

Hawaii Public Housing Authority

Financial Statements

June 30, 2015

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, 2015 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, 2015, 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, 2015, 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.

As discussed in Note 1 to the financial statements of the Authority, in 2015 the Authority adopted Governmental Accounting Standards Board (GASB) Statements No. 68 (GASB 68), Accounting and Reporting for Pensions (an amendment of GASB Statement No. 27) and GASB Statement No. 71 (GASB 71), Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68. As a result of adopting these standards the net position at July 1, 2014 has been restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison schedules and Schedule of the Authority's Proportionate Share of the Net Pension Liability and Schedule of the Authority's Contributions on pages 6 through 17 and pages 73 to 77, 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 relates 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 23, 2015

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2015

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, 2015. 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, 2015, 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, 2014 to June 30, 2015, 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, 2015

- 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

- In June 2012, GASB issued Statement No. 68 (GASB 68), *Accounting and Reporting for Pensions (an amendment of GASB Statement No. 27)*. GASB 68 is effective for the Authority's financial statements for the current fiscal year. The net effects of implementing GASB 68 include a \$23.36 million increase in net pension liability and a \$23.24 million decrease in net position at June 30, 2015. As the measurement date is back to 2013, fiscal year 2014 financial statements have been restated to reflect the ending balance at June 30, 2014. Comparisons and analysis regarding fiscal year 2014 use amounts contained in restated fiscal year 2014 financial statements.
- At the close of the fiscal year, the assets of the HPHA exceeded its liabilities by \$468.70 million. Of this amount, \$309.14 million was invested in capital assets (as detailed on *Government-Wide Statement of Net Position, page 19*).
- The HPHA's government wide net position increased by \$8.93 million. The increase in net position is due to the offsetting activities of governmental activities and business-type activities as follows:
 - a. Governmental activities increase in net position of \$4.51 million is primarily due to State allotted appropriations of \$25.56 million, net of lapsed funds of \$0.73 million, and net transfers out of \$6.25 million (as detailed on *Government-Wide Statement of Activities, page 20*).
 - b. Business-type activities increase in net position of \$4.42 million (as detailed on *Government-Wide Statement of Activities, page 20*) is due to capital contributions of \$13.54 million and net transfers in of \$6.25 million from Governmental Activities, offset by a loss before transfers of \$15.37 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 29*).

The capital contribution is related to the Capital Projects fund and General fund's current year capital outlay of \$13.51 and \$0.03 million, respectively (as detailed on *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, page 23*), expended for the benefit of business-type activities funds.

Similar to the prior year, the \$6.25 million net operating transfers in are related to rental housing shortfalls paid for by the General fund and Capital Projects fund (as detailed on *Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, page 23*).

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Management Discussion and Analysis
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The loss before transfers of \$15.37 million is primarily due to higher personnel and repair and maintenance costs (as detailed on *Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, pages 28 and 29*).

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. The report is a summary generated from over 650,000 transactions 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 first 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 liabilities, 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 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 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 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, 2015

- **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.

Fund Financial Statements: The HPHA uses fund accounting to ensure and demonstrate fiscal accountability. A fund is 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 position), 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 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, 2015

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 Positions						
June 30, 2015 and June 30, 2014						
(In thousands of dollars)						
	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets						
Current & other assets	\$ 134,369	\$ 129,689	\$ 68,007	\$ 68,316	\$ 202,376	\$ 198,005
Capital assets	4,483	4,720	304,653	298,227	309,136	302,947
Other assets	-	-	8,717	8,717	8,717	8,717
Total Assets	138,852	134,409	381,377	375,260	520,229	509,669
Deferred Outflows of Resources	151	-	2,986	-	3,137	-
Total Assets & Deferred Outflows of Resources	\$ 139,003	\$ 134,409	\$ 384,363	\$ 375,260	\$ 523,366	\$ 509,669
Liabilities						
Current & other liabilities	\$ 2,566	\$ 3,178	\$ 6,257	\$ 6,788	\$ 8,823	\$ 9,966
Long-term liabilities	2,251	89	40,694	16,611	42,945	16,700
Total Liabilities	4,817	3,267	46,951	23,399	51,768	26,666
Deferred Inflows of Resources	140	-	2,763	-	2,903	-
Net Position						
Investment in capital assets, net of related debt	4,483	4,720	304,653	298,227	309,136	302,947
Restricted	2,600	2,276	-	-	2,600	2,276
Unrestricted	126,963	124,146	29,996	53,634	156,959	177,780
Total Net Position	134,046	131,142	334,649	351,861	468,695	483,003
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 139,003	\$ 134,409	\$ 384,363	\$ 375,260	\$ 523,366	\$ 509,669

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 exceeded its liabilities by \$468.70 million. \$309.14 million of net position was invested in capital assets, net of related debt. As discussed in the financial highlights, net position increased by \$8.93 million during the fiscal period (as detailed on *Government-Wide Statement of Net Position and Statement of Activities, pages 18, 19 & 20*).

Of the HPHA's total assets, \$309.14 million (or 59.1%) represents capital assets. Cash and Due from the State of Hawaii (as presented in the detailed *Government-Wide Statement of Net Position, page 18*) in the amount of \$196.85 million comprises 37.6% of total assets. Amounts in "Due from the State of Hawaii" represent available State allotted appropriations designated for capital improvement projects. Net

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2015

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 \$7.07 million comprise 80.1% of the HPHA's total current liabilities (as detailed in the *Government-Wide Statement of Net Position, page 19*). Long term liabilities increased by \$29.15 million from the prior year. This is primarily due to the increase in net pension liability of \$23.36 million and deferred inflow of resources of \$2.90 million (as detailed in the *Notes to the Financial Statements, #7, page 57*). The HPHA's obligations related to pension and other post retirement employee benefits are based on reports provided by the State's Department of Accounting and General Services.

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, 2015 and June 30, 2014
(In thousands of dollars)

	Governmental Activities		Business Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program Revenues:						
Charges for services	\$ -	\$ -	\$ 19,906	\$ 19,315	\$ 19,906	\$ 19,315
Operating grants & contributions	57,494	52,662	22,536	20,358	80,030	73,020
Capital grants & contributions	-	-	10,877	13,869	10,877	13,869
Other income	-	-	549	47	549	47
General Revenues:						
State allotted appropriations, net of lapsed funds	25,558	49,630	-	-	25,558	49,630
Total Revenues	83,052	102,292	53,868	53,589	136,920	155,881
Expenses						
Governmental Activities						
Rental housing assistance program	72,290	69,590	-	-	72,290	69,590
Business-Type Activities						
Rental assistance program	-	-	53,663	58,285	53,663	58,285
Housing development program	-	-	9,552	8,591	9,552	8,591
Other expenses	-	-	6,020	3,109	6,020	3,109
Total government-wide expenses	72,290	69,590	69,235	69,985	141,525	139,575
Excess (deficiency) of revenues over (under) expenses	10,762	32,702	(15,367)	(16,396)	(4,605)	16,306
Capital contributions	-	-	13,539	14,479	13,539	14,479
Transfers	(6,251)	(6,682)	6,251	6,682	-	-
CHANGES IN NET POSITION	4,511	26,020	4,423	4,765	8,934	30,785
Net position at July 1, 2014, as restated	129,535	105,122	330,226	347,095	459,761	452,217
Net position, end of year	\$ 134,046	\$ 131,142	\$ 334,649	\$ 351,860	\$ 468,695	\$ 483,002

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Statement of Activities

Operating grants and contributions increased by \$7.01 million in the current year from \$73.02 million to \$80.03 million. Capital grants and contributions decreased by \$2.99 million in the current year from \$13.87 million to \$10.88 million. HUD operating subsidies for federal public housing program increased by \$2.18 million or 10.7%, from \$20.36 million in prior year to \$22.54 million. Contributing to the business-type activities operating loss of \$15.92 million for the year (as detailed in the *Government – Wide Statement of Activities, Page 20*), was higher rental assistance program losses due to higher management fees, personnel costs and utilities. Consequently, business-type activities recognized net loss, before capital contributions and transfers, of \$15.37 million.

Governmental activities net position increased by \$4.51 million from prior year's \$129.54 million to current year's \$134.05 million. This increase is primarily due to State allotted appropriations of \$26.29 million, net of lapsed capital funds of \$0.73 million, and net transfers out of \$6.25 million (as detailed in *Government-Wide Statement of Net Position, Page 20*).

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 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 23*).

- At the end of the fiscal year, combined fund balances amounted to \$131.80 million, of which \$126.77 million was reserved for capital projects, an increase of \$5.29 million, in comparison with the prior year's combined fund balance of \$126.51 million (as detailed in *Governmental Funds, Balance Sheet, page 21* and *Statement of Revenues, Expenditures and Changes in Fund Balances, page 23*).
- Under the General fund, excess of revenues over expense at the end of the fiscal year was \$4.06 million. However, \$4.10 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 23*).
- The Capital Projects fund balance increased by \$5.01 million, to \$126.77 million from prior year's \$121.76 million (as detailed on *Governmental Funds, Statement of Revenues, Expenditures, and Changes in Fund Balances, page 23*). The HPHA received allotted appropriation of \$20.49 million, net of lapsed fund of \$0.43 million. Capital outlay was \$13.51 million, and net transfers out was \$1.97 million.
- The Housing Choice Voucher Program fund balance increased by \$0.32 million, to \$2.60 million. This is mainly because of the excess \$0.32 million revenue over expenditures.

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2015

- The Section 8 Contract Administration fund balance decreased by \$0.01 million to \$1.80 million. Revenue exceeded expenses by \$0.18 million, offset by operating transfer out of \$0.19 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 its housing projects and other indirect and administrative costs of the HPHA. The COCC fund charges fees to the HPHA's various federal housing projects for administrative services and general oversight.
- Combined Proprietary Funds losses before transfers amounted to \$15.371 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 29*), compared with prior year loss of \$16.40 million. The change is due to a combination of a decrease in other revenue of \$1.18 million, offset by an increase in expenses such as repair and maintenance of \$1.07 million, increase in personnel expense by \$1.28 million and decrease in administration expense by \$1.44 million.
- The COCC finished the current year with a loss before transfers of \$5.01 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 29*), in comparison to prior year's loss of \$0.02 million. This is due to a decrease in fee-for-service revenue of \$2.43 million from prior year's \$9.49 million, decrease in other income of \$1.27 million from prior year's \$1.68 million, and \$1.02 million increase related to staff cost, resulting in \$4.54 million net position change, from prior year's \$13.51 million to current year's \$8.96 million.
- Under the Federal Low Rent Program, net loss before transfers decreased by \$5.37 million to \$5.26 million, compared to prior year net loss of \$10.63 million. The variance was mainly due to a decrease in repair and maintenance expenses of \$3.76 million. The program's net position increased by \$10.25 million from prior year's \$244.44 million to \$254.69 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 29*).
- The State family projects or Housing Revolving fund losses before transfers amounted to \$1.98 million. This was mainly because rental income received was not sufficient to support operational expenditures (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 29*).
- 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 \$2.22 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Position, page 29*).

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Management Discussion and Analysis

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- Other Enterprise funds loss before transfers amounted to \$0.95 million (*Proprietary Funds, Statement of Revenues, Expenses and Changes in Net Positions, page 29*) compared with prior year loss of \$1.03 million.
- Ke Kumu Ekahi and the 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 81*).

CAPITAL ASSETS AND DEBT ADMINISTRATION

The HPHA's investment in capital assets for the fiscal year ended June 30, 2015 is approximately \$309.14 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, 2015 and June 30, 2014
(In thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 2,373	\$ 2,373	\$ 22,966	\$ 22,966	\$ 25,339	\$ 25,339
Buildings and improvements	15,325	15,325	592,353	573,984	607,678	589,309
Equipment	1,292	1,292	8,082	7,836	9,374	9,128
Construction in progress	-	23	33,990	28,954	33,990	28,977
Total	18,990	19,013	657,391	633,740	676,381	652,753
Accumulated depreciation	(14,507)	(14,293)	(352,738)	(335,514)	(367,245)	(349,807)
Total Capital Assets, net	\$ 4,483	\$ 4,720	\$ 304,653	\$ 298,226	\$ 309,136	\$ 302,946

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

Major Projects Outstanding (Construction in Progress) at the End of the Year

- AMP 30 Hale Laulima, Site and Dwelling Improvements, \$2.31 million
- AMP 30 Salt Lake Apartment, Modernization of Salt Lake Apartments, \$1.85 million
- AMP 31 Kalihi Valley Homes, Site & Dwelling Improvements, \$0.70 million
- AMP 31 Kalihi Valley Homes, Reroofing, \$0.94 million
- AMP 31 Hauiki Homes, Upgrade Electrical Distribution System, \$0.62 million
- AMP 31 Puahala Homes I, Site and Building Improvements , \$0.24 million
- AMP 32 Mayor Wright Homes, Homes Modernization, \$1.21 million
- AMP 33 Kaahumanu Homes, Infrastructure, Spall Repair and Painting, \$0.40 million
- AMP 34 Makua Alii, Reroofing and Structural Repairs , \$3.03 million
- AMP 37 Lanakila Homes I, Physical Improvements, \$1.45 million
- AMP 37 Pomaikai Homes (E), Site and Building Improvements, \$1.79 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, \$0.30 million
- AMP 37 Lokahi, Solar Hot Water Heating System, \$0.25 million
- AMP 38 Kapaa, Sewage Improvements, Electrical Upgrades, Building and Site Improvements, \$1.62 million
- AMP 38 Eleele Homes , ADA Accessibility Compliance, \$1.31 million
- AMP 38 Hui O Hanamaulu, New Solar Water Heating Systems With Tankless Gas, \$2.78 million
- AMP 38 Home Nani (E), ADA Accessibility Compliance, \$0.16 million
- AMP 38 Hale Hoonanea (E) (Port Allen), ADA Accessibility Compliance, \$0.99 million
- AMP 38 Kekaha Ha'aheo, ADA Accessibility Compliance, \$2.05 million
- AMP 39 David Malo Circle, Site & Dwelling Improvements, \$0.28 million
- AMP 39 Kahale Mua, Site and Dwelling Improvements, \$0.19 million
- AMP 39 Kahale Mua, Site and Dwelling Improvements, \$0.20 million
- AMP 42 Hale Po'ai, Building Improvements, \$2.27 million

Debt Activity

As of June 30, 2015, HPHA has no mortgage or 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 sale of Banyan Street Manor development. No additional debt was incurred during the fiscal year ended June 30, 2015.

Hawaii Public Housing Authority

Management Discussion and Analysis
June 30, 2015

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 and are in the process of rescheduling the arbitration hearing. The State intends to vigorously defend this case. Trial is presently set for June 27, 2016.

Hawaii Public Housing Authority

Management Discussion and Analysis

June 30, 2015

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 2015, HPHA negotiated with Hunt Development Group, McCormack Barron Salazar and the Vitus Group for the 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.

HPHA has recently worked with the 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.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET POSITION

June 30, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	Governmental Activities	Business-Type Activities	Total
Current Assets:			
Cash	\$ 4,055,263	\$ 60,509,072	\$ 64,564,335
Restricted cash	383,365	2,435,912	2,819,277
Due from State of Hawaii	129,466,408	-	129,466,408
Receivables:			
Accrued interest	-	3,373	3,373
Tenant receivables, less allowance for doubtful receivables of \$1,403,048	-	279,520	279,520
Other	27,805	53,112	80,917
	<u>27,805</u>	<u>336,005</u>	<u>363,810</u>
Internal balances	(2,088,216)	2,088,216	-
Due from other state agencies	-	13,791	13,791
Due from HUD	243,046	2,040,667	2,283,713
Inventories	-	535,187	535,187
Prepaid expenses and other assets	2,281,205	12,962	2,294,167
Deposits held in trust	-	35,660	35,660
Total current assets	<u>134,368,876</u>	<u>68,007,472</u>	<u>202,376,348</u>
Notes Receivable	-	8,716,630	8,716,630
Capital Assets, less accumulated depreciation	<u>4,483,276</u>	<u>304,652,946</u>	<u>309,136,222</u>
Total assets	138,852,152	381,377,048	520,229,200
Deferred Outflows of Resources	<u>151,434</u>	<u>2,985,888</u>	<u>3,137,322</u>
Total assets and deferred outflows of resources	<u>\$ 139,003,586</u>	<u>\$ 384,362,936</u>	<u>\$ 523,366,522</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF NET POSITION (continued)

June 30, 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Governmental Activities	Business-Type Activities	Total
Current Liabilities:			
Accounts payable	\$ 2,172,081	\$ 2,117,324	\$ 4,289,405
Accrued expenses	394,141	2,386,669	2,780,810
Due to State of Hawaii	-	571,402	571,402
Security deposits	-	801,640	801,640
Deferred income	-	379,965	379,965
Total current liabilities	2,566,222	6,257,000	8,823,222
Accrued Expenses	628,645	18,960,349	19,588,994
Net Pension Liability	1,621,883	21,734,058	23,355,941
Total liabilities	4,816,750	46,951,407	51,768,157
Deferred Inflows of Resources	140,126	2,762,925	2,903,051
Commitments and Contingencies			
Net Position:			
Invested in capital assets, net of related debt	4,483,276	304,652,946	309,136,222
Restricted by legislation and contractual agreements	2,600,107	-	2,600,107
Unrestricted	126,963,327	29,995,658	156,958,985
Total net position	134,046,710	334,648,604	468,695,314
Total liabilities, deferred inflows of resources, and net position	\$ 139,003,586	\$ 384,362,936	\$ 523,366,522

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES

Year Ended June 30, 2015

	Expenses	Program Revenues			Net (expense) revenue and changes in net position		
		Charges for services and other revenues	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Functions/Programs:							
Governmental activity --							
Rental Housing and Assistance Program	\$ 72,290,797	\$ -	\$ 57,494,195	\$ -	\$ (14,796,602)	\$ -	\$ (14,796,602)
Total governmental activities	<u>72,290,797</u>	<u>-</u>	<u>57,494,195</u>	<u>-</u>	<u>(14,796,602)</u>	<u>-</u>	<u>(14,796,602)</u>
Business-type activities:							
Rental assistance program	53,663,136	14,991,077	22,536,390	10,876,857	-	(5,258,812)	(5,258,812)
Rental housing program	9,552,009	4,402,107	-	-	-	(5,149,902)	(5,149,902)
Others	6,019,483	512,883	-	-	-	(5,506,600)	(5,506,600)
Total business-type activities	<u>69,234,628</u>	<u>19,906,067</u>	<u>22,536,390</u>	<u>10,876,857</u>	<u>-</u>	<u>(15,915,314)</u>	<u>(15,915,314)</u>
Total government-wide	<u>\$ 141,525,425</u>	<u>\$ 19,906,067</u>	<u>\$ 80,030,585</u>	<u>\$ 10,876,857</u>	<u>(14,796,602)</u>	<u>(15,915,314)</u>	<u>(30,711,916)</u>
State Allotted Appropriations, net of lapsed funds of \$727,989					25,557,785	-	25,557,785
Other Non-Program Revenue					-	549,162	549,162
Capital Contributions					-	13,539,047	13,539,047
Net Transfers					(6,251,252)	6,251,252	-
Total general revenues and transfers					<u>19,306,533</u>	<u>20,339,461</u>	<u>39,645,994</u>
Change in net position					<u>4,509,931</u>	<u>4,424,147</u>	<u>8,934,078</u>
Net Position at July 1, 2014, as previously reported					131,142,017	351,860,457	483,002,474
Restatement					<u>(1,605,238)</u>	<u>(21,636,000)</u>	<u>(23,241,238)</u>
Net Position at July 1, 2014, as restated					<u>129,536,779</u>	<u>330,224,457</u>	<u>459,761,236</u>
Net Position at June 30, 2015					<u>\$ 134,046,710</u>	<u>\$ 334,648,604</u>	<u>\$ 468,695,314</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2015

ASSETS	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Total Governmental Funds
Current Assets:					
Cash	\$ -	\$ -	\$ 2,206,674	\$ 1,848,589	\$ 4,055,263
Restricted cash	-	-	383,365	-	383,365
Due from State of Hawaii	1,228,388	128,238,020	-	-	129,466,408
Other receivables	-	-	27,805	-	27,805
Due from other funds	-	-	178,120	-	178,120
Due from HUD	-	-	72,132	170,914	243,046
Prepaid expenses and other assets	28,778	-	2,252,427	-	2,281,205
Total assets	<u>\$ 1,257,166</u>	<u>\$ 128,238,020</u>	<u>\$ 5,120,523</u>	<u>\$ 2,019,503</u>	<u>\$ 136,635,212</u>
LIABILITIES AND FUND BALANCES					
Current Liabilities:					
Accounts payable	\$ 612,269	\$ 1,465,091	\$ 19,797	\$ 74,924	\$ 2,172,081
Accrued expenses	14,979	-	235,162	144,000	394,141
Due to other funds	145	-	2,265,457	734	2,266,336
Total current liabilities	627,393	1,465,091	2,520,416	219,658	4,832,558
Fund Balances:					
Restricted by legislation and contractual agreements	-	-	2,600,107	-	2,600,107
Committed	-	64,297,474	-	-	64,297,474
Assigned	629,773	62,475,455	-	1,799,845	64,905,073
Total fund balances	629,773	126,772,929	2,600,107	1,799,845	131,802,654
Total liabilities and fund balances	<u>\$ 1,257,166</u>	<u>\$ 128,238,020</u>	<u>\$ 5,120,523</u>	<u>\$ 2,019,503</u>	<u>\$ 136,635,212</u>

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 POSITION

June 30, 2015

Total fund balance - governmental funds		\$ 131,802,654
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds	4,483,276	
Long-term compensated absences are not due and payable in the current period and therefore are not reported in the funds	(81,832)	
Other post-retirement employee benefits are not due and payable in the current period and therefore are not reported in the funds	(546,813)	
Pension benefits are not due and payable in the current period and therefore are not reported in the funds	(1,621,883)	
Deferred outflows of resources related to the pension liability are not financial resources and therefore not reported in the funds	151,434	
Deferred inflows of resources related to the pension liability are not due and payable in the current period and therefore are not reported in the funds	(140,126)	2,244,056
Net position of governmental activities		<u>\$ 134,046,710</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, 2015

	General	Capital Projects	Housing Choice Voucher	Section 8 Contract Administration	Total Governmental Funds
Revenues:					
Intergovernmental – HUD annual contributions and others	\$ -	\$ -	\$ 26,112,335	\$ 31,345,995	\$ 57,458,330
State allotted appropriations, net of lapsed funds of \$727,989	5,065,920	20,491,865	-	-	25,557,785
Other	-	-	35,663	202	35,865
Total revenues	5,065,920	20,491,865	26,147,998	31,346,197	83,051,980
Expenditures:					
Housing assistance payments	375,831	-	24,598,735	30,191,484	55,166,050
Personnel services	384,247	-	403,112	73,004	860,363
Administration	119,330	-	685,099	2,524	806,953
Professional services	45,807	-	29,294	19,818	94,919
Security	220	-	587	-	807
Repairs and maintenance	9,059	-	10,747	-	19,806
Utilities	19,222	-	29,637	-	48,859
Project	-	-	-	877,252	877,252
Capital outlays	26,137	13,512,910	-	-	13,539,047
Other	27,197	-	66,203	1,497	94,897
Total expenditures	1,007,050	13,512,910	25,823,414	31,165,579	71,508,953
Excess (deficiency) of revenues over (under) expenditures	4,058,870	6,978,955	324,584	180,618	11,543,027
Other Financing Uses - Transfers Out	(4,095,362)	(1,968,856)	-	(187,034)	(6,251,252)
Net change in fund balances	(36,492)	5,010,099	324,584	(6,416)	5,291,775
Fund Balances at July 1, 2014	666,265	121,762,830	2,275,523	1,806,261	126,510,879
Fund Balances at June 30, 2015	\$ 629,773	\$ 126,772,929	\$ 2,600,107	\$ 1,799,845	\$ 131,802,654

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, 2015

Net change in fund balances - total governmental funds		\$ 5,291,775
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 \$13,539,047 of capital contribution outlays, is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets	(22,543)	
Less current year depreciation expense	<u>(214,140)</u>	(236,683)
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		6,989
Other post-retirement employee benefit expense 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		(546,813)
Pension expense 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>(5,337)</u>
Change in net assets of governmental activities		<u>\$ 4,509,931</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

June 30, 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	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	\$ 22,916,167	\$ 815,347	\$ 1,910,682	\$ 28,070,006	\$ 5,693,241	\$ 59,405,443	\$ 1,103,629
Restricted cash	-	-	-	2,435,912	-	2,435,912	-
	<u>22,916,167</u>	<u>815,347</u>	<u>1,910,682</u>	<u>30,505,918</u>	<u>5,693,241</u>	<u>61,841,355</u>	<u>1,103,629</u>
Receivables:							
Accrued interest	-	384	733	1,854	-	2,971	402
Tenant receivables, less allowance for doubtful accounts of \$1,403,048	236,327	26,031	748	-	16,414	279,520	-
Other	48,283	4,829	-	-	-	53,112	-
	<u>284,610</u>	<u>31,244</u>	<u>1,481</u>	<u>1,854</u>	<u>16,414</u>	<u>335,603</u>	<u>402</u>
Due from other funds	2,028,681	178,250	130,667	4,112,022	628,654	7,078,274	-
Due from other state agencies	-	-	-	13,791	-	13,791	-
Due from HUD	2,040,667	-	-	-	-	2,040,667	-
Inventories	445,190	5,804	55,848	28,345	-	535,187	-
Prepaid expenses and other assets	-	-	-	12,962	-	12,962	-
Deposits held in trust	-	-	-	-	35,660	35,660	-
Total current assets	<u>27,715,315</u>	<u>1,030,645</u>	<u>2,098,678</u>	<u>34,674,892</u>	<u>6,373,969</u>	<u>71,893,499</u>	<u>1,104,031</u>
Notes Receivable	8,716,630	-	-	-	-	8,716,630	-
Due from Other Funds	-	-	-	3,103,884	-	3,103,884	-
Capital Assets, less accumulated depreciation	236,746,363	20,879,551	34,693,831	182,732	11,885,546	304,388,023	264,923
Total assets	<u>273,178,308</u>	<u>21,910,196</u>	<u>36,792,509</u>	<u>37,961,508</u>	<u>18,259,515</u>	<u>388,102,036</u>	<u>1,368,954</u>
Deferred Outflows of Resources	1,382,481	107,518	-	1,495,889	-	2,985,888	-
Total assets and deferred outflows of resources	<u>\$ 274,560,789</u>	<u>\$ 22,017,714</u>	<u>\$ 36,792,509</u>	<u>\$ 39,457,397</u>	<u>\$ 18,259,515</u>	<u>\$ 391,087,924</u>	<u>\$ 1,368,954</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF NET POSITION (continued)

June 30, 2015

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	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	\$ 1,687,678	\$ 37,546	\$ 74,423	\$ 246,930	\$ 70,747	\$ 2,117,324	\$ -
Accrued expenses	1,349,972	74,820	75,394	722,138	164,345	2,386,669	-
Due to other funds	652,877	262,233	39,455	-	4,035,493	4,990,058	-
Due to State of Hawaii	-	-	-	-	571,402	571,402	-
Security deposits	572,706	32,553	149,612	-	46,769	801,640	-
Deferred income	346,427	17,532	6,483	9,523	-	379,965	-
Total current liabilities	<u>4,609,660</u>	<u>424,684</u>	<u>345,367</u>	<u>978,591</u>	<u>4,888,756</u>	<u>11,247,058</u>	<u>-</u>
Accrued Expenses	692,898	48,346	-	18,219,105	-	18,960,349	-
Due to Other Funds	2,411,398	692,486	-	-	-	3,103,884	-
Net Pension Liability	10,873,324	947,764	-	9,912,970	-	21,734,058	-
Total liabilities	<u>18,587,280</u>	<u>2,113,280</u>	<u>345,367</u>	<u>29,110,666</u>	<u>4,888,756</u>	<u>55,045,349</u>	<u>-</u>
Deferred Inflows of Resources	<u>1,279,248</u>	<u>99,489</u>	<u>-</u>	<u>1,384,188</u>	<u>-</u>	<u>2,762,925</u>	<u>-</u>
Commitments and Contingencies							
Net Position:							
Invested in capital assets, net of related debt	236,746,363	20,879,551	34,693,831	182,732	11,885,546	304,388,023	264,923
Unrestricted	17,947,898	(1,074,606)	1,753,311	8,779,811	1,485,213	28,891,627	1,104,031
Total net position	<u>254,694,261</u>	<u>19,804,945</u>	<u>36,447,142</u>	<u>8,962,543</u>	<u>13,370,759</u>	<u>333,279,650</u>	<u>1,368,954</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 274,560,789</u>	<u>\$ 22,017,714</u>	<u>\$ 36,792,509</u>	<u>\$ 39,457,397</u>	<u>\$ 18,259,515</u>	<u>\$ 391,087,924</u>	<u>\$ 1,368,954</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

June 30, 2015

Total net position of enterprise funds	\$ 333,279,650
Amounts reported for business-type activities in the statement of net position are different because internal service fund assets and liabilities are included with business-type activities	<u>1,368,954</u>
Net position of business-type activities	<u><u>\$ 334,648,604</u></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 POSITION

Year Ended June 30, 2015

	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	\$ 14,743,724	\$ 1,077,463	\$ 2,039,007	\$ -	\$ 1,022,978	\$ -	\$ 18,883,172	\$ 95,424
Fee-for-service	-	-	-	7,053,030	-	(7,053,030)	-	-
Other	247,353	37,732	203,855	417,459	21,072	-	927,471	-
Total operating revenues	14,991,077	1,115,195	2,242,862	7,470,489	1,044,050	(7,053,030)	19,810,643	95,424
Operating Expenses:								
Project	4,338,414	86,211	909,278	1,034	568,266	(457,114)	5,446,089	-
Personnel services	9,528,696	673,487	-	11,001,098	-	-	21,203,281	-
Depreciation	14,235,341	922,616	1,419,756	26,999	560,325	-	17,165,037	58,920
Administration	6,297,125	214,423	248,366	607,595	121,508	(6,595,916)	893,101	-
Provision for losses	32,352	32,376	1,718	209,379	108,531	-	384,356	-
Professional services	145,422	22,854	19,303	516,411	3,952	-	707,942	1,478
Security	1,886,689	241	516	10,831	-	-	1,898,277	-
Insurance	618,097	38,614	98,544	16,311	6,036	-	777,602	-
Repairs and maintenance	5,516,557	302,759	461,625	521,877	265,939	-	7,068,757	-
Utilities	10,967,656	799,666	1,308,436	100,580	356,663	-	13,533,001	-
Payments in lieu of taxes	96,787	-	-	-	-	-	96,787	-
Total operating expenses	53,663,136	3,093,247	4,467,542	13,012,115	1,991,220	(7,053,030)	69,174,230	60,398
Operating (loss) income carried forward	(38,672,059)	(1,978,052)	(2,224,680)	(5,541,626)	(947,170)	-	(49,363,587)	35,026

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year Ended June 30, 2015

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Eliminating Entries	Total Enterprise Funds	Internal Service Funds
Operating (loss) income brought forward	(38,672,059)	(1,978,052)	(2,224,680)	(5,541,626)	(947,170)	-	(49,363,587)	35,026
Nonoperating Revenues:								
HUD operating subsidies	22,536,390	-	-	-	-	-	22,536,390	-
HUD capital fund subsidies	10,876,857	-	-	-	-	-	10,876,857	-
Other revenues	2,714	2,083	11,008	529,163	-	-	544,968	4,194
Net nonoperating revenues	33,415,961	2,083	11,008	529,163	-	-	33,958,215	4,194
Loss before transfers	(5,256,098)	(1,975,969)	(2,213,672)	(5,012,463)	(947,170)	-	(15,405,372)	39,220
Capital Contributions	13,142,886	383,874	12,287	-	-	-	13,539,047	-
Net Transfers	2,366,009	1,678,425	180,374	467,567	1,558,877	-	6,251,252	-
Change in net position	10,252,797	86,330	(2,021,011)	(4,544,896)	611,707	-	4,384,927	39,220
Net Position at July 1, 2014, as previously reported	255,251,181	20,659,138	38,468,153	23,393,199	12,759,052	-	350,530,723	1,329,734
Restatement	(10,809,717)	(940,523)	-	(9,885,760)	-	-	(21,636,000)	-
Net Position at July 1, 2014, as restated	244,441,464	19,718,615	38,468,153	13,507,439	12,759,052	-	328,894,723	1,329,734
Net Position at June 30, 2015	\$ 254,694,261	\$ 19,804,945	\$ 36,447,142	\$ 8,962,543	\$ 13,370,759	\$ -	\$ 333,279,650	\$ 1,368,954

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

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

Year Ended June 30, 2015

Change in net position - total enterprise funds	\$ 4,384,927
Change in net position - internal service funds	<u>39,220</u>
Change in net position of business-type activities	<u>\$ 4,424,147</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, 2015

	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	\$ 14,507,595	\$ 1,040,691	\$ 2,046,578	\$ -	\$ 1,010,574	\$ 18,605,438	\$ -
Cash payments to employees	(9,528,696)	(688,610)	-	(8,585,624)	-	(18,802,930)	-
Cash payments to suppliers	(31,508,016)	(1,533,640)	(3,036,173)	(3,290,795)	(1,273,162)	(40,641,786)	-
Cash receipts from (payments to) other funds	4,029,516	1,314,138	(377,122)	5,912,250	2,317,371	13,196,153	102,465
Other cash receipts (payments)	1,541,925	146,694	203,855	1,639,062	(74,330)	3,457,206	(1,478)
Net cash (used in) provided by operating activities	(20,957,676)	279,273	(1,162,862)	(4,325,107)	1,980,453	(24,185,919)	100,987
Cash Flows from Noncapital Financing Activity --							
HUD operating subsidy received	22,536,089	-	-	498,339	-	23,034,428	-
Net cash provided by noncapital financing activities	22,536,089	-	-	498,339	-	23,034,428	-
Cash Flows from Capital and Related Financing Activities:							
HUD capital subsidy received	9,968,181	-	-	-	-	9,968,181	-
Payments for acquisition of property and equipment	(10,022,132)	-	-	(89,176)	-	(10,111,308)	-
Other	2,714	-	-	-	-	2,714	-
Net cash used in capital and related financing activities	(51,237)	-	-	(89,176)	-	(140,413)	-
Subtotal carried forward	1,527,176	279,273	(1,162,862)	(3,915,944)	1,980,453	(1,291,904)	100,987

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, 2015

	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	1,527,176	279,273	(1,162,862)	(3,915,944)	1,980,453	(1,291,904)	100,987
Cash Flows from Investing Activity --							
Receipts of Interest	-	1,817	10,962	28,970	-	41,749	4,071
Net cash provided by investing activities	-	1,817	10,962	28,970	-	41,749	4,071
Net increase (decrease) in cash	1,527,176	281,090	(1,151,900)	(3,886,974)	1,980,453	(1,250,155)	105,058
Cash at July 1, 2014	21,388,991	534,257	3,062,582	34,392,892	3,712,788	63,091,510	998,571
Cash at June 30, 2015	<u>\$ 22,916,167</u>	<u>\$ 815,347</u>	<u>\$ 1,910,682</u>	<u>\$ 30,505,918</u>	<u>\$ 5,693,241</u>	<u>\$ 61,841,355</u>	<u>\$ 1,103,629</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS (continued)

Year Ended June 30, 2015

	Federal Low Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Central Office Cost Center Fund	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:							
Reconciliation of operating (loss) income to net cash (used in) provided by operating activities:							
Operating (loss) income	\$ (38,672,059)	\$ (1,978,052)	\$ (2,224,680)	\$ (5,541,626)	\$ (947,170)	\$ (49,363,587)	\$ 35,026
Adjustments to reconcile operating (loss) income to net cash (used in) provided by operating activities:							
Depreciation	14,235,341	922,616	1,419,756	26,999	560,325	17,165,037	58,920
Provision for losses	32,352	32,376	1,718	209,379	108,531	384,356	-
Changes in assets and liabilities:							
Tenant receivables	115,112	(26,039)	(1,591)	-	(120,237)	(32,755)	-
Other receivables	(48,283)	2,232	431	-	38,021	(7,599)	-
Due from other funds	2,743,365	1,980,589	224,186	(534,327)	1,466,005	5,879,818	7,041
Due from other state agency	-	-	-	(189,795)	-	(189,795)	-
Inventories	13,235	15,200	(4,891)	4,869	-	28,413	-
Prepaid expenses and other assets	-	-	-	(2,718)	-	(2,718)	-
Deposits held in trust	-	-	-	-	(3,458)	(3,458)	-
Deferred outflows	(1,382,481)	(107,518)	-	(1,495,889)	-	(2,985,888)	-
Accounts payable	(442,277)	(516)	(38,155)	25,022	(29,746)	(485,672)	-
Accrued expenses	170,254	8,839	52,510	2,368,034	54,574	2,654,211	-
Due to other funds	1,286,151	(666,451)	(601,308)	(606,453)	850,848	262,787	-
Security deposits	(29,758)	(3,658)	2,679	-	2,760	(27,977)	-
Deferred income	(321,483)	(7,075)	6,483	-	-	(322,075)	-
Net pension liability	63,607	7,241	-	27,210	-	98,058	-
Deferred inflows	1,279,248	99,489	-	1,384,188	-	2,762,925	-
Net cash (used in) provided by operating activities	<u>\$ (20,957,676)</u>	<u>\$ 279,273</u>	<u>\$ (1,162,862)</u>	<u>\$ (4,325,107)</u>	<u>\$ 1,980,453</u>	<u>\$ (24,185,919)</u>	<u>\$ 100,987</u>

The accompanying notes are an integral part of this statement.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

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, 2015, 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 position 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, 2015

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. Indirect expenses are allocated to a specific function in accordance with the U.S. Department of Housing and Urban Development requirements. 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.

Net positions 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 position. 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 and proprietary funds. 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.

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, 2015

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' long-term compensated absences, other post-retirement benefits, net pension liability, and deferred inflows and outflows of resources, which are recorded as expenditures when utilized or paid. The amount of indebtedness related to long-term compensated absences, other post-retirement benefits, net pension liability and deferred inflows and outflows of resources at June 30, 2015 has been reported in the government-wide financial statements.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

1. Organization and Significant Accounting Policies (continued)

c. Measurement Focus and Basis of Accounting (continued)

iii. Proprietary Funds

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

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.

The financial activities of the Authority that are reported in the accompanying fund financial statements have been classified into the following major and non-major governmental and proprietary 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, 2015

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 and Contract Administration.

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, 2015

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 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, 2015

1. Organization and Significant Accounting Policies (continued)

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.

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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

1. Organization and Significant Accounting Policies (continued)

f. Capital Assets (continued)

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

Materials and supplies inventories are stated at the lower of cost or market, with cost being determined principally using the first-in, first-out method. The cost of inventories is recorded as an expenditure when consumed.

i. Interfund Receivables and Payables

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

1. Organization and Significant Accounting Policies (continued)

j. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent consumptions of net position that apply to future periods and will not be recognized as an outflow of resources (expenditures) until then. Deferred inflows of resources represent acquisitions of net position that apply to future periods and will not be recognized as an inflow of resources (revenues) until then.

According to paragraph 33 of Governmental Accounting Standards Board (GASB) Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, differences between expected and actual experience and changes in assumptions are recognized in pension expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined as of the beginning of the measurement period. The average of expected remaining service lives for the purposes of recognizing the applicable deferred outflows and inflows of resources established in the 2014 fiscal year is 5.7661 years.

Additionally, differences between projected and actual earnings on pension plan investments are recognized in pension expense using a systematic and rational method over a closed five-year period.

Contributions to the pension plan from the employer subsequent to the measurement date of the net pension liability and before the end of the reporting period are reported as a deferred outflow.

k. HUD Annual Contributions

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

1. Organization and Significant Accounting Policies (continued)

l. Vacation

Employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year end and is convertible to pay upon termination of employment. Liabilities for accumulated unpaid vacation are accrued at the end of each accounting period utilizing current salary rates. Such vacation credits are recorded as accrued wages and employee benefits payable in the government-wide and the enterprise funds financial statements at the balance sheet date. Accumulated unpaid vacation estimated to be used or paid during the next year is approximately \$707,000.

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

<u>Balance at July 1, 2014</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2015</u>
<u>\$2,162,000</u>	<u>\$1,132,000</u>	<u>\$1,037,000</u>	<u>\$2,257,000</u>

As of June 30, 2015, approximately \$119,000 and \$2,138,000 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 position.

m. Restrictions of Net Positions and Fund Balances

Net positions 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 position. When both restricted and unrestricted resources are available for use, it is generally the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

1. Organization and Significant Accounting Policies (continued)

m. Restrictions of Net Positions and Fund Balances (continued)

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.

n. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System of the State of Hawaii (ERS) and additions to/deductions from ERS's fiduciary net position have been determined on the same basis as they are reported by ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

o. 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.

p. 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, the liabilities of other post employee benefits and pension. Actual results could differ from those estimates.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

1. Organization and Significant Accounting Policies (continued)

q. Recently Adopted/Issued Accounting Pronouncements

Effective July 1, 2014, the Authority implemented GASB 68 and GASB Statement No. 71 (GASB 71), *Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB 68*. GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements in which:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable
- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms
- Pension plan assets are legally protected from the creditors of employers, nonemployee contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets are also legally protected from creditors of the plan members.

GASB 68 replaces the requirements of GASB Statement No. 27 (GASB 27), *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50 (GASB 50), *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of GASB 27 and GASB 50 remain applicable for pensions that are not covered by the scope of GASB 68.

GASB 71 is required to be implemented simultaneously with GASB 68 and amends the requirement related to certain pension contributions made to defined benefit pension plans prior to implementation of GASB 68 by employers and nonemployer contributing entities.

The adoption of GASB 68 and 71 has no impact on the Authority's governmental fund financial statements, which continue to report expenditures in the amount statutorily required. However, adoption has resulted in the restatement of the Authority's fiscal year 2014 government-wide financial statements to reflect the reporting in net pension liability in accordance with the provisions of GASB 68 and deferred outflow of resources related to pensions in accordance with GASB 71.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

1. Organization and Significant Accounting Policies (continued)

q. Recently Adopted/Issued Accounting Pronouncements (continued)

Net pension liability of \$25,740,677 and deferred outflow of resources related to pensions of \$2,499,439 was reported as of June 30, 2014. Refer to Note 7 for more information regarding the Authority's pension.

In June 2015, the GASB issued Statement No. 73 (GASB 73), *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. GASB 73 applies the accounting and financial reporting established in GASB 68 to all defined benefit and defined contribution pensions that are no within the scope of GASB 68. GASB 73 will be effective for the Authority's financial statements for the year ending June 30, 2017. Management is currently assessing the impact of GASB 73 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 2015, the GASB issued Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB 75 amends the accounting guidance related to employers' accounting for postemployment benefits other than pension (other postemployment benefits or OPEB) administered through trusts that meet specified criteria. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures related to OPEB. Note disclosures and required supplementary information are addressed by the statement. GASB 75 will be effective for the Authority's financial statements for the year ending June 30, 2018. Management is currently assessing the impact of GASB 75 on its financial position and results of operations reported on its financial statements.

In June 2015, the GASB issued Statement No. 76 (GASB 76), *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 will be effective for the Authority's financial statements for the year ended June 30, 2016. Management is currently assessing the impact of this Statement 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, 2015

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 (HRS) 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 schedules represent the original appropriations, transfers and other legally authorized legislative and executive changes.

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

2. Budgeting and Budgetary Control (continued)

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

A summation of the differences between revenues and expenditures reported on the budgetary basis and those reported in accordance with GAAP for the general and certain special revenue funds for the year ended June 30, 2015 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.

At June 30, 2015, total cash, including restricted cash and deposits, reported in the statement of net position is \$67,419,272 which consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
State pool and petty cash	\$ -	\$ 8,366,183	\$ 8,366,183
Cash in bank (book balance)	<u>4,438,628</u>	<u>54,578,801</u>	<u>59,017,429</u>
	4,438,628	62,944,984	67,383,612
Deposits held in trust	<u>-</u>	<u>35,660</u>	<u>35,660</u>
Total Cash	<u>\$ 4,438,628</u>	<u>\$ 62,980,644</u>	<u>\$ 67,419,272</u>

Bank balance of cash in bank was approximately \$61,390,000, of which \$750,000 was covered by federal depository insurance and \$60,640,000 by collateral held by the pledging financial institution's trust department or agent in the name of the Authority.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

4. Notes Receivable for Sale of Kuhio Park Terrace Towers – Federal Low Rent Program

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.

Pursuant to the Agreement, the buyer 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 was 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.

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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

4. Notes Receivable for Sale of Kuhio Park Terrace Towers – Federal Low Rent Program (continued)

During 2015, the interest earned on the note receivable amounted to approximately \$2,033,000 and has been recorded in deferred gain. As of June 30, 2015, 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 position:

Principal and accrued interest	\$ 55,869,575
Deferred gain	<u>(51,052,945)</u>
Net note receivable	<u>\$ 4,816,630</u>

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 is deferred until the maturity date, whereupon all principal is due, subject to the availability of surplus cash, as defined in the note agreement. The note does not bear interest unless the borrower defaults upon the maturity date of May 2051. As of June 30, 2015, the Authority loaned the full \$3,900,000 to the buyer, which is included in the accompanying statement of net position under the Federal Low Rent Program.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

5. Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	<u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 2,373,410	\$ -	\$ -	\$ 2,373,410
Construction in progress	22,543	-	(22,543)	-
Total capital assets not being depreciated	<u>2,395,953</u>	<u>-</u>	<u>(22,543)</u>	<u>2,373,410</u>
Capital assets, being depreciated:				
Building and improvements	15,325,444	-	-	15,325,444
Equipment	1,291,869	-	-	1,291,869
Total capital assets being depreciated	<u>16,617,313</u>	<u>-</u>	<u>-</u>	<u>16,617,313</u>
Less accumulated depreciation for:				
Building and improvements	13,091,313	204,730	-	13,296,043
Equipment	1,201,994	9,410	-	1,211,404
Total accumulated depreciation	<u>14,293,307</u>	<u>214,140</u>	<u>-</u>	<u>14,507,447</u>
Governmental activities capital assets, net	<u>\$ 4,719,959</u>	<u>\$ (214,140)</u>	<u>\$ (22,543)</u>	<u>\$ 4,483,276</u>
	<u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>
Business-Type Activities				
Capital assets, not being depreciated:				
Land	\$ 22,966,200	\$ -	\$ -	\$ 22,966,200
Construction in progress	28,954,003	23,537,793	(18,501,948)	33,989,848
Total capital assets not being depreciated	<u>51,920,203</u>	<u>23,537,793</u>	<u>(18,501,948)</u>	<u>56,956,048</u>
Capital assets being depreciated:				
Building and improvements	573,984,344	18,368,442	-	592,352,786
Equipment	7,836,283	246,067	-	8,082,350
Total capital assets being depreciated	<u>581,820,627</u>	<u>18,614,509</u>	<u>-</u>	<u>600,435,136</u>
Less accumulated depreciation for:				
Building and improvements	328,236,330	17,089,311	-	345,325,641
Equipment	7,277,951	134,646	-	7,412,597
Total accumulated depreciation	<u>335,514,281</u>	<u>17,223,957</u>	<u>-</u>	<u>352,738,238</u>
Business-type activities capital assets, net	<u>\$298,226,549</u>	<u>\$ 24,928,345</u>	<u>\$ (18,501,948)</u>	<u>\$304,652,946</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

5. Capital Assets (continued)

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

Governmental Activity -	
Rental Housing and Assistance Program	<u>\$ 214,140</u>
Business-Type Activities:	
Federal Low Rent Program	14,235,341
Housing Revolving Fund	922,616
Housing for Elders Revolving Fund	1,419,756
Central Office Cost Center Fund	26,999
Internal Services	58,920
Others	<u>560,325</u>
Total depreciation expense – business-type activities	<u>17,223,957</u>
Total depreciation expense	<u><u>\$ 17,438,097</u></u>

At June 30, 2015, 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	490,117,378	31,207,636	56,014,907	42,857	14,970,008	592,352,786	-	592,352,786
Equipment, Furniture and fixtures	5,263,729	252,521	214,676	239,701	-	5,970,627	2,111,723	8,082,350
Construction in Progress	30,401,469	1,312,943	2,275,436	-	-	33,989,848	-	33,989,848
Less accumulated depreciation	<u>302,129,842</u>	<u>14,146,430</u>	<u>29,916,005</u>	<u>99,826</u>	<u>4,599,335</u>	<u>350,891,438</u>	<u>1,846,800</u>	<u>352,738,238</u>
Net property and Equipment	<u><u>\$ 236,746,363</u></u>	<u><u>\$ 20,879,551</u></u>	<u><u>\$ 34,693,831</u></u>	<u><u>\$ 182,732</u></u>	<u><u>\$ 11,885,546</u></u>	<u><u>\$304,388,023</u></u>	<u><u>\$ 264,923</u></u>	<u><u>\$ 304,652,946</u></u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

6. 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, 2015, the Federal Low Rent Program fund and the Capital Projects fund had outstanding construction contract commitments to expend approximately \$7,160,000 and \$72,741,000, respectively, for the construction and renovation of housing projects.

c. Consulting Agreement

In conjunction with the sale of Kuhio Park Terrace Towers (see Note 4), the Authority entered into a consulting agreement with the developer to provide the developer with certain consulting services related to the rehabilitation of the Project. The consulting fee is 19.7 percent of the total development fee charged to the buyer by the developer, or \$3,176,488. As part of the initial sale agreement, the buyer is to receive state tax credits which are expected to be paid/released by May 2016. If the buyer, in accordance with terms defined in the sale agreement, determines that unpaid state tax credits should be released, the Authority would be obligated to pay the buyer for these state tax credits up to its portion of the consulting fees earned and received. The Authority would be able to recover amounts paid to the buyer upon payment/release of the previously unpaid tax credits by the State.

In accordance with the consulting agreement, the amount paid to the Authority shall be held in an interest bearing escrow account by an escrow agent mutually agreed upon by the Authority and the buyer until the state tax credit release date, which is estimated to be May 2016. Approximately \$2,436,000 of restricted cash recorded under the Central Office Cost Center as of June 30, 2015 is held in an approved escrow account.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

6. Commitments and Contingencies (continued)

d. Torts

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

e. Workers' Compensation Policy

The State is self-insured for workers' compensation. Accordingly, the Authority is liable for workers' compensation claims filed by its employees. 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. As of June 30, 2015, the Authority has determined there is not a significant liability for workers' compensation claims.

f. 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; accordingly, sick leave is not accrued in the accompanying statement of net position. 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, 2015 amounted to approximately \$4,914,000.

g. 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

6. Commitments and Contingencies (continued)

h. Litigation

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

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

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

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

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

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

6. Commitments and Contingencies (continued)

h. Litigation (continued)

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

In 1995, OHA filed suit against the State to secure additional compensation and an itemized accounting of the sums previously paid to OHA for five specifically identified parcels of Ceded Lands which were transferred to the Hawaii Housing Authority for its use to develop, construct and manage additional affordable public rental housing units under HRS Chapter 201G. On January 11, 2000, all proceedings in this suit were stayed pending the Hawaii Supreme Court's decision in the State's appeal in OHA I. OHA disagrees that the repeal and revival of the pre-Yamasaki law by the Hawaii Supreme Court's September 12, 2001, decision in OHA I should also require dismissal of the claims OHA makes in *OHA v. HHA*, and the case remains pending.

The State intends to defend vigorously against all of OHA's claims. It is currently unable to predict with reasonable certainty the magnitude of its potential liability, if any, for such claims. Resolution of all of OHA's claims in OHA's favor could have a material adverse effect on the State's financial condition.

Act 015, Session Law Hawaii 2012 signed into law on April 11, 2012, conveyed about 25 acres of lands controlled and managed by the Hawaii Community Development Authority to the Office of Hawaiian Affairs, to settle OHA's past ceded land claims. The law took effect on July 1, 2012.

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 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.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

6. Commitments and Contingencies (continued)

h. Litigation (continued)

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

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 and are in the process of rescheduling the CAAP arbitration hearing. The State intends to vigorously defend this case. Trial is presently set for June 27, 2016.

McJerold William et.al. vs. Kiamalu Security Services, et.al., Civil No. 15-1-0388-3 (1st Cir.)

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

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

7. Retirement Plan

a. Plan Description

All eligible employees of the State and counties are provided with pensions through a cost-sharing multiple-employer defined benefit pension plan administered by the ERS. Benefit terms, eligibility, and contribution requirements are established by HRS Chapter 88 and can be amended through legislation. The ERS issues a publicly available financial report that can be obtained at ERS' website <http://ers.ehawaii.gov>.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

7. Retirement Plan (continued)

b. Benefits Provided

The ERS provides retirement, disability, and death benefits that are covered by the provisions of the noncontributory, contributory, and hybrid retirement membership classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. The benefit multiplier decreased by 0.25% for new hybrid and contributory class members hired after June 30, 2012. Average final compensation is an average of the highest salaries during any 3 years of credited service, excluding any salary paid in lieu of vacation for employees hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for employees hired prior to January 1, 1971.

For members hired before July 1, 2012, the original retirement allowance is increased by 2.5% each July 1 following the calendar year of retirement. This cumulative benefit is not compounded and increases each year by 2.5% of the original retirement allowance without a ceiling (2.5% of the original retirement allowance the first year, 5.0% the second year, 7.5% the third year, etc.). For members hired after June 30, 2012 the post-retirement annuity increase was decreased to 1.5% per year.

Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

Retirement Benefits

General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with 10 years of credited service are eligible to retire at age 62. Employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

7. Retirement Plan (continued)

b. Benefits Provided (continued)

Noncontributory Class (continued)

Death Benefits

For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or dependent children, no benefit is payable.

Ten years of credited service is required for ordinary death benefits. For ordinary death benefits, the surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension.

Contributory Class for Employees Hired prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined as 1.75 percent of average final compensation multiplied by the years of credited services but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

7. Retirement Plan (continued)

b. Benefits Provided (continued)

Contributory Class for Employees Hired prior to July 1, 2012 (continued)

Death Benefits

For service-connected deaths, the designated beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation to the surviving spouse/reciprocal beneficiary until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 1 year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the 12 months preceding death, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Employees Hired After June 30, 2012

Disability and Death Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are 3.0% of average final compensation for each year of service for judges and elected officers and 1.75% of average final compensation for each year of services for police and firefighters and are payable immediately, without an actuarial reduction, at a minimum of 30% of average final compensation.

Death benefits for contributory class members hired after June 30, 2012 are generally the same as those for contributory class members hired June 30, 2012 and prior.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

7. Retirement Plan (continued)

b. Benefits Provided (continued)

Hybrid Class for Employees Hired Prior to July 1, 2012

Retirement Benefits

General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with 5 years of credited service are eligible to retire at age 62. General employees with 30 years of credited service are eligible to retire at age 55.

Disability Benefits

Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service is required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.

Death Benefits

For service-connected deaths, the designated beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation to the surviving spouse/reciprocal beneficiary until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least 5 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 150%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

7. Retirement Plan (continued)

b. Benefits Provided (continued)

Hybrid Class for Employees Hired After June 30, 2012

Retirement Benefits

General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with 10 years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and EMTs may retire with 25 years of credited service at age 55.

Disability and Death Benefits

Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least 10 years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage multiplied by 120%, or 50% Joint and Survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least 10 years of service and designated one beneficiary, or 100% Joint and Survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary or if less than 10 years of service, return of members' contributions and accrued interest.

c. Contributions

Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2015 was 16.50% for Authority employees. The Authority's contributions requirements as of June 30, 2015 were approximately \$2,159,000.

The employer is required to make all contributions for noncontributory members. For contributory class employees hired prior to July 1, 2012, general employees are required to contribute 7.8% of their salary. Hybrid members hired prior July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

7. Retirement Plan (continued)

c. Contributions (continued)

The payroll for all of the Authority's employees and employees covered by the plan was approximately \$19,699,000 for 2015.

d. Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions

At June 30, 2015, the Authority reported a liability of \$23,355,941 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2014, the Authority's proportion was 0.29%, which was an increase of .01% from its proportion measured as of June 30, 2013.

The change in the pension liability during the year is approximately as follows:

	<u>Balance at July 1, 2014</u>	<u>Restatement</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at July 1, 2015</u>
Governmental Activities	\$ -	\$ 1,777,870		\$ (155,987)	\$ 1,621,883
Business-Type Activities	-	23,962,807		(2,228,749)	21,734,058
Total	<u>\$ -</u>	<u>\$ 25,740,677</u>	<u>\$ -</u>	<u>\$ (2,384,736)</u>	<u>\$ 23,355,941</u>

There were no changes in other assumptions and inputs that affected the measurement of the total pension liability since the prior measurement date. There were no changes between the measurement date, June 30, 2014, and the reporting date, June 30, 2015, that are expected to have a significant effect on the proportionate share of the net pension liability.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

7. Retirement Plan (continued)

d. Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflow of Resources Related to Pensions (continued)

For the year ended June 30, 2015, the Authority recognized pension expense of \$2,125,771. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 312,847	\$ (7,055)
Net difference between projected and actual earnings on pension plan investments	-	(2,895,996)
Changes in proportionate and differences between Authority contributions and proportionate share of contributions	45,037	-
Authority contributions subsequent to the measurement date	<u>2,779,438</u>	<u>-</u>
Total	<u>\$ 3,137,322</u>	<u>\$(2,903,051)</u>

The \$2,779,438 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the years ending June 30,	
2016	\$ (650,345)
2017	(650,345)
2018	(650,345)
2019	(650,345)
2020	56,213
Total	<u>\$ (2,545,167)</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

7. Retirement Plan (continued)

e. Actuarial Assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.00 percent
Payroll growth rate	3.50 percent
Investment rate of return	7.75 percent per year, compounded annually, including inflation

The same rates were applied to all periods. There were no changes to ad hoc postemployment benefits including COLA.

Post-retirement mortality rates are based on Client Specific Tables. Pre-retirement mortality rates are based on the RP-2000 tables.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the five-year period ending June 30, 2010. ERS updates their experience studies every five years.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

7. Retirement Plan (continued)

e. Actuarial Assumptions (continued)

The long-term expected rate of return on pension plan investments was determined using a "top down approach" of the Bespoke Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Long-Term Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	30%	8.5%
International equity	26	9.0
Fixed income	20	3.1
Real estate	7*	8.5
Private equity	7*	11.8
Real return	5*	6.1
Covered calls	5	7.7
Total	100%	

*The real estate, private equity, and real return targets will be the percentage actually invested up to 7%, 7%, and 5%, respectively, of the total fund. Changes in the real estate, private equity, and real return targets will be offset by an equal percentage change in the large cap domestic equity target.

The discount rate used to measure the net pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the Authority will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

7. Retirement Plan (continued)

e. Actuarial Assumptions (continued)

determine the total pension liability. There has been no change in the discount rate since the prior measurement date.

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage point higher (8.75%) than the current rate.

	1 percent Decrease (6.75%)	Current Discount Rate (7.75%)	1 percent Increase (8.75%)
Authority's proportionate share of the net pension liability	31,513,639	23,355,941	18,186,229

f. Pension Plan Fiduciary Net Pension

The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, and revenues are recorded in the accounting period in which they are earned and become measurable. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded as of their trade date. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the pension plan's fiduciary net position is available in the separately issued ERS financial report. ERS's complete financial statements are available at <http://www.ers.ehawaii.gov>.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

8. 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 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 a family plan to cover dependents.

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

Annual OPEB Cost and Net OPEB Obligation

It is the State's policy that measurement of the actuarial valuation and the annual required contribution (ARC) 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, 2015, was approximately \$1,334,000, which represented 32% of the Authority's share of the ARC for postretirement healthcare and life insurance benefits of approximately \$4,227,000. The Authority's contribution for the years ended June 30, 2014 and 2013 were approximately \$1,273,000 and \$1,176,000, respectively.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

8. Other Post Retirement Employee Benefits (continued)

The following is a summary of changes in postretirement liability during the fiscal year ended June 30, 2015:

Balance at June 30, 2014	\$ 15,145,715
Additions	4,227,352
Deletions	<u>(1,333,770)</u>
Balance at June 30, 2015	<u>\$ 18,039,297</u>

As of June 30, 2015, the postretirement liability balance of \$17,495,484 and \$543,813 was included in long-term accrued expenses under the Central Office Cost Center Fund and Governmental Activities, respectively.

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

9. Interfund Receivables and Payables

The composition of interfund balances as of June 30, 2015 is as follows:

<u>Current Due from</u>	<u>Housing Choice Voucher</u>	<u>Housing Revolving Fund</u>	<u>Housing for Elders Revolving Fund</u>	<u>Federal Low-Rent Program</u>	<u>Central Office Cost Center Fund</u>	<u>Non-major Enterprise</u>
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 145	\$ -
Housing Choice Voucher	-	-	-	-	2,255,819	9,638
Section 8 Contract Admin	-	-	-	-	-	734
Federal Low Rent Program	-	-	-	-	529,946	122,931
Housing Revolving Fund	-	-	-	-	15,912	246,321
Housing for Elders Revolving Fund	-	-	-	-	39,455	-
Non-major - Enterprise	<u>178,120</u>	<u>178,250</u>	<u>130,667</u>	<u>2,028,681</u>	<u>1,270,745</u>	<u>249,030</u>
Total	<u>\$ 178,120</u>	<u>\$ 178,250</u>	<u>\$ 130,667</u>	<u>\$ 2,028,681</u>	<u>\$ 4,112,022</u>	<u>\$ 628,654</u>

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

9. Interfund Receivables and Payables (continued)

Noncurrent Due to	Federal Low-Rent Program	Housing Revolving Fund
Central Office Cost Center	\$ 2,411,398	\$ 692,486

The current interfund receivable and payable balances are due to interfund services provided or reimbursable expenditures and payments between funds. The non-current balance represents the respective fund's share of the Authority's pension liability recorded under the Central Office Cost Center Fund as of year-end.

10. Net Transfers

The composition of net transfer balances reflected in the financial statements as of June 30, 2015 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
General Fund	\$ 1,644,161	\$ 1,625,379	\$ 415,075	\$ 152,239	\$ 258,508
Capital Projects	738,392	58,804	34,879	23,446	1,113,335
Section 8 Contract Administration	-	-	-	-	187,034
Federal Low Rent Program	-	-	-	16,544	-
Housing for Elders Revolving Fund	-	-	-	269,580	-
Housing Revolving Fund	-	-	-	5,758	-
Total	<u>\$ 2,382,553</u>	<u>\$ 1,684,183</u>	<u>\$ 449,954</u>	<u>\$ 467,567</u>	<u>\$ 1,558,877</u>

The following describes the transfers noted above:

General Fund: The General Fund expended approximately \$4,095,000 from the current year annual State of Hawaii appropriations to pay for rental housing service shortfalls under certain enterprise funds.

Section 8 Contract Administration: The Section 8 Contract Administration expended approximately \$187,000 to pay for Non-Major Enterprise service shortfalls.

Hawaii Public Housing Authority

Notes to Financial Statements
June 30, 2015

10. Net Transfers (continued)

Capital Projects: The Capital Projects Fund expended approximately \$856,000 from the current year annual State of Hawaii appropriations to primarily pay for capital improvement administrative expenses and rental housing service repairs and maintenance under certain enterprise funds. In June 2015, upon approval from the Department of Budget and Finance, a transfer of approximately \$1,113,000 was made to a non-major enterprise fund for reimbursement of administrative payroll costs on state funded projects.

Federal Low Rent Program: The Federal Low Rent Program expended approximately \$17,000 to pay for repairs and maintenance for certain enterprise funds.

Housing for Elders Revolving Fund: The Housing for Elders Revolving Fund expended approximately \$270,000 to pay for administrative expenses under the Central Office Cost Center fund.

Housing Revolving Fund: The Housing Revolving Fund expended approximately \$5,800 to pay for administrative expenses under the Central Office Cost Center fund.

11. Capital Contributions

During 2015, the Capital Projects Fund and General Fund expended approximately \$13,513,000 and \$26,000, respectively, 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, 2015 is as follows:

Contributed From	Federal Low-Rent Program	Housing Revolving Fund	Housing for Elders Revolving Fund	Total
Capital Projects	\$ 13,116,749	\$ 383,874	\$ 12,287	\$ 13,512,910
General Fund	26,137	-	-	26,137
Total	<u>\$ 13,142,886</u>	<u>\$ 383,874</u>	<u>\$ 12,287</u>	<u>\$ 13,539,047</u>

**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, 2015

	General Fund		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
State allotted appropriations	<u>\$ 5,362,089</u>	<u>\$ 5,362,089</u>	<u>\$ 5,362,089</u>
Expenditures -			
Rental housing and assistance program	<u>5,362,089</u>	<u>5,362,089</u>	<u>5,065,920</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 296,169</u>
	Housing Choice Voucher Program		
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Budgetary Actual</u>
Revenues -			
HUD contributions	<u>\$ 25,486,975</u>	<u>\$ 25,486,975</u>	<u>\$ 25,486,975</u>
Expenditures -			
Rental housing and assistance program	<u>25,486,975</u>	<u>25,486,975</u>	<u>25,823,220</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (336,245)</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR GOVERNMENTAL FUNDS (continued)

Year Ended June 30, 2015

	Section 8 Contract Administration		
	Original Budget	Final Budget	Budgetary Actual
Revenues -			
HUD contributions	\$ 31,345,995	\$ 31,345,995	\$ 31,345,995
Expenditures -			
Rental housing and assistance program	31,345,995	31,345,995	31,145,761
EXCESS OF REVENUES OVER EXPENDITURES	\$ -	\$ -	\$ 200,234

See accompanying independent auditor's report.

Hawaii Public Housing Authority

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE -
BUDGET-TO-GAAP RECONCILIATION

Year Ended June 30, 2015

	<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	\$ 296,169	\$ (336,245)	\$ 200,234
Reserve for encumbrance at year end*	1,228,388	-	-
Expenditures for liquidation of prior year's encumbrances	(985,404)	-	-
Reversion of prior year's allotments	(296,169)	-	-
Accrual adjustments, operating transfers and other	<u>(279,476)</u>	<u>660,829</u>	<u>(206,650)</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES AND OTHER USES - US GAAP BASIS	<u><u>\$ (36,492)</u></u>	<u><u>\$ 324,584</u></u>	<u><u>\$ (6,416)</u></u>

* Amount reflects the encumbrance balance included in continuing appropriation.

See accompanying independent auditor's report.

Hawaii Public Housing Authority

Schedule of the Authority's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Authority's proportion of the net pension liability	0.29%	0.28%								
Authority's proportionate share of the net pension liability	\$ 23,355,937	\$ 25,740,677								
Authority's covered-employee payroll	18,118,041	16,513,288								
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	128.91%	155.88%								
Plan fiduciary net position as a percentage of the total pension liability	63.92%	57.96%								

*This data is presented for years for which information is available

See accompanying independent auditor's report.

Hawaii Public Housing Authority

Schedule of the Authority's Contributions
Last 10 Fiscal Years*

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Contractually required contribution	\$ 2,159,495	\$ 1,965,345	\$ 1,788,664	\$ 1,571,123	\$ 1,536,848					
Contributions in relation to the contractually required contribution	<u>(2,159,495)</u>	<u>(1,965,345)</u>	<u>(1,788,664)</u>	<u>(1,571,123)</u>	<u>(1,536,848)</u>					
Contributions deficiency (excess)	<u>\$ -</u>									
Authority's covered-employee payroll	\$ 19,698,982	\$ 18,118,041	\$ 16,513,288	\$ 14,901,697	\$ 14,286,365					
Contributions as a percentage of covered-employee payroll	10.96%	10.85%	10.83%	10.54%	10.76%					

*This data is presented for years for which information is available

See accompanying independent auditor's report.

Supplementary Information

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET POSITION – NONMAJOR OTHER ENTERPRISE FUNDS

June 30, 2015

ASSETS	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Current Assets:					
Cash	\$ 457,201	\$ 411,021	\$ 4,818,477	\$ 6,542	\$ 5,693,241
Tenant receivables, less allowance for doubtful accounts	-	16,414	-	-	16,414
Due from other funds	-	-	628,654	-	628,654
Deposits held in trust	-	35,660	-	-	35,660
Total current assets	<u>457,201</u>	<u>463,095</u>	<u>5,447,131</u>	<u>6,542</u>	<u>6,373,969</u>
Capital Assets, less accumulated depreciation	<u>1,514,873</u>	<u>2,431,596</u>	<u>-</u>	<u>7,939,077</u>	<u>11,885,546</u>
Total assets	<u><u>\$ 1,972,074</u></u>	<u><u>\$ 2,894,691</u></u>	<u><u>\$ 5,447,131</u></u>	<u><u>\$ 7,945,619</u></u>	<u><u>\$ 18,259,515</u></u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

June 30, 2015

LIABILITIES AND NET POSITION	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Current Liabilities:					
Accounts payable	\$ -	\$ 16,550	\$ 54,197	\$ -	\$ 70,747
Accrued expenses	-	-	12,815	151,530	164,345
Due to other funds	90,563	158,467	3,786,463	-	4,035,493
Due to State of Hawaii	-	-	571,402	-	571,402
Security deposits	-	35,660	-	11,109	46,769
Total current liabilities	<u>90,563</u>	<u>210,677</u>	<u>4,424,877</u>	<u>162,639</u>	<u>4,888,756</u>
Net Position:					
Invested in capital assets, net of related debt	1,514,873	2,431,596	-	7,939,077	11,885,546
Unrestricted	366,638	252,418	1,022,254	(156,097)	1,485,213
Total net position	<u>1,881,511</u>	<u>2,684,014</u>	<u>1,022,254</u>	<u>7,782,980</u>	<u>13,370,759</u>
Total liabilities and net position	<u>\$ 1,972,074</u>	<u>\$ 2,894,691</u>	<u>\$ 5,447,131</u>	<u>\$ 7,945,619</u>	<u>\$ 18,259,515</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF REVENUES AND EXPENSES – NONMAJOR OTHER ENTERPRISE FUNDS

Year Ended June 30, 2015

	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Operating Revenues:					
Rental	\$ -	\$ 408,391	\$ -	\$ 614,587	\$ 1,022,978
Other	-	21,072	-	-	21,072
Total operating revenues	-	429,463	-	614,587	1,044,050
Operating Expenses:					
Project	-	121,533	-	446,733	568,266
Depreciation	-	64,130	-	496,195	560,325
Administration	-	29,974	89,005	2,529	121,508
Provision for losses	-	-	-	108,531	108,531
Professional services	-	331	-	3,621	3,952
Insurance	-	-	-	6,036	6,036
Repairs and maintenance	-	209,063	-	56,876	265,939
Utilities	-	97,890	-	258,773	356,663
Total operating expenses	-	522,921	89,005	1,379,294	1,991,220
Operating loss	-	(93,458)	(89,005)	(764,707)	(947,170)
Net Transfers	-	187,034	1,113,335	258,508	1,558,877
Change in net position	\$ -	\$ 93,576	\$ 1,024,330	\$ (506,199)	\$ 611,707

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year Ended June 30, 2015

	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Position at July 1, 2014	\$ 1,881,511	\$ 2,590,438	\$ (2,076)	\$ 8,289,179	\$ 12,759,052
Change in Net Position	<u>-</u>	<u>93,576</u>	<u>1,024,330</u>	<u>(506,199)</u>	<u>611,707</u>
Net Position at June 30, 2015	<u>\$ 1,881,511</u>	<u>\$ 2,684,014</u>	<u>\$ 1,022,254</u>	<u>\$ 7,782,980</u>	<u>\$ 13,370,759</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – NONMAJOR OTHER ENTERPRISE FUNDS

Year Ended June 30, 2015

	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Cash Flows from Operating Activities:					
Cash received from renters	\$ -	\$ 395,987	\$ -	\$ 614,587	\$ 1,010,574
Cash payments to suppliers	-	(444,119)	-	(829,043)	(1,273,162)
Cash receipts from other funds	-	187,034	1,944,975	185,362	2,317,371
Other	-	21,072	(95,402)	-	(74,330)
Net cash provided by (used in) operating activities	-	159,974	1,849,573	(29,094)	1,980,453
Net increase (decrease) in cash	-	159,974	1,849,573	(29,094)	1,980,453
Cash at July 1, 2014	457,201	251,047	2,968,904	35,636	3,712,788
Cash at June 30, 2015	<u>\$ 457,201</u>	<u>\$ 411,021</u>	<u>\$ 4,818,477</u>	<u>\$ 6,542</u>	<u>\$ 5,693,241</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year Ended June 30, 2015

	Wilikina Apartments Project	Kekumu at Waikoloa Project	Disbursing Fund	KPT Resource Center	Total
Cash Flows from Operating Activities:					
Reconciliation of operating loss to net cash provided by (used in) operating activities:					
Operating loss	\$ -	\$ (93,458)	\$ (89,005)	\$ (764,707)	\$ (947,170)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:					
Depreciation	-	64,130	-	496,195	560,325
Provision for losses	-	-	-	108,531	108,531
Changes in assets and liabilities:					
Tenant receivables	-	(11,706)	-	(108,531)	(120,237)
Due from other funds	-	-	1,466,005	-	1,466,005
Other receivables	-	-	38,021	-	38,021
Deposits held in trust	-	(3,458)	-	-	(3,458)
Accounts payable	-	14,672	(44,418)	-	(29,746)
Accrued expenses	-	-	518	54,056	54,574
Due to other funds	-	187,034	478,452	185,362	850,848
Security deposits	-	2,760	-	-	2,760
Net cash provided by (used in) operating activities	<u>\$ -</u>	<u>\$ 159,974</u>	<u>\$ 1,849,573</u>	<u>\$ (29,094)</u>	<u>\$ 1,980,453</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF NET POSITION – INTERNAL SERVICE FUNDS

June 30, 2015

ASSETS	Equipment Rental	Vehicle Rental	Total
Current Assets:			
Cash	\$ 725,170	\$ 378,459	\$ 1,103,629
Accrued interest receivable	287	115	402
Total current assets	<u>725,457</u>	<u>378,574</u>	<u>1,104,031</u>
Capital Assets, less accumulated depreciation	<u>43,012</u>	<u>221,911</u>	<u>264,923</u>
Total assets	<u><u>\$ 768,469</u></u>	<u><u>\$ 600,485</u></u>	<u><u>\$ 1,368,954</u></u>
LIABILITIES AND NET POSITION			
Net Position:			
Invested in capital assets	\$ 43,012	\$ 221,911	\$ 264,923
Unrestricted	<u>725,457</u>	<u>378,574</u>	<u>1,104,031</u>
Total net position	<u>768,469</u>	<u>600,485</u>	<u>1,368,954</u>
Total liabilities and net position	<u><u>\$ 768,469</u></u>	<u><u>\$ 600,485</u></u>	<u><u>\$ 1,368,954</u></u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

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

Year Ended June 30, 2015

	<u>Equipment Rental</u>	<u>Vehicle Rental</u>	<u>Total</u>
Operating Revenue - Rental	\$ 11,380	\$ 84,044	\$ 95,424
Operating Expenses:			
Professional services	750	728	1,478
Depreciation	<u>10,633</u>	<u>48,287</u>	<u>58,920</u>
Total operating expenses	<u>11,383</u>	<u>49,015</u>	<u>60,398</u>
Operating (loss) income	(3)	35,029	35,026
Nonoperating Revenues:			
Interest income	<u>2,926</u>	<u>1,268</u>	<u>4,194</u>
Total nonoperating revenues	2,926	1,268	4,194
Change in net position	2,923	36,297	39,220
Net Position at July 1, 2014	<u>765,546</u>	<u>564,188</u>	<u>1,329,734</u>
Net Position at June 30, 2015	<u><u>\$ 768,469</u></u>	<u><u>\$ 600,485</u></u>	<u><u>\$ 1,368,954</u></u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS

Year Ended June 30, 2015

	Equipment Rental	Vehicle Rental	Total
Cash Flows from Operating Activities:			
Cash receipts from other funds	\$ 16,196	\$ 86,269	\$ 102,465
Other cash payments	(750)	(728)	(1,478)
Net cash provided by operating activities	<u>15,446</u>	<u>85,541</u>	<u>100,987</u>
Cash Flows From Investing Activity -			
Receipts of Interest	<u>2,843</u>	<u>1,228</u>	<u>4,071</u>
Net cash provided by investing activity	<u>2,843</u>	<u>1,228</u>	<u>4,071</u>
Net increase in cash	18,289	86,769	105,058
Cash at July 1, 2014	<u>706,881</u>	<u>291,690</u>	<u>998,571</u>
Cash at June 30, 2015	<u><u>\$ 725,170</u></u>	<u><u>\$ 378,459</u></u>	<u><u>\$ 1,103,629</u></u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS (continued)

Year Ended June 30, 2015

	<u>Equipment Rental</u>	<u>Vehicle Rental</u>	<u>Total</u>
Cash Flows from Operating Activities:			
Reconciliation of operating (loss) income to net cash provided by operating activities:			
Operating (loss) income	\$ (3)	\$ 35,029	\$ 35,026
Adjustments to reconcile operating (loss) income to net cash provided by operating activities			
Depreciation	10,633	48,287	58,920
Changes in assets and liabilities:			
Due from other funds	<u>4,816</u>	<u>2,225</u>	<u>7,041</u>
Net cash provided by operating activities	<u>\$ 15,446</u>	<u>\$ 85,541</u>	<u>\$ 100,987</u>

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH

June 30, 2015

The Authority's cash consists of the following as of June 30, 2015:

Equity in State Treasury investment pool - Gov't Wide	\$ 8,366,183
Cash in banks	59,017,429
Deposits held in trust	35,660
	<u>67,419,272</u>
	<u>\$ 67,419,272</u>

Total cash is in agreement with the State Comptroller's central accounting records as of June 30, 2015, as reconciled below:

	<u>Appropriation symbol</u>	<u>June 30, 2015</u>
Cash in State Treasury		
Special Funds		
	S-05-337-K	20,592
	S-07-337-K	38,291
	S-09-337-K	81,196
	S-10-337-K	94,775
	S-13-337-K	187
	S-14-337-K	28,707
	S-15-337-K	1,476,723
	S-14-335-K	92,220
	S-15-335-K	286,239
	S-14-336-K	208,153
	S-15-336-K	517,017
	S-09-308-K	2,672
	S-10-308-K	20,534
	S-13-308-K	2,824
	S-14-308-K	10,285
	S-15-308-K	710,995
	S-07-332-K	9,510
	S-13-332-K	277,234
	S-14-332-K	69,598
	S-15-332-K	4,412,003
Trust Funds		
	T-11-913-K	353
	T-14-913-K	33,128
	T-15-913-K	8,103
		<u>8,401,339</u>
Total cash held in State Treasury as reported by State Comptrollers accounting records carried forward		8,401,339

See accompanying independent auditor's report.

Hawaii Public Housing Authority

RECONCILIATION OF CASH (continued)

June 30, 2015

	<u>Appropriation symbol</u>	<u>June 30, 2015</u>
Subtotal brought forward		<u>8,401,339</u>
Reconciling items:		
Summary Warrant Vouchers not recorded by DAGS		<u>(35,156)</u>
		<u>(35,156)</u>
Cash held outside State Treasury:		
Cash in bank		59,017,429
Deposits held in trust		<u>35,660</u>
		<u>59,053,089</u>
Cash on statement of net position		<u>\$ 67,419,272</u>

See accompanying independent auditor's report.