ (8,503,876)	\$ 115,090	\$ -	\$ (620,121)	\$ (9,008,907)

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2012

	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Net Assets at July 1, 2011	\$ -	\$ 10,434,629	\$ (1,160,703)	\$ (2,076)	\$ 10,005,671	\$ 19,277,521
Change in Net Assets	-	(8,503,876)	115,090	-	(620,121)	(9,008,907)
Net Assets at June 30, 2012	\$ -	\$ 1,930,753	\$ (1,045,613)	\$ (2,076)	\$ 9,385,550	\$ 10,268,614

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS

Year ended June 30, 2012

	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Cash Flows from Operating Activities:						
Cash received from renters	\$ (40,668)	\$ 175,957	\$ 311,001	\$ -	\$ 505,915	\$ 992,873
Cash payments to suppliers	443	(515,754)	(434,510)	-	(593,032)	(1,583,964)
Cash receipts from (payments to) other funds	929	74,451	2,327	(438,940)	(49,379)	(411,098)
Other		18,961	4,537	62,355	-	86,782
Net cash used in operating activities	(39,296)	(246,385)	(116,645)	(376,585)	(136,496)	(915,407)
Cash Flows from Noncapital Financing Activities:						
Net operating transfers	-	(10,062,586)	148,156	-	-	(9,914,430)
Receipts from HUD	-	388,500	-	-	-	388,500
Other	-	(57)	-	-	8	(49)
Net cash (used in) provided by noncapital financing activities	-	(9,674,143)	148,156	-	8	(9,525,979)
Cash Flows from Capital and Related Financing Activities:						
Net proceeds from sale of Project	-	10,000,000	-	-	-	10,000,000
Release of restricted deposits and funded reserves	-	79,634	-	-	-	79,634
Other	-	13,073	-	-	-	13,073
Net cash provided by capital and related financing activities	-	10,092,707	-	-	-	10,092,707
Net (decrease) increase in cash	(39,296)	172,179	31,511	(376,585)	(136,488)	(348,679)
Cash at July 1, 2011	52,729	359,804	5,492	3,572,768	136,488	4,127,281
Cash at June 30, 2012	\$ 13,433	\$ 531,983	\$ 37,003	\$ 3,196,183	\$ -	\$ 3,778,602

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year ended June 30, 2012

	Banyan Street Manor Project	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Cash Flows from Operating Activities:						
Reconciliation of operating loss to net cash used in operating activities:						
Operating loss	\$ -	\$ (653,545)	\$ (33,066)	\$ -	\$ (620,129)	\$ (1,306,740)
Adjustments to reconcile operating loss to net cash used in operating activities:						
Depreciation	-	303,298	-	-	496,192	799,490
Provision for losses	-	-	-	-	37,908	37,908
Changes in assets and liabilities:						
Tenant receivables	-	-	-	-	(1,954)	(1,954)
Other receivables	929	18,961	-	62,231	-	82,121
Due from other funds	587,757	8,067	2,327	(446,124)	(45,296)	106,731
Deposits held in trust	-	-	(611)	-	-	(611)
Accounts payable	(19,451)	25,198	(85,295)	15	-	(79,533)
Other accrued expenses	(21,217)	-	-	109	866	(20,242)
Due to other funds	(587,314)	66,384	-	7,184	(4,083)	(517,829)
Security deposits	-	(14,748)	-	-	-	(14,748)
Net cash used in operating activities	\$ (39,296)	\$ (246,385)	\$ (116,645)	\$ (376,585)	\$ (136,496)	\$ (915,407)

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET ASSETS – INTERNAL SERVICE FUNDS

June 30, 2012

ASSETS	Equipment Rental	Vehicle Rental	Total
Current Assets:			
Cash	\$ 764,609	\$ 586,545	\$ 1,351,154
Accrued interest receivable	243	130	373
Due from other funds	939	-	939
Total current assets	765,791	586,675	1,352,466
Capital Assets, less accumulated depreciation	2,114	-	2,114
Total assets	<u>\$ 767,905</u>	<u>\$ 586,675</u>	<u>\$ 1,354,580</u>
LIABILITIES AND NET ASSETS			
Current Liability - Due to Other Funds	\$ -	\$ 1,026	\$ 1,026
Net Assets:			
Invested in capital assets	2,114	-	2,114
Unrestricted	765,791	585,649	1,351,440
Total net assets	767,905	585,649	1,353,554
Total liabilities and net assets	<u>\$ 767,905</u>	<u>\$ 586,675</u>	<u>\$ 1,354,580</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS

Year Ended June 30, 2012

	<u>Equipment Rental</u>	<u>Vehicle Rental</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Cash (payments to) receipts from other funds	\$ (58,826)	\$ 105,357	\$ 46,531
Other cash payments	<u>(24,859)</u>	<u>(1,026)</u>	<u>(25,885)</u>
Net cash (used in) provided by operating activities	<u>(83,685)</u>	<u>104,331</u>	<u>20,646</u>
Cash Flows From Investing Activity -			
Receipts of Interest	<u>25,647</u>	<u>14,751</u>	<u>40,398</u>
Net cash provided by investing activity	<u>25,647</u>	<u>14,751</u>	<u>40,398</u>
Net (decrease) increase in cash	(58,038)	119,082	61,044
Cash at July 1, 2011	<u>822,647</u>	<u>467,463</u>	<u>1,290,110</u>
Cash at June 30, 2012	<u><u>\$ 764,609</u></u>	<u><u>\$ 586,545</u></u>	<u><u>\$ 1,351,154</u></u>
Cash Flows from Operating Activities:			
Reconciliation of operating loss to			
net cash (used in) provided by operating activities:			
Operating loss	\$ (24,743)	\$ (13,442)	\$ (38,185)
Adjustments to reconcile operating loss			
to net cash used in operating activities			
Depreciation	2,437	-	2,437
Changes in assets and liabilities:			
Due from other funds	(939)	116,747	115,808
Due to other funds	<u>(60,440)</u>	<u>1,026</u>	<u>(59,414)</u>
Net cash (used in) provided by operating activities	<u><u>\$ (83,685)</u></u>	<u><u>\$ 104,331</u></u>	<u><u>\$ 20,646</u></u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH

June 30, 2012

The Authority's cash consists of the following as of June 30, 2012:

Equity in State Treasury investment pool - Gov't Wide	\$ 7,490,702
Cash in banks	59,451,357
Deposits held in trust	<u>26,647</u>
	66,968,706
 Equity in State Treasury investment pool - Fiduciary Fund	 <u>1,655</u>
	<u>\$ 66,970,361</u>

Total cash is in agreement with the State Comptroller's central accounting records as of June 30, 2012, as reconciled below:

	<u>Appropriation symbol</u>	<u>June 30, 2012</u>
Cash in State Treasury		
Special Funds	S-05-337-K	\$ 20,592
	S-07-337-K	60,200
	S-08-337-K	10,433
	S-09-337-K	111,502
	S-10-337-K	109,606
	S-11-337-K	7,143
	S-12-337-K	1,836,487
	S-05-308-K	70
	S-07-308-K	1,357
	S-09-308-K	2,671
	S-10-308-K	20,534
	S-12-308-K	785,809
	S-08-304-K	89,005
	S-06-332-K	3,200
	S-07-332-K	21,986
	S-08-332-K	6,530
	S-11-332-K	70,647
	S-12-332-K	1,252,513
	S-12-335-K	588,196
	S-12-336-K	767,062
 Trust Funds	T-06-927-K	588
	T-07-920-K	1,062
	T-11-913-K	353
	<u>T-12-913-K</u>	<u>34,893</u>
 Total cash held in State Treasury as reported by State Comptrollers accounting records carried forward		 5,802,439

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH (continued)

June 30, 2012

	<u>Appropriation symbol</u>	<u>June 30, 2012</u>
Subtotal brought forward		<u>5,802,439</u>
Reconciling items:		
Deposit in Transit not recorded by DAGS		1,705,096
State Treasury Investment Pool Write-down		<u>(15,178)</u>
		<u>1,689,918</u>
Cash held outside State Treasury:		
Cash in bank		59,451,357
Deposits held in trust		<u>26,647</u>
		<u>59,478,004</u>
Cash on statement of net assets, including Fiduciary Fund		<u><u>\$ 66,970,361</u></u>

See accompanying independent auditor's report.