

Hawaii Public Housing Authority

Financial Statements

June 30, 2016

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:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hawaii Public Housing Authority (Authority), as of and for the year ended June 30, 2016 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

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, 2016, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison schedules, Schedule of the Authority's Proportionate Share of the Net Pension Liability and Schedule of the Authority's Contributions on pages 6 through 18 and pages 75 to 79, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying Combining Financial Statements of 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 basic financial statements.

The Combining Financial Statements of Nonmajor Other Enterprise and Internal Service Funds and Reconciliation of Cash schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Financial Statements of Nonmajor Other Enterprise and Internal Service Funds and Reconciliation of Cash schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

KMH LLP

KMH LLP

Honolulu, Hawaii
December 13, 2016

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2016

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, 2016. The HPHA's MD&A is designed to: focus on significant financial issues; review the HPHA's financial activity; highlight changes in the HPHA's financial position (its ability to address the next and subsequent year challenges); and identify individual fund issues or concerns. Since the MD&A is designed to focus on the financial activities of the HPHA for the fiscal year ended June 30, 2016, readers should review this in conjunction with the financial statements that follow.

INTRODUCTION

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

During the audited period of July 1, 2015 to June 30, 2016, the HPHA administered the following programs:

- Federal public housing programs
The HPHA administered over 5,300 federal public housing units in Hawaii with funds received from the United States Department of Housing and Urban Development (HUD).
- State public housing programs
The HPHA administered over 860 state public housing units developed with State funds.
- Federal and State rent subsidy programs
The HPHA administered two federally funded rental assistance programs - Section 8 Housing Choice Voucher Program and Veterans Affairs Supportive Housing Program, and the State funded rental assistance program, subsidizing monthly rental payments to qualified households.

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2016

- Federal rental assistance program
HPHA manages a Special Allocation Program which administers a project based program under a contract with the federal government through a subcontract, Contract Management Services (a subsidiary of the Bremerton Housing Authority).

FINANCIAL HIGHLIGHTS

- At the close of the fiscal year, the assets and deferred outflows of resources of the HPHA exceeded its liabilities and deferred inflows of resources by \$469.51 million. Of this amount, \$329.51 million was invested in capital assets (as detailed on *Government-Wide Statement of Net Position, page 20*).
- The HPHA's government wide net position increased by \$0.81 million. The increase in net position is due to the offsetting activities of governmental activities and business-type activities as follows:
 - a. Governmental activities decrease in net position of \$26.41 million is primarily due to State allotted appropriations of \$16.17 million, net of lapsed funds of \$1.52 million, and net transfers out of \$42.62 million (as detailed on *Government-Wide Statement of Activities, page 21*).
 - b. Business-type activities increase in net position of \$27.22 million (as detailed on *Government-Wide Statement of Activities, page 21*) is due to capital contributions of \$31.97 million and net transfers in of \$10.65 million from Governmental Activities, offset by a loss before transfers of \$15.40 million.

The capital contribution is related to the Capital Projects fund's current year capital contribution of \$31.97 million (as detailed on *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, page 24*), expended for the benefit of business-type activities funds.

Out of the \$10.65 million net operating transfers in, \$3.59 million is for State rental housing program to cover operating shortfalls, \$2.41 million for federal low rent program's security services, \$5.40 million for central office cost center, and \$(0.75) million for other enterprise type of programs (as detailed on *Proprietary Funds Statement of Revenues, Expenses, and Changes in Net Position, page 30*).

The loss before transfers of \$15.40 million is primarily due to higher security services and repair and maintenance costs (as detailed on *Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, pages 29 and 30*).

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2016

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.

Supplemental information in addition to the basic financial statements is provided. The financial statements summarize, at an aggregate level, over 650,000 financial transactions during the year or approximately 2,000 transactions per day.

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

The *Statement of Net Position* presents information on all of the HPHA's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. The statement displays the financial position of the HPHA. Over time, increases or decreases in net position may serve as an indicator of whether the HPHA's financial position is improving or deteriorating.

The *Statement of Activities* shows how the HPHA's net position changed as a result of the year's activities. The statement uses the accrual basis of accounting, similar to the accounting method 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 program revenues and expenses for each type of activity.

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

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

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2016

- **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. The business-type fund statements – the *Statement of Net Position* and the *Statement of Revenues, Expenses and Changes in Net Position* are reported using an accrual basis of accounting and the economic resources measurement focus.

Fund Financial Statements: The HPHA uses fund accounting to report on its financial position and results of operation. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions.

The financial activities of the HPHA are recorded in individual funds. Funds have been classified into either a major or non-major fund. The criteria for determining “major” or “non-major” funds are provided by 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 in a column in the fund financial statements. Details for the non-major funds can be found in the *Supplementary Information* section.

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

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2016

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

HAWAII PUBLIC HOUSING AUTHORITY						
Condensed Statements of Net Position						
June 30, 2016 and June 30, 2015						
(In thousands of dollars)						
	Governmental Activities		Business Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current & other assets	\$ 109,891	\$ 134,369	\$ 78,099	\$ 68,007	\$ 187,990	\$ 202,376
Capital assets	4,309	4,483	325,200	304,653	329,509	309,136
Other assets	-	-	8,717	8,717	8,717	8,717
Total Assets	114,200	138,852	412,016	381,377	526,216	520,229
Deferred Outflows of Resources	207	151	3,496	2,986	3,703	3,137
Total Assets & Deferred Outflows of Resources	\$ 114,407	\$ 139,003	\$ 415,512	\$ 384,363	\$ 529,919	\$ 523,366
Liabilities						
Current & other liabilities	\$ 4,079	\$ 2,566	\$ 7,037	\$ 6,257	\$ 11,116	\$ 8,823
Long-term liabilities	2,613	2,251	44,895	40,694	47,508	42,945
Total Liabilities	6,692	4,817	51,932	46,951	58,624	51,768
Deferred Inflows of Resources	77	140	1,712	2,763	1,789	2,903
Net Position						
Investment in capital assets, net of related debt	4,309	4,483	325,200	304,653	329,509	309,136
Restricted	3,301	2,600	-	-	3,301	2,600
Unrestricted	100,028	126,963	36,668	29,996	136,696	156,959
Total Net Position	107,638	134,046	361,868	334,649	469,506	468,695
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 114,407	\$ 139,003	\$ 415,512	\$ 384,363	\$ 529,919	\$ 523,366

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2016

Statement of Net Position

Net position may serve over time as a useful indicator of the HPHA's financial position. At the close of the fiscal year, the HPHA's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$469.51 million. \$329.51 million of net position was invested in capital assets, net of related debt. As discussed in the financial highlights, net position increased by \$0.81 million during the fiscal period (as detailed on *Government-Wide Statement of Net Position and Statement of Activities, pages 19, 20 & 21*).

Of the HPHA's total assets and deferred outflows of resources, \$329.51 million (or 62.2%) represents capital assets. Cash and Due from the State of Hawaii (as presented in the detailed *Government-Wide Statement of Net Position, page 19*) in the amount of \$183.38 million comprises 34.6% of total assets and deferred outflows of resources. A majority of the \$104.02 million in Due from the State of Hawaii represents available State allotted appropriations designated for capital improvement projects. Net position for the previous fiscal year had a similar composition with the majority of total net position represented by capital assets.

Accounts payable and accrued current expenses of \$9.37 million comprise 84.3% of the HPHA's total current liabilities (as detailed in the *Government-Wide Statement of Net Position, page 20*). Long term liabilities increased by \$4.56 million from the prior year. This is primarily due to the increase in pension and other post retirement employment benefits (OPEB) liabilities (as detailed in the *Notes to the Financial Statements, #7 and #8, page 58*). Total long term liabilities amounted to \$47.51 million, or 78.6% of total liabilities and deferred inflows of resources, as compared to \$42.94 million or 78.6% for in prior year. The increase in amount is a result of the implementation of *GASB 68, Accounting and Financial Reporting for Pensions*. The HPHA's obligations related to pension and OPEB are based on reports provided by the State's Department of Accounting and General Services.

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2016

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

HAWAII PUBLIC HOUSING AUTHORITY
Government-Wide Statements of Activities
Years Ended June 30, 2016 and June 30, 2015
(In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for services	\$ -	\$ -	\$ 20,592	\$ 19,906	\$ 20,592	\$ 19,906
Operating grants & contributions	62,885	57,494	24,013	22,536	86,898	80,030
Capital grants & contributions	-	-	9,669	10,877	9,669	10,877
Other income	-	-	127	549	127	549
General Revenues:						
State allotted appropriations, net of lapsed funds	16,171	25,558	-	-	16,171	25,558
Total Revenues	79,056	83,052	54,401	53,868	133,457	136,920
Expenses						
Governmental Activities						
Rental housing assistance program	62,843	72,290	-	-	62,843	72,290
Business-Type Activities						
Rental assistance program	-	-	56,412	53,663	56,412	53,663
Housing development program	-	-	9,553	9,552	9,553	9,552
Other expenses	-	-	3,839	6,020	3,839	6,020
Total government-wide expenses	62,843	72,290	69,804	69,235	132,647	141,525
Excess (deficiency) of revenues over (under) expenses	16,213	10,762	(15,403)	(15,367)	810	(4,605)
Capital contributions	-	-	-	13,539	-	13,539
Transfers	(42,622)	(6,251)	42,622	6,251	-	-
CHANGES IN NET POSITION	(26,409)	4,511	27,219	4,423	810	8,934
Net position, beginning of year	134,047	129,535	334,649	330,226	468,696	459,761
Net position, end of year	\$ 107,638	\$ 134,046	\$ 361,868	\$ 334,649	\$ 469,506	\$ 468,695

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2016

Statement of Activities

Government-wide operating grants and contributions increased by \$6.87 million in the current year from \$80.03 million to \$86.90 million. Capital grants and contributions decreased by \$1.21 million in the current year from \$10.88 million to \$9.67 million. HUD operating subsidies for federal public housing program increased by \$1.47 million from \$22.54 million in prior year to \$24.01 million. The business-type activities operating loss decreased by \$0.39 million for the year to \$15.40 million, from prior year's \$15.92 million (as detailed in the *Government – Wide Statement of Activities, Page 21*).

Governmental activities net position decreased by \$26.41 million from prior year's \$134.05 million to current year's \$107.64 million. This decrease is primarily due to State allotted appropriations of \$16.17 million, net of lapsed capital funds of \$1.52 million, and net transfers out of \$10.65 million (as detailed in *Government-Wide Statement of Net Position, Page 21*).

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 ability to meet its financing requirements. In particular, unreserved fund balances may serve as a useful measure of the HPHA's net resources available for spending at the end of the fiscal year (as detailed in *Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balance, page 24*).

- At the end of the fiscal year, combined fund balances amounted to \$105.81 million, of which \$98.54 million was reserved for capital projects, a decrease of \$25.99 million, in comparison with the prior year's combined fund balance of \$131.80 million (as detailed in *Governmental Funds, Balance Sheet, page 22* and *Statement of Revenues, Expenditures and Changes in Fund Balances, page 24*).
- Under the General fund, excess of revenues over expenditures at the end of the fiscal year was \$6.13 million, and \$4.85 million was transferred out of the General Fund to support the HPHA's business type activities (as detailed in *Governmental Funds, Statement of Revenues, Expenditures and Changes in Fund Balances, page 24*).
- The Capital Projects fund balance decreased by \$28.23 million, to \$98.54 million from prior year's \$126.77 million (as detailed on *Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balances, page 24*). The HPHA received allotted appropriations of \$9.55 million, net of lapsed fund of \$0.18 million. Capital contribution was \$31.97 million, and net transfers out was \$5.81 million.
- The Housing Choice Voucher Program fund balance increased by \$0.70 million, to \$3.30 million. This is mainly because of the \$0.70 million of revenues over expenditures.

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Management Discussion and Analysis
June 30, 2016

- The Section 8 Contract Administration fund balance increased by \$0.26 million to \$2.06 million. Revenues exceeded expenditures by \$0.26 million.

Proprietary Funds

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

- With the implementation of HUD's Asset Management and Project Based Budgeting, the HPHA established the HUD-mandated Central Office Cost Center (COCC) fund to account for costs related to the general oversight of the programs and projects HPHA administers, and other indirect and administrative costs of the HPHA. The COCC fund charges fees to the HPHA's various housing programs for administrative services and general oversight.
- Combined Proprietary Funds losses before transfers amounted to \$15.40 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 30*), compared with prior year loss of \$15.37 million. The \$0.03 million increase in loss is due to a combination of variances in revenues and expenses, including \$1.18 million more rental income, \$1.21 million less HUD capital fund subsidies, \$0.76 million more depreciation expense, and \$3.49 million more repair and maintenance expenses.
- The COCC's loss before transfers was reduced to \$3.67 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 30*), in comparison to prior year's loss of \$5.01 million. The decrease in loss is because of \$2.02 million more in fee-for-service revenue, \$0.09 million less personnel expenses and \$0.05 million less administrative expenses; offset by \$0.29 million less other revenue. The COCC finished the fiscal year with \$1.85 million net change to net position, to \$10.81 million from \$8.96 million in prior year.
- Under the Federal Low Rent Program, net loss before transfers increased by \$1.61 million to \$6.75 million, compared to prior year net loss of \$5.27 million. The variance was mainly due to an increase in repair and maintenance expenses of \$2.84 million, \$1.21 million decrease in HUD capital subsidy, \$0.72 million increase in depreciation expense; offset by \$0.90 million more in rental income, \$1.48 million more in HUD operating subsidies, and \$0.86 million less in utility expenses (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 29 and 30*).
- The State family housing program's loss before transfers amounted to \$1.82 million. This was mainly because rental income received was not sufficient to support operational expenditures. However, \$1.98 million of capital contributions and \$1.14 million of operating transfers in resulted in a \$1.30 million net position increase (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 30*).
- Similarly, the State Elderly Housing fund's rental income received was insufficient to support the fund's operational expenditures, resulting in a loss before transfers amounting to \$2.46 million. The

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program's net position increased by \$0.51 million due to \$0.52 million of capital contributions and \$2.45 million of operating transfers in (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 30*).

- Other Enterprise funds loss before transfers amounted to \$0.69 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Positions, page 30*) compared with prior year loss of \$0.95 million.
- Kuhio Park Terrace Resource Center continued to operate at a deficit (as detailed on *Combining Statement of Revenues and Expenses – Nonmajor Other Enterprise Funds, page 83*).

CAPITAL ASSETS AND DEBT ADMINISTRATION

The HPHA's investment in capital assets for the fiscal year ended June 30, 2016 is approximately \$329.51 million, net of related debt. This investment in capital assets includes land, buildings and improvements, equipment, furniture, and fixtures, and construction in progress. (Detailed in *Notes to the Financial Statements, #5, page 51 and 52*).

HPHA Capital Assets
Years Ended June 30, 2016 and June 30, 2015
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 2,373	\$ 2,373	\$ 22,966	\$ 22,966	\$ 25,339	\$ 25,339
Buildings and improvements	15,325	15,325	610,147	592,353	625,472	607,678
Equipment	1,292	1,292	8,997	8,082	10,289	9,374
Construction in progress	-	-	53,810	33,990	53,810	33,990
Total	18,990	18,990	695,920	657,391	714,910	676,381
Accumulated depreciation	(14,682)	(14,507)	(370,720)	(352,738)	(385,402)	(367,245)
Total Capital Assets, net	\$ 4,308	\$ 4,483	\$ 325,200	\$ 304,653	\$ 329,508	\$ 309,136

Hawaii Public Housing Authority

Management Discussion and Analysis
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Major capital asset events during the current fiscal year included the following:

Major project outstanding balances in construction in progress at the end of FY2016

- AMP 30 Hale Laulima, Site and Dwelling Improvements, \$4.03 million
- AMP 30 Salt Lake Apartment, Modernization of Salt Lake Apartments, \$2.58 million
- AMP 31 Kalihi Valley Homes, Site & Dwelling Improvements, \$3.14 million
- AMP 31 Hauiki Homes, Upgrade Electrical Distribution System, \$0.59 million
- AMP 31 Puhala Homes I, Site and Building Improvements, \$2.16 million
- AMP 32 Mayor Wright Homes, Homes Modernization, \$4.72 million
- AMP 33 Kaahumanu Homes, Infrastructure, Spall Repair and Painting, \$2.58 million
- AMP 34 Makua Alii, Reroofing and Structural Repairs, \$3.92 million
- AMP 37 Lanakila Homes I, Site & Dwelling Improvements, \$2.32 million
- AMP 37 Pomaikai Homes (E), Site and Building Improvements, \$3.41 million
- AMP 37 Pahala (E), Site and Building Improvements, \$0.16 million
- AMP 37 Hale Aloha O Puna (E), Site and Building Improvements, \$0.16 million
- AMP 37 Lanakila Homes IV, Physical Improvements, \$0.83 million
- AMP 37 Lokahi, Solar Hot Water Heating System, \$0.51 million
- AMP 39 David Malo Circle, Site & Dwelling Improvements, \$2.05 million
- AMP 39 Kahale Mua, Site & Dwelling Improvements, \$0.24 million
- AMP 40 Kuhio Park Terrace Lowrise , Site and Roadway Improvements, \$1.20 million
- AMP 42 Hale Po'ai, Building Improvements, \$2.57 million
- AMP 42 Kamalu (E) and Ho'olulu, Major Systems, \$0.10 million
- AMP 44 Kau'iokalani, Site and Building Improvements, \$0.30 million
- AMP 45 Koolau Village, Accessibility and Site Improvements, \$5.39 million
- AMP 45 Hookipa Kahaluu, Accessibility and Site Improvements, \$3.36 million
- AMP 45 Kauhale O'hana, Accessibility and Site Improvements, \$3.11 million
- AMP 49 Wahiawa Terrace, Site and Building Improvements, \$0.58 million
- AMP 50 Palolo Valley Homes, Modernization & Physical Improvements, \$3.38 million

Debt Activity

As of June 30, 2016, HPHA has no Mortgage and Notes Payable debt outstanding. The two loans for the Banyan Street Manor development were paid in full during the fiscal year ended June 30, 2011. During the fiscal year ended June 30, 2011, approximately \$291,605 was paid as part of the planned amortization and the sale of Banyan Street Manor development. No additional debt was incurred during the fiscal year ended June 30, 2016.

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CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

During the 2009 legislative session, S.B. bill No. 910 was enacted and required the transfer of the functions and duties of the homeless programs branch of the HPHA to the Department of Human Services, effective July 1, 2010. The impact of the transfer to the HPHA's net position was approximately \$22,000,000 and was 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.

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. On May 12, 2011 the sale of Kuhio Park Terrace closed and the HPHA received sale proceeds in the amount of \$3.1 million. HPHA may continue to redevelop the remaining parcel at Kuhio Park Terrace/Kuhio Homes in accordance with its Master Development Agreement.

McJerold William, et al.v. Kiamalu Security Services, Universal Protection Services, Hawaii Public Housing Authority, et al.

This case involves five separate incidents of alleged mistreatment of the plaintiff by the security guards employed by two security companies contracted by HPHA for Kalihi Valley Homes. Plaintiff alleged there were two assaults by a Kiamalu Security Services (Kiamalu) security guard on the plaintiff. Subsequent to the alleged assaults, Kiamalu was bought by Universal Protection Services (UPS).

Both Kiamalu and UPS's insurers have retained private counsel. Based on the allegations in the complaint that the alleged assaults were committed by Kiamalu security guards, HPHA has tendered the defense of the allegations against it to both Kiamalu and UPS, but UPS has not yet accepted the State's tender. Plaintiff, UPS and Kiamalu have agreed to an early mediation. HPHA will attend the mediation, but will not pay for the cost of the mediation since it appears clear that Kiamalu/UPS are obligated under the facts and the contract to defend and indemnify HPHA. If the mediation is unsuccessful, HPHA will demand that UPS retain independent counsel to represent HPHA based on the security contract.

In August 2009, Iris Rodrigues-Kaikana was murdered by Corbit Ahn at the Kamehameha Homes (KH) in Kalihi. KH is operated by the HPHA. 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. The conviction was upheld on appeal. The case was stayed from October 2012 to June 2015, pending completion of the appeal of Defendant Ahn's criminal conviction. The parties have resumed discovery. The previously scheduled civil case was taken off the calendar and a trial has not been rescheduled to date. A CAAP arbitration hearing has been scheduled for December 2016.

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On July 9, 2014, the property known as Ke Kumu Ekahi in the City of Waikoloa, County of Hawaii, consisting of a 48 unit low income rental housing project terminated its ground lease and the property reverted to HPHA. In consideration, HPHA released Ke Kumu Limited Partnership from a mortgage loan of \$426,100 and the mortgagee and mortgagor forever discharged each other from any liabilities that may exist.

During 2016, HPHA continued working with Hunt Development Group, McCormack Barron Salazar and the Vitus Group, the selected developer for redevelopment of Mayor Wright Homes, located within the Transit-Oriented Development (TOD) zone of the Honolulu Rail System, in close proximity to the Iwilei Station. The vision for the redevelopment includes: one-for-one replacement of public housing units, mixed-income and mixed-uses.

During 2016, HPHA began work with Retirement Housing Foundation and its partners to redevelop its administrative offices located at 1002 N. School Street. The project will include new HPHA offices, affordable housing units and commercial uses that best serve the surrounding community.

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.

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

Supplementary Information