



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

Trustee Leina'ala Ahu Isa, *At-Large*
Trustee Dan Ahuna, *Kaua'i / Ni'ihau*
Trustee Kaleihikina Akaka, *O'ahu*
Trustee Keli'i Akina, *At-Large*
Trustee Brendon Kalei'aina Lee, *At-Large*
Trustee Carmen Hulu Lindsey, *Maui*
Trustee Keola Lindsey, *Hawai'i Island*

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Tuesday, March 23, 2021

TIME: 1:30 p.m.

PLACE: Virtual Meeting

Viewable at www.oha.org/livestream OR

Listen by phone: (213) 338-8477,

Webinar ID: 964 7182 5187

Due to the threat of COVID-19, Governor Ige issued the most recent Emergency Eighteenth Supplementary Proclamation dated February 12, 2021 that suspends parts of Hawai'i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 964 7182 5187

AGENDA

- I. Call to Order
- II. Public Testimony on Items Listed on the Agenda*
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
- III. Approval of Minutes
A. February 16, 2021
- IV. Unfinished Business
- V. New Business
A. ACTION ITEM RM #21-02: Approval to Close the Native Hawaiian Rights Fund
(Special Fund S-331-z1)†
B. PRESENTATION: DRAFT Financial Statements with Independent Auditor's Report for the
Year ended June 30, 2020 by N&K CPAs, Inc., Dwayne S. Takeno, Principal
and Charles T. Goodin, Senior Manager
- VI. Community Concerns**
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
- VII. Announcements
- VIII. Adjournment

If you require an auxiliary aid or accommodation due to a disability, please contact Raina Gushiken at telephone number 594-1772 or by email at: rainag@oha.org no later than three (3) business days prior to the date of the meeting. Meeting materials will be available to the public 72-hours prior to the meeting and posted to OHA's website at: www.oha.org/rm.



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†Notice: The 72 Hour rule, pursuant to OHA BOT Operations Manual, Section 49, shall be waived for distribution of new committee materials.

- *Public Testimony: Public testimony can be submitted to the OHA Board of Trustees either:
- (1) in writing emailed at least 24 hours prior to the scheduled meeting, or
 - (2) as live, oral testimony online during the Public Testimony portion of the virtual meeting.

Public Testimony must be limited to matters listed on the meeting agenda.

- **Community Concerns: Community Concerns can also be submitted to the OHA Board of Trustees either:
- (1) in writing emailed at least 24 hours prior to the scheduled meeting, or
 - (2) as live, oral testimony online during the Community Concerns portion of the virtual meeting.

Community Concerns are not limited to matters listed on the meeting agenda.

Please visit OHA's website for more detailed information on how to submit Public Testimony OR Community Concerns at: <https://www.oha.org/how-to-submit-testimony-for-oha-bot-meetings/>.

Persons wishing to provide *written testimony* on items listed on the agenda should submit testimony via *email* to BOTmeetings@oha.org at least **24 hours prior** to the scheduled meeting. Any testimony received after this deadline will be considered 'late' testimony and distributed to the Board members after the scheduled meeting.

Due to COVID- 19, please do not fax, mail, or hand-deliver written testimony.

Persons wishing to provide *oral testimony online* during the virtual meeting must register here first:

https://zoom.us/webinar/register/WN_X1IYpZhISjCBdAtalEItpw

The registration to provide oral testimony online will remain open until the relative Public Testimony OR Community Concerns sections on the agenda have concluded. You will need to register prior to this time if you would like to orally testify. Once you have completed your registration, a confirmation email will be sent to you with a link to join the virtual meeting and further instructions on how to provide oral testimony during the virtual meeting.

To provide oral testimony online, you will need:


- (1) a computer or mobile device to connect to the virtual meeting;
- (2) internet access; and
- (3) a microphone to provide oral testimony.

Oral testimony online will be limited to five (5) minutes.

Oral testimony by telephone/landline **will not** be accepted at this time.

Once your oral testimony is completed, please disconnect from the meeting, unless you are also signed up for oral testimony during Community Concerns. If you do not log-off on your own, support staff will remove you from the Zoom meeting.

You can continue to view the remainder of the meeting on the livestream or by telephone, as provided at the beginning of this agenda.


Trustee John Waihe'e, IV, Chair
Committee on Resource Management

03/17/2021

Date

March 23, 2021 - Continued



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**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
560 N. NIMITZ HIGHWAY, SUITE 200
(VIRTUAL MEETING - VIA ZOOM WEBINAR)
COMMITTEE ON RESOURCE MANAGEMENT
MINUTES**

February 16, 2021 1:30 p.m.

ATTENDANCE:

Chairperson John Waihe'e, IV
Vice-Chairperson Luana Alapa
Trustee Leina'ala Ahu Isa
Kaleihikina Akaka
Trustee Dan Ahuna
Trustee Keli'i Akina
Trustee Brendon Kalei'aina Lee
Trustee Keola Lindsey

EXCUSED:

Trustee C. Hulu Lindsey

BOT STAFF:

Crayn Akina
Melissa Wennihan

ADMINISTRATION STAFF:

Sylvia Hussey, Administrator / Ka Pouhana / CEO
Casey Brown, COO
Everett Ohta, Corporation Counsel
Kevin Chak, IT
Raina Gushiken, Corporation Counsel
Ramona Hinck, CFO
Ryan H. Lee, Interim Investment Manager

GUESTS:

Craig Chaikin, Segal Marco
John Marco, Segal Marco

I. CALL TO ORDER

Chair Waihe'e calls the Committee on Resource Management meeting for Tuesday, February 16, 2021 to order at **1:34 p.m.**

Chair Waihe'e notes for the record that **PRESENT** are:

MEMBERS			AT CALL TO ORDER (1:34 p.m.)	TIME ARRIVED
CHAIR	JOHN	WAIHE'E, IV	PRESENT	
VICE-CHAIR	LUANA	ALAPA	PRESENT	
TRUSTEE	LEINA'ALA	AHU ISA	PRESENT	
TRUSTEE	DAN	AHUNA	PRESENT	
TRUSTEE	KALEIHIKINA	AKAKA	PRESENT	
TRUSTEE	KELI'I	AKINA	PRESENT	
TRUSTEE	BRENDON KALEI'AINA	LEE	PRESENT	
TRUSTEE	KEOLA	LINDSEY	PRESENT	

At the Call to Order, **EIGHT (8) Trustees are PRESENT**, thereby constituting a quorum.

EXCUSED from the RM Meeting are:

MEMBERS			COMMENT
TRUSTEE	CARMEN HULU	LINDSEY	MEMO – REQUESTING TO BE EXCUSED

II. PUBLIC TESTIMONY on Items Listed on the Agenda*

None

III. APPROVAL OF MINUTES

A. January 26, 2021

Trustee Ahuna moves to approve the minutes of January 26, 2021.

Trustee Akaka seconds the motion.

Chair Waihe'e asks if there is any discussion. There is none.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

							1:36 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA			X			
DAN	AHUNA	1		X			
KALEIHIKINA	AKAKA		2	X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA			X			
BRENDON KALEI'ĀINA	LEE			X			
CARMEN HULU	LINDSEY						EXCUSED
KEOLA	LINDSEY			X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				8	0	0	1

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e notes for the record that all members present vote 'AE (YES) and the **MOTION CARRIES**.

IV. UNFINISHED BUSINESS

None

V. NEW BUSINESS

A. PRESENTATION: Office of Hawaiian Affairs, Native Hawaiian Trust Fund, Preliminary Analysis of Investment Performance, Period Ending December 31, 2020 Segal Marco Advisors – John Marco, Senior Vice President and Craig Chaikin, CFA, Vice President

Chair Waihe'e turns it over to Ka Pou Nui Casey Brown.

Pou Nui Brown: Mahalo Chair Waihe'e. I'm going to turn it over to our CFO Ramona Hinck – she is our link to the team that will be presenting on this matter.

CFO Hinck: Good Afternoon, Chair Waihe'e, Vice-Chair Alapa, Trustees and our Guests. My name is Ramona Hinck and I'm the CFO. I will now, pass this to our Interim Investment Manager Ryan Lee, who will introduce our guests. They will give an update on our investments, our Native Hawaiian Trust Fund.

Interim Investment Manager Lee: Aloha Everyone. As Mona mentioned, I'm going to introduce John Marco and Craig Chaikin; they are our investment consultants for OHA.

John, Craig, can I pass it on to you?

We have up for discussion; performance on the Native Hawaiian Trust Fund and Market update. Also, Performance Attribution over our policy; we can have a further discussion on that and Q&A for the trustees.

John Marco: Great, thank you. Aloha Trustees. Thank you all for the opportunity to present with you today. As Ryan mentioned, my name is John Marco with Segal Marco Advisors. I see many familiar faces; it's good to see everyone again. We certainly look forward to getting past this coronavirus and being in-person again.

I'm going to review the market environment - what we saw in the calendar year 2020 in terms of the broad markets in-the-whole, as well as what we've seen year-to-date.

Then I'm going to pass it off to Craig to review the performance - and talk about the Attribution. I ran this tool that we utilize to give us the updated publicly available information on investor returns for the calendar year of 2020.

So, this is for the end of December - the year-to-date is the full calendar year. You'll see that the S&P 500 finished up 18.4%, the S&P 400, which is Mid Cap - up 13.7%, and Small Cap up 11.3%. So, positive double-digit returns across the domestic U.S. equity markets. Large-outperformed-mid-outperformed-small; so large led the way and that's not really a surprise given the state of the global pandemic and the economy as-a-whole.

The Big players: Facebook, Amazon, Netflix, Google - all the tech companies did quite well; gained market share during this time.

Other areas of the market received significant fiscal support, particularly in the bond markets. You can see across bonds year-to-date - the broad investment grade domestic bond market index; the U.S. aggregate was up 7.5%. A very strong number for bonds; all based on interest rates falling due to the pandemic.

You can see black ink across the board, particularly when you get down into Corporate Credit in high yield. This area specifically, received significant support following the initial onset of the coronavirus and the shutdown of significant portions of our economy.

The last quarter of 2020 was extremely strong; most of those returns happened in November and December.

Early in November, we had the election. The markets themselves like certainty, so when you have a big question mark like the election, having that settled, really can allow investors to place their positions based on their expectations of the new agenda of the Administration.

Secondarily, in November we started to receive approval of the coronavirus vaccines, both here in the U.S. and in the U.K. Around the globe, we started to see significant market bounce back due to that. That is because the economic concerns that we have, cannot be solved until we solve the coronavirus crisis.

We have a significant disconnect between where the stock market is and where the economy is; the economy has slowed. Unemployment is high and we have many challenges facing us, not in terms of the economy.

However, the market due to the significant governmental support as well as recent good news and the expectation of continued economic support by the new administration has driven these numbers even higher.

Another significant thing to note; growth stocks - think tech stocks, for example. Growth stocks did significantly better than value stocks. That was true across Large, Mid, Small - International versus Domestic growth outperformed value significantly in the year. That was very pronounced.

Important to note in that big recovery in the last quarter that we saw - the S&P 500 was up 12%; that's a very strong number for a quarter. However, Mid Cap was more than double that and Small Cap was even greater than that. So, we saw reversal of that broad trend of Large Cap outperformance of Small, as well as Growth outperforming Value. Those trends reversed in the fourth quarter. Made up a little bit of the gap, but still finished in a significant difference.

This report is as of the last trading day before today, which is this past Friday (02/12/2021) as we had the long holiday weekend. Year-to-date, equities continue to run as I mentioned before - the expectations of mass distribution of vaccines, as well as significant fiscal support from the new administration.

The returns just for the month of February alone and this is just the first 12 days up 6% in the S&P 500, 8.8% for Mid Cap and 9.2% for Small Cap. So, significant returns and volatility that we've seen in the marketplace. Big numbers to finish the year, in terms of equities.

However, it's very important to keep an eye on how we deal with the coronavirus. Once we can get the virus under control, significant portions of our economy will be able to reopen. The longer that takes, the longer we're going to have permanent closures of those various businesses within those industries, and I'm looking mostly at leisure, hotel, and restaurant. Those places have been hit the hardest, and those are the ones we see going out of business in droves. So, the sooner we can solve this coronavirus issue, more of those companies will be saved and the stronger and quicker our economic recovery will be.

Currently, the markets are ahead of where the economy is at. The markets are up and soaring and we still have significant unemployment. We still have significant economic challenges. So, it remains to be seen if we can bring the economy back up to where the market currently is. With that, I'll pause for any comments or questions before moving on to Craig to give you updates on your specific performance.

Chair Waihe'e: *Members are there any questions or comments?*

There are none.

Chair Waihe'e: Thanks John, you can continue.

John Marco: I will turn it over to Craig Chaikin who will share his screen and walk you through performance.

Craig Chaikin: Thank you John, hopefully this is large enough for everyone to see. You can see here as of the end of the year, total OHA assets - \$425.8 million. I will point out, that approximately 18.5% of your portfolio is in Private Market Investments. We are just now getting information for the third quarter, for those investments.

So, while we have updated them for Cash Flow Information and the like, we're still waiting on Final Capital Statements for all the Private Market stuff. We'll talk through how that has impacted things over time, moving forward.

From an Asset Allocation perspective, you are in line. *(brief loss of sound)* The two that point out quickly here; you can see you're at 45, almost 46% in Global Equities, the target allocation is really 40% and similarly on that Fixed Income side the target allocation there is 17%; and you're at 14%. That really has to do with market movements than anything else.

We've worked with Ryan a little bit since he came on board to rebalance slightly, but given how Equities have outperformed Fixed Income, it's continued to remain a slight overweight to targets.

On to performance - as I noted, this is performance through the end of 2020, so you can see here with this year-to-date number up 8.4% for the year. As I noted, nearly 19% of the portfolios are in those Private Market Investments which we do not have updates on. Given the strength and the magnitude of the strength in the fourth quarter, we would expect this to add quite significant value to final numbers when we do get those. You do see a relatively significant trailing of the Policy Index; the benchmark as well as the benchmark with the quarter lagged to help account for the Private Equity. You see that lag across most time periods, so I'll address that right now. Most of that has to do with Private Equity, so the Private Equity mandates are broadly benchmarked against the MSCI ACWI (All Country World Index) plus 3%. As John noted the MSC Equity Industries have done exceptionally well. Very strong year last year, but when you look over even a three, five, and ten-year period - we've seen very *(brief loss of sound)* returns from that benchmark.

When you add that 3% bogey as well, it's been very, very challenging to outperform. So, what we're looking at here is the roll up on a time-weighted basis of the Private Equity Investments. You can see through here what the returns of the Public Market Equity Indices have looked like and then the subsequent returns overtime from the Private Market perspectives. I will have you keep in mind that the time-weighted return numbers for the Private Markets are somewhat approximations. We generally look at them in terms of multiples and internal rates of return - because the managers have charge of their cash flows.

This is really the reason why the portfolio has lagged over the near-term as well as over time because the way it's benchmarked in the policy index, that benchmark has just had really-candidly, exceptionally strong performance relative to what we've seen in in Private Market space.

The equity has been beneficial; the underlying investments if we go back and look through the manager list. I'm not going to take a lot of time to do that.

Truthfully, the results there have been mixed and most of them have been kind of neutral in terms of what Asset Allocation and Manager Performance looks like.

Really, that biggest bogey in terms of performance against the benchmark has been that Private Equity mismatch. I'm going to pause there and am happy to take any questions on that.

Chair Waihe'e: *Members are there any questions or comments?*

There are none.

Chair Waihe'e: Ok Craig, you can continue.

John Marco: Craig, perhaps you can remind them about the structural relationship on who is managing the Private Assets Portfolio relative to all those many small positions.

Craig Chaikin: Yes, the set-up of the portfolio I would say - it's relatively complex. You have JP Morgan as a CIO balanced manager that is managing it – all Public Equities. They have discretion inside of there to manage Public Equities.

You also have Commonfund who was initially hired to solely manage the Private Markets piece. They do manage a pretty significant chunk of the Private Market Assets.

In that mix as well, you also have Goldman Sachs who manages Assets, Pantheon, Highbridge and a couple others that you see down the list here.

As I mentioned, Commonfund manages across their portfolio purview - the bulk of the Private Market Assets with additional pieces filled in by those other couple of managers.

Trustee Ahuna: That means we have a lot of overlapping funds or several managers overlapping. *Is that what's happening?*

Craig Chaikin: So you have several managers there, all managing slightly different mandates. Certainly, they have different underlying companies. I would say this portfolio was built before we came on board and redoing Private Market Investments is somewhat challenging, but I think to some of the comments John has made at previous meetings, what the intent of all of the Managers and the whole Private Markets program is, is certainly up for evaluation and consideration.

Trustee Ahuna: Thank you, I agree.

John Marco: To your question Trustee Ahuna, on the page you can see here there are many small positions. You can see on the right-hand side at the top there, Pantheon Global Co. Investment opportunities is .2% of the total portfolio and as you run down there's so many listed here, but none of them individually will make an impact on your bottom line or your total return. Not to say that you should be concentrated in very short names. However, this is much more, broad diversification than we would recommend in terms of all these individual allocations.

Trustee Ahuna: Thank you. *Does that mean we're going through a reevaluation of our funds or how are we looking at this right now?* We're doing well, but I know we can make improvements.

Interim Investment Manager Lee: I'll address that, I've been working with Segal Marco; as well as reviewing the current portfolio investment structure. We're currently reviewing the investment policy, as well as doing a full Asset Allocation review which would include review of the Manager Structures.

Craig Chaikin: Thank you, that was going to conclude my comments on the performance. I know you all had a couple of additional questions that you'd like for us to address, and I was going to move on to those unless there's anything else.

Chair Waihe'e: You can move on, Craig.

Craig Chaikin: We went out and took a fresh look at all the fees. It is something that we do look at and review regularly. This is all the Traditional Assets on this page and what you can see here is they vary from really nothing for the money market funds that you have at the banks and with Commonfund all the way up to that 125 basis points for the Tactical Opportunities Fund, given the complexities and underlying strategies there.

Certainly, looking across the board, looking at the different mandates, looking at some of the mix of active passive - none of the fees on the traditional side appears to be out of line with what you see in the markets.

I will add that you see a lot of JP Morgan funds. JP Morgan as they are managing their piece of the pie moves funds in-and-out at their discretion. There is no additional fee on top of what JP Morgan does outside of the Investment Management fees that they are receiving for these funds.

On the next slide, this is all the nonmarketable, all the Private Market stuff. You do see that one line highlighted there, we've requested data, and we're still in the process of confirming the final fee for that one Goldman Sachs piece.

What you do see here is that the fee structure is a lot more complicated. So, in that annual fee piece – quite like the expense on the Traditional Asset side, you just saw.

The advisory fee – that is the fee the Commonfund is charging on those specific set of assets for the work that they do in terms of underwriting and due diligence for those mandates. They also carried interest and preferred returns - so those are performance incentive fees for the underlying managers that they receive.

As an example, I'll try and highlight this - the Pantheon, the Europe Fund - you can see 5% carried interest - so if they return over 10%; they keep 5% of the difference essentially. It's an additional incentive for them to perform well on top of what those Management fees are.

I would say looking down the list here at those Annual fees; carried interest and preferred returns; nothing was obviously out-of-line or unusual.

Certainly, the Advisory fees on the Commonfund slate did look a little bit on the high side. I would say they are a little higher, but not necessarily abnormal when you consider a Private Equity fund-to-fund that might charge 2% in 20. So, they're under that 2% threshold.

John Marco: I agree with you Craig. They're known to be a little bit more expensive in the Private Equity side, but it's largely for that Advisory fee and that structure as-a-whole. So, a little bit high, but certainly not off the reservation or anything like that.

Craig Chaikin: Those were the comments I had on fees. I don't know if there are any questions on that or if you need any clarification.

Chair Waihe'e: *Are there any questions members?*

Vice-Chair Alapa: Hi, I am very new to all of this; I am the newly elected Trustee from Moloka'i and Lāna'i. Nice to meet you; John and Craig. I have a question regarding fees. Please explain Investment Accountant fees, the account fees that are charged retail rate and those that are charged institution rates and what is the difference in fees.

John Marco: It's my understanding that all the investments are in institutional share class investment. So for example, the JP Morgan Mutual funds that you see there listed towards the top. Those are all institutional great mutual fund, but I'm not aware of any retail share classes on this. I would also like to point out that we are not a broker. So, what often you'll see in the retail space are retail share classes that kickback a fee to the broker of record and that is not the case here. We do not accept any soft dollar fee. We're not a broker of record in any sense. We get paid a direct hard dollar fee for our work.

Craig Chaikin: I would add in-general; fees on institutional share classes are lower than what you find in the retail space. So, because of economies of scale, because you're able to put more money in and put more money to work, you subsequently get lower fees associated with that. *Does that make sense?*

Vice-Chair Alapa: Yeah, I'll be able to digest that. Sure, thank you.

CFO Hinck: *John, Craig, how can we lower our fees?*

John Marco: There are several ways to lower your fees.

I think the real end game is getting to the return you want meta-fees, right?

In making sure those fees are probable, but at the end of the day, the meta-fee is where you want to end up.

I'd say right now the big question that needs to be solved here is how does OHA want to structure and operate this fund going forward.

Currently, you have kind of a dual OCIO (Outsourced Chief Investment Officer) structure where you have traditional markets mostly under JP Morgan.

You have most of your private assets under the management of the OCIO structure of Commonfund and a few direct one-off unique investments.

We'll work closely with yourself and with Ryan to try to get to the bottom of what strategy is preferred going forward, because right now it seems to be that there's a few different parallel strategies going on at the same time.

Thankfully, they're not necessarily overlapping in their strategy and their investments, but it's not as streamlined as you could be.

Therefore, for example on this page that Craig has shown up here, you have JP Morgan running your OCIO program. They are allocating amongst their JP Morgan products, as they see fit.

- *Is JP Morgan the best Large Cap Growth Manager?*
- *While at the same time being the best Small Cap Manager?*
- *While at the same time being the best International Emerging Markets Equity Manager?*

I don't know that they're going to be the best in-class in every single one of those categories.

Instead of really focusing on the fee discussion, it's really about the structure, because OCIO structures - if you gave the keys to the car, the entire portfolio to JP Morgan, it would probably cost a little bit less than it does now.

Is that necessarily the most efficient way to invest in a broad, diversified way?

That's for the trustees to decide; whether-or-not you want to do a single OCIO strategy. Right now, there's a mix of approaches that I think are making it less efficient and therefore more expensive.

CFO Hinck: *As our consultants, have you looked at everything, reviewed it, and have a plan?*

John Marco: As we've discussed in the past, our role as consultant here has not been realized in the past and so we are more than happy to further engage. The big, overarching question needs to be answered –

As trustees, do you want to have more participation in the Investment Portfolio, choosing the Asset Allocation, choosing the Underlying Investments, vetting the Investment Managers, hearing presentations, and voting on what to invest in?

Or - do you want to continue with the OCIO structure?

I can help you pursue either one of those paths. Pursuing them at the same time is not my recommendation.

What you have now is not an efficient mix. I think that's a big choice that the trustees need to decide.

CFO Hinck: *Do you think that we have a good, solid, long-term strategy in our portfolio?*

John Marco: I think your long-term Asset Allocation targets are solid; they are geared to achieve your long-term goals. I think the mechanics of how we're approaching it could use some more efficiencies, like I said, but I think overall the Asset Allocation targets of your long-term strategy, of how much assets you put where - I think it's a valid and comfortable approach, so I don't think there's a big issue there.

The question is - *Do you need all these sub conditions?*

Particularly when you start getting on to pages 2 and 3 regarding this exhibit.

CFO Hinck: Thank you. We have a lot of work ahead of us.

Trustee Ahu Isa: Hi John, I'm looking at our State Retirement System, pension fund up 15% for the first half of the fiscal year. I know the market did good.

Can you give an approximation of what percentage of the first half of the fiscal year was OHA's fund up?

John Marco: I'm not sure what the fiscal year is of that referenced plan.

Craig Chaikin: It's up here; it was 13%.

Trustee Ahu Isa: *Up 13%?*

Craig Chaikin: Yes.

John Marco: If it's a June 30th fiscal year plan, then that time-period would match-up with the July 2020 to December 2020, if that's correct.

The problem with fiscal years is that each plan can have a different one and they don't always match-up. Particularly this year, given the first half of the year, was devastating during the first quarter. The fiscal year dates matter a lot.

Trustee Ahu Isa: It's July 1ST to June 30TH .

Craig Chaikin: So that's the number you see reflected here. Again, keep in mind almost 19% of the Assets are excluded from the performance update.

John Marco: Given what we saw in the second half of the year, we would expect when we get those returns in, they will be significantly additive through the total plan.

Trustee Ahu Isa: Thank you.

Trustee Ahuna: So, when we're looking at individual investments, for me as an OHA Trustee - we would look more long-term. I don't understand if we have a way-of-going. I think our guidelines are showing us that we must have some type of long-term investment type of trust. *Is that correct?*

John Marco: You should absolutely be focused on the long-term. Having 20% in less Liquid Assets is a comfortable number because you have predictable cash flow needs for this fund. In terms of the benefit, paying out and whatnot.

In terms of that Asset Allocation strategy, that is your long-term kind of guidelines.

- *How much money do you have in stocks?*
- *How much in bonds?*
- *How much in alternatives?*

That really is your long-term strategic investment approach. You hired these Investment Managers either at the base-level, or at the OCIO-level to be tactical. So, they are the ones who are supposed to be making the tactical short-term needs. Yet you as trustees, the way I look at it is, you are looking at long-term strategy and so you hire folks to be tactical within their expertise, within their markets.

However, you are kind of driving the ship from a 10,000-foot view on how you allocate that. That strategy is driven by the Trustees and by the Asset Allocation targets. That's the long-term approach and we are comfortable with that current umbrella view of the world in that structure.

The question we have is - *how do you want to get to that Asset Allocation?*

Right now, you're doing it with a combination of approaches that has you very broadly diversified. A fund of your size could have 12 to 15 investments instead of; I'm not sure what the running tally is at on that page, but it's quite a few. So, it's a very diversified and broad exposure because of the approach.

Craig Chaikin: I will note quickly to move away from the current approach, the OCIO approach would require an amendment to the Investment Policy because it is outlined in the Investment Policy Statement right up front. That is how you have elected to employ Investment managers.

To John's point - it would need to be a Board decision in terms of how you want to approach implementation into the future.

John Marco: I wouldn't let that discourage you. I think that is a great point by Craig. That you know that Investment Policy Statement is - what we like to call a living document because you want to progress over time in your Asset Allocation, and your approach.

This would be a change to that overall approach from what you currently have. I have a client right now who is currently offloading from an OCIO structure to a Trustee-managed structure. Where instead of the OCIO making all the investment decisions; the Trustees are now selecting which Large Cap Manager to invest with, which Fixed Income Manager to invest with, which one aligns with their approach and their goal.

That is a multi-stage process because there's a lot of moving parts. You don't want to just exit JP Morgan, for example, with a large pool of cash and then figure out what you're going to do with it. You've really got to make some structural things to transition those Assets into, to make sure you maintain your broad exposures. It's a complex process, but it's certainly something that's doable. I'm working with the client to do that right now.

Trustee Lee: John, I don't know that that's the best example to use with us. I'm going to guess that that client and those Trustees have experience and a background in banking or finance or investment.

Are you shaking your head? No, they don't?

You have a client that has trustees with no experience or background in investment, making Asset Allocation decisions and Management decisions.

John Marco: Yes.

Trustee Lee: Wow, good luck to them.

John Marco: I would say a large portion of my clients have limited investment experience before becoming a Trustee. One of the hallmarks that we're known for is education. I have multiple educational presentations that I'd be happy to present to any or all the Trustees anytime.

Beginning with investing 101 all the way up to Hedge Funds, Infrastructure, and Real Asset Investments. We act as a fiduciary and in terms of our recommendations; we stand by our research. We advise clients on what we believe to be the best approach to investing. However, to your point, many trustees don't feel comfortable with that, and so they have chosen and elected which this board did when you decided to go with the OCIO structure and so back to what I was bringing up before; you could do either one.

Right now, you are kind of doing both. So, I think it would be more efficient to pick one and go with it.

I have another client who has JP Morgan as the OCIO and they're perfectly happy that they've got the entire portfolio; Private markets as well as Public markets. They have a bundled fee for the whole thing. It's capped and the client is perfectly happy with allowing them to make those investment decisions on behalf of the Board.

It's really based on each Board, and their comfortability and interest in participating in that level. Traditionally, OCIO was not the model and it's come on much more in the past 10 to 15 years.

CFO Hinck: I think this is maybe a discussion we should take to the RM leadership and discuss it between ourselves first. Find out everybody's risk factors or intentions and abilities and then we need to make that decision, on like John said, the OCIO or Trustee-directed Investments. I think we need to delve more into the details.

John Marco: I completely agree with that. I recommend this as a big-picture strategy structural-decision, and not something that we were recommending putting forth, so you decide today, but we do think prompting discussion is great.

Trustee Lee: Yeah, we couldn't make that decision today. It's not on the agenda.

Chair Waihe'e: OK, *are there any other questions or discussion Members?*

There are none.

Chair Waihe'e: Thank you John and Craig, that was excellent.

V. NEW BUSINESS

B. ADMINISTRATION UPDATE: re: Office of Hawaiian Affairs' (OHA) implementation of recommendations made in the following two reports: Audit of the Office of Hawaiian Affairs, Report No. 18-03, published February 2018; and Audit of the Office of Hawaiian Affairs' Competitive Grants and Report on the Implementation of 2013 Audit Recommendations, Report No. 18-08, published June 2018

Chair Waihe'e turns it over to Ka Pouhana Sylvia Hussey.

Pouhana Hussey: Thank you Chair Waihee. I apologize Trustees for being late; I was in a hearing and 1334 passed the Joint Committee. This is an administrative update on our State Audits 1803 and 1808. We sent a memo last night providing an update and CFO Ramona Hinck, who is the coordinating body, will provide you a little bit more of the details. Then will discuss some next steps as to the information that you will receive before we do file the response to the State Auditor's Office next week Tuesday.

CFO Hinck: Let me start with the 18-08 first; so, this is an Audit of the Office of Hawaiian Affairs Competitive Grants and Reports on the implementation of the 2013 Audit and it was published June 2018. The scope of the Audit was from November 2016 to June 2017. On August 30th, 2019, a letter was sent to Les Kondo, State Auditor from former Chair Machado and then interim CEO Sylvia Hussey informing them that all 11 recommendations were implemented on July 1st, 2019. That was mainly due to the application that we use to track and monitor our grants. So, that became fully functional in January of 2019.

Any questions on that State Audit?

CFO Hinck: The status of 18-03 is the Audit of the Office of Hawaiian Affairs was conducted pursuant to §10-14.55 which requires the auditors to conduct an audit of OHA every four years. This audit was published in February of 2018 and the scope was for fiscal years 2015 and 2016. There were 27 Board of Trustees recommendations and 12 Administration recommendations - a total of 39 recommendations.

Of the 39 recommendations - 21 have been implemented, 12 are partially implemented and 10 of them are due to revisions that need to be done at the T- Level policy plane. One is to standardize sponsorships under Grants, and one is for Strategic Granting, so those are all outstanding and partially implemented.

We formed the PIG (Permitted Interaction Group) Committees, so we should be able to move it forward. There were six non-implemented, not applicable responses, and they were all dealing with the CEO sponsorship. That pursuant to RM #18-12 amended the BOT Executive Policy Manual and the CEO no longer has authority to approve any scholarships, so that's why the *n/a*.

Are there any questions on 18-03?

CFO Hinck: OK, so we're going to forward the Administration's responses for 18-03 and 18-08 once Administration has finalized 18-03. We're targeting tomorrow, February 17th, and at that time you can review the memo to the State Auditor as well as the responses. You will have time to ask questions and provide any suggested revisions until February 22nd.

On February 23rd, by 3:00 o'clock we are required to respond to these two audits to Les Kondo. Thereafter we anticipate field work from the State Auditors, which might include testing of the individual Grant Programs or individual award grantees on file. So, GRANTS is prepared to respond to the State Auditors.

The project supervisor has already reached out to me and I have a meeting with her tomorrow at 9:00 a.m. I'm not exactly sure - it must be just information gathering on her part.

Any questions on the update?

Chair Waihe'e: *Are there any comments or questions members?*

There are none.

Chair Waihe'e: OK, good job. Thank you.

V. NEW BUSINESS

C. ACTION ITEM RM #21-01: Approval of Non-OHA Limited Liability Company Managers for Hi'ilei Aloha LLC†

Chair Waihe'e: For this item, I would like to put the motion on the table before we engage in discussion.

Trustee Lee moves to approve the following non-OHA employees as volunteer, uncompensated Managers for Hi'ilei Aloha LLC, effective April 1, 2021, with the noted staggered terms of service:

- A. Roberts "Bob" Leinau for a service period of three (3) years;**
- B. Greg C. Pietsch for a service period of two (2) years; and**
- C. Leilani Kūpahu-Marino Kaho'āno for a service period of one (1) year.**

Trustee Ahu Isa seconds the motion.

Trustee Lee: At this time, I wish to rise to speak in favor of the motion brought before the Resource Management Committee. At the last meeting of the Resource Management Committee, we had limited discussion. There wasn't great discussion, which kind of surprised me. Given at that time, we had, a free-and-open discussion to talk about this matter, before us now for decision-making. I speak highly in favor of us moving forward with approving this, since we didn't have very much discussion about or concerns about it at the last Resource Management Committee meeting. Thank you Mr. Chair.

Chair Waihe'e: Thank you Trustee Lee.

Chair Waihe'e asks if there is any further discussion. There is none.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

							2:24 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA		2	X			
DAN	AHUNA			X			
KALEIHIKINA	AKAKA			X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA			X			
BRENDON KALEI'ĀINA	LEE	1		X			
CARMEN HULU	LINDSEY						EXCUSED
KEOLA	LINDSEY			X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				8	0	0	1

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e notes for the record that all members present vote 'AE (YES) and the **MOTION CARRIES**.

VI. ANNOUNCEMENTS

None

VII. ADJOURNMENT

Trustee Ahuna moves to adjourn the RM meeting.

Trustee Keola Lindsey seconds the motion.

Chair Waihe'e asks if there is any discussion. There is none.

Chair Waihe'e asks if any members vote NO or ABSTAIN. There are no dissenting votes.

							2:26 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
LEINA'ALA	AHU ISA			X			
DAN	AHUNA	1		X			
KALEIHIKINA	AKAKA			X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA			X			
BRENDON KALEI'ĀINA	LEE			X			
CARMEN HULU	LINDSEY						EXCUSED
KEOLA	LINDSEY		2	X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				8	0	0	1

MOTION: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e adjourns the RM meeting at 2:26 p.m.

Respectfully submitted,

Melissa Wennihan
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management (RM) on March 23, 2021.

Trustee John Waihe'e, IV
Chair
Committee on Resource Management



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

Trustee Leina'ala Ahu Isa, *At-Large*
Trustee Dan Ahuna, *Kaua'i / Ni'ihau*
Trustee Kaleihikina Akaka, *O'ahu*
Trustee Keli'i Akina, *At-Large*
Trustee Brendon Kalei'aina Lee, *At-Large*
Trustee Carmen Hulu Lindsey, *Maui*
Trustee Keola Lindsey, *Hawai'i Island*

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Tuesday, March 23, 2021

TIME: 1:30 p.m.

PLACE: Virtual Meeting

Viewable at www.oha.org/livestream OR

Listen by phone: (213) 338-8477,

Webinar ID: 964 7182 5187

Due to the threat of COVID-19, Governor Ige issued the most recent Emergency Eighteenth Supplementary Proclamation dated February 12, 2021 that suspends parts of Hawai'i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 964 7182 5187

AGENDA

- I. Call to Order
- II. Public Testimony on Items Listed on the Agenda*
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
- III. Approval of Minutes
A. February 16, 2021
- IV. Unfinished Business
- V. **New Business**
 - A. **ACTION ITEM RM #21-02: Approval to Close the Native Hawaiian Rights Fund**
(Special Fund S-331-z1)†
 - B. **PRESENTATION: DRAFT Financial Statements with Independent Auditor's Report for the Year ended June 30, 2020 by N&K CPAs, Inc., Dwayne S. Takeno, Principal and Charles T. Goodin, Senior Manager**
- VI. Community Concerns**
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
- VII. Announcements
- VIII. Adjournment

If you require an auxiliary aid or accommodation due to a disability, please contact Raina Gushiken at telephone number 594-1772 or by email at: rainag@oha.org no later than three (3) business days prior to the date of the meeting. Meeting materials will be available to the public 72-hours prior to the meeting and posted to OHA's website at: www.oha.org/rm.



ACTION ITEM

COMMITTEE ON RESOURCE MANAGEMENT

March 23, 2021

RM #21-02

Action Item Issue: Approval to Close the Native Hawaiian Rights Fund
(Special Fund S-331-z1)

Prepared by:  Mar 18, 2021

Ramona G. Hinck
Ka Pou Kihi Kanaloa Wai, Chief Financial Officer

Date

Reviewed by:  Mar 18, 2021

Casey K. Brown
Ka Pou Nui, Chief Operating Officer

Date

Reviewed by:  Mar 18, 2021

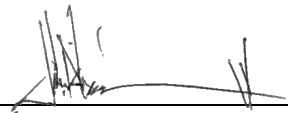
Raina Gushiken
Ka Paepae Puka, Senior Legal Counsel

Date

Reviewed by:  Mar 18, 2021

Sylvia M. Hussey, Ed.D.
Ka Pouhana, Chief Executive Officer

Date

Reviewed by:  Mar 19, 2021

Ke Kua, Trustee John Waihee, IV
Luna Ho'omalua o ke Kōmike Resource Management
Chair of the Committee on Resource Management

Date

I. Proposed Action

The OHA Board of Trustees approves the closure of the Native Hawaiian Rights Fund (Special Fund S-331-z1) account, including completing the necessary documentation with the Department of Accounting and General Services.

II. Background

A. Creation of the Native Hawaiian Rights Fund (NHRF). The NHRF was established in 1987 to hold “recouped” attorneys’ fees and costs from the “Land Title Project” with the Native Hawaiian Legal Corporation (NHLC), a precursor to the direct legal services contract in place today. Under OHA’s contract for the Land Title Project, OHA received one-half of the attorney’s fees and costs that NHLC received from clients and court awards, which were then deposited in the NHRF according to the BOT-approved, NHRF Policy. The NHRF Policy, adopted by the OHA BOT on January 28, 1988, set forth criteria for the use of NHRF funds on projects related to the protection of Native Hawaiian rights,¹ with disbursements requiring program staff review, two board committee reviews, and final approval by the OHA BOT.² During the years of its use, the OHA BOT expended monies from the NHRF for a variety of matters related to the protection of Native Hawaiian Rights, including OHA legal action in the Waiāhole Ditch contested case hearing and the initial contract for OHA legal representation in kuleana land escheat cases in the mid-1990s. Beginning in 2014, the recoupment provision was discontinued and the NHRF account has become inactive, but still maintained as a separately held account.

B. Review by the State Auditor. In December 2016, the State Auditor issued *Report No. 16-10 Review of Special Funds, Revolving, Trust Funds, and Trust Accounts of the Office of Hawaiian Affairs, A Report to the Governor and the Legislature of the State of Hawai‘i* (Attachment A), pursuant to Section 23-12, Hawai‘i Revised Statutes (HRS), which requires the Auditor to review all existing special, revolving, and trust funds once every five years. In Report no. 16-10, the State Auditor found that the NHRF “serves the purpose for which it was created and meets the criteria for a special fund. Administratively created in 1987, the fund provides legal services to Native Hawaiians defending their property interests in quiet title actions such as water

¹ Per the NHRF Policy, section 3, “[r]equests for the use of funds deposited in the Native Hawaiian Rights Fund account shall be distributed pursuant to the following criteria:

1. The Project will impact native trust lands or assets or appurtenances thereto including water, minerals, natural resource development, issues affective native status or economic entitlements consistent with the fiduciary and statutory obligations of OHA or educational activities relating thereto;
2. The Project impacts cultural and traditional rights of the beneficiary class and ensures protection of entitlements including but not limited to rights to gather, hunt, fish, worship or have access to the sea or lands for purposes of the above or furthers educational activities relating to the above;
3. The Project impacts or clarifies implied rights of the beneficiary class including but not limited to burial and historic site protection and curation, and educational activities relating to the same;
4. The Project will impact or further cultural practices including but not limited to native crafts, dance, chant, language, or traditional livelihood pursuits including farming, fishing, or other pursuits or educational activities relating thereto.

² NHRF Policy, sec. 2. The NHRF Policy required a NHRF funding request to be processed through the OHA Standing Committee on Programs and the OHA Standing Committee on Operations and Development.

rights hearings and historic site protection. Revenues come from OHA’s portion of legal fees recovered through settlements of Native Hawaiian Legal Corporation land title cases.”

Figure 1 – Native Hawaiian Rights Fund – Excerpt from Attachment A, Page 18

Native Hawaiian Rights Fund (special fund)	Financial Data for Fiscal Years 2012–2016 (in thousands)				
	FY2012	FY2013	FY2014	FY2015	FY2016
Administratively established					
Beginning Balance	\$148	\$196	\$235	\$325	\$325
Revenues	48	39	90	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers (net)	0	0	0	0	0
Ending Balance	\$196	\$235	\$325	\$325	\$325
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund serves the purpose for which it was created and meets the criteria for a special fund. Administratively created in 1987, the fund provides legal services to Native Hawaiians defending their property interests in quiet title actions such as water rights hearings and historic site protection. Revenues come from OHA’s portion of legal fees recovered through settlements of Native Hawaiian Legal Corporation land title cases.

C. 2021 Legislature. In the 2021 Legislature, HB1298 Relating to State Funds and HB1299 Relating to Non-General Funds intended to transfer unencumbered balances of a large number of non-general funds of all state departments, judiciary and the OHA and repeal various non-general funds, including the NHRF. Although the NHRF was excluded from the House Draft 1 of the respective bills, the original inclusion of the NHRF in the measure provided OHA administration with the opportunity to reassess the continued usefulness of the NHRF for OHA operations as originally approved by the OHA BOT.

III. Discussion – Native Hawaiian Rights Fund (S-332-z1)

A. OHA is authorized to establish special funds. The OHA BOT has the constitutional authority to manage native Hawaiian trust funds with such powers enumerated in statute. In furtherance of this authority, OHA has the power to “manage, invest, and administer” native Hawaiian trust funds and “collect, receive, deposit, withdraw, and invest money and property.” HRS 10-5(1), (3). This unique authority and the nature of the native Hawaiian trust funds separate OHA from most other state agencies.

B. The NHRF No Longer Serves Its Intended Purpose. Given the inactivity in the NHRF over the past five fiscal years, Administration proposes the closure of the NHRF account. Such closure will avoid its inclusion in future legislation related to inactive special funds or accounts and would facilitate the closure of the account prior to the next review by the State Auditor, which is anticipated later this year (2021).

IV. Recommended Action

Administration recommends the OHA Board of Trustees approve the closure of the Native Hawaiian Rights Fund (Special Fund S-331-z1) account, including completing the necessary documentation with the Department of Accounting and General Services.

V. Timeframe

Administration recommends the closure and related processes be completed no later than June 30, 2021.

VI. Attachment

Report No. 16-10 Review of Special Funds, Revolving, Trust Funds, and Trust Accounts of the Office of Hawaiian Affairs, A Report to the Governor and the Legislature of the State of Hawai'i, December 2016

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Office of Hawaiian Affairs

A Report to the Governor
and the Legislature of
the State of Hawai'i

Report No. 16-10
December 2016



OFFICE OF THE AUDITOR
STATE OF HAWAII



OFFICE OF THE AUDITOR STATE OF HAWAII

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawai'i State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawai'i Revised Statutes, chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management and expenditure of public funds.

Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and recommendations to the Governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
<http://auditor.hawaii.gov>

Foreword

This is a report of our review of the special funds, revolving funds, trust funds and trust accounts of the Office of Hawaiian Affairs.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our fifth review of the revolving funds and trust funds of the Office of Hawaiian Affairs. It is our first review of its special funds since section 23-12, HRS, was amended by Act 130, Session Laws of Hawai'i 2013, to include reviews of special funds.

We wish to express our appreciation for the cooperation and assistance extended to us by the Office of Hawaiian Affairs.

Leslie H. Kondo
State Auditor

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Auditor's Summary

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Office of Hawaiian Affairs

Report No. 16-10

One special fund no longer serves its original purpose

OUR REVIEW OF THREE SPECIAL FUNDS, one revolving fund, and one trust fund of the Office of Hawaiian Affairs found one special fund no longer serves its original purpose and should be closed.

Section 23-12, Hawai'i Revised Statutes, requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we included trust accounts as part of our review; however, the Office of Hawaiian Affairs did not have any trust accounts during our review period. This is our fifth review of the revolving funds, trust funds and trust accounts of the Office of Hawaiian Affairs. It is our first review of the special funds of the Office of Hawaiian Affairs.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data which is provided for informational purposes. We do not present conclusions about the effectiveness of the program or their management, or whether the program should be continued.

Reporting shortfall

WE ALSO NOTED that the Office of Hawaiian Affairs did not file statutorily required reports for non-general funds and for administratively created funds. Accurate and complete reporting, as well as timely closing of funds, will greatly improve the Legislature's oversight of these funds.

Agency response

WE TRANSMITTED A DRAFT of this review to the Office of Hawaiian Affairs. The Office of Hawaiian Affairs generally agreed with our review and will take appropriate action to ensure compliance with reporting requirements.



FUND TYPES

SPECIAL FUNDS

are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes.

REVOLVING FUNDS

such as loan funds, are often established with an appropriation of seed money from the general fund and must demonstrate the capacity to be self-sustaining.

TRUST FUNDS

such as a pension fund, invoke the State's fiduciary responsibility to care for and use the assets held to benefit those with a vested interest in the assets.

TRUST ACCOUNTS

are typically separate holding or clearing accounts and are often used as accounting devices for crediting or charging state agencies or projects for payroll and other costs.

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Chapter 1

Introduction

This review encompasses the special funds, revolving funds, trust funds, and trust accounts of the Office of Hawaiian Affairs (OHA). Section 23-12, Hawaii Revised Statutes (HRS), requires the Auditor to review all special, revolving, and trust funds administered by each State department and OHA every five years. We have also included trust accounts as part of our review.

This is our fifth review of OHA's revolving funds, trust funds, and trust accounts. Additionally, this is our first review of special funds held by OHA since section 23-12, HRS, was amended to also require reviews of agencies' special funds.

In this report, we reviewed a total of five funds — specifically, three special funds, one revolving fund, and one trust fund.

Background

Through Act 240, SLH 1990, the Legislature required the Auditor to review all special and revolving funds and to recommend whether they be continued, modified, or repealed. The Legislature was concerned with the proliferation of these types of funds because moneys deposited into and spent from such funds are not subject to the same level of legislative scrutiny as moneys deposited into and spent from the State's general fund.

Regular reviews of revolving and trust funds were later required by Act 280, SLH 1993. Codified as section 23-12, HRS, the Act expanded the scope of Act 240, SLH 1990, by requiring the Auditor to review all revolving and trust funds administered by the State once every five years. The law was again broadened in 2013 through Act 130, SLH 2013, to include a review of all special funds once every five years and to add the departments of Defense and Transportation to the list of agencies reviewed.

Section 23-12, HRS, now specifies that the reviews must include:

1. An evaluation of the original intent and purpose of each fund, both as expressed by the Legislature and as understood by the expending agency;
2. The degree to which each fund achieves its stated and claimed purposes;

3. An evaluation of the fund's performance standards, as established by the agency;
4. A summary statement reflecting total fund transactions in the preceding five fiscal years, including the fund balance at the beginning of each fiscal year, total deposits and withdrawals, amount of interest earned, total expenditures made from the fund, and the ending fund balance for each fiscal year; and
5. Although not mandated by section 23-12 HRS, we have included trust accounts as part of our review. Trust accounts, like special, revolving and trust funds, are subject to minimal legislative scrutiny.

Description of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts

Special funds

Section 37-62, HRS, defines a special fund as one that is “dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds.” According to the State’s *Accounting Manual*, special funds are funds used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes. Examples of special funds include the Captive Insurance Administrative Fund, which is funded by fees paid by insurers that support the State’s Captive Insurance Program, and the Wireless Enhanced 911 Fund. The Wireless Enhanced 911 Fund receives surcharges from wireless phone users for the upgrade of the 911 emergency system.

Revolving funds

Section 37-62, HRS, defines a revolving fund as one “from which is paid the cost of goods and services rendered or furnished to or by a State agency and which is replenished through charges made for the goods or services or through transfers from other accounts or funds.” Activities commonly financed through revolving funds include loan programs, which are initially established by general fund seed moneys and are then replenished through the repayment of loans. An example of a revolving fund is the State Motor Pool Revolving Fund, which is used to purchase and maintain the State’s fleet of motor vehicles and is replenished by charges to State agencies for the use of the vehicles.

Trust funds

Section 37-62, HRS, defines a trust fund as one in which “designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes.” Trust funds invoke a fiduciary responsibility of state government to care for and use only for those designated to benefit from the funds. A pension fund is an example of a trust fund. Contributions and payments are to be held for the beneficiaries of the pension fund. Another example is tenants’ security deposits, which are held in trust for the future benefit of tenants and landlords. Until forfeited or returned, deposits are the property of the tenants and should be accounted for accordingly.

Trust accounts

The Department of Accounting and General Services (DAGS) defines a trust account as a separate holding or clearing account for State agencies. Trust accounts also serve as accounting devices to credit or charge agencies or projects for payroll or other costs.

**Criteria for
Reviewing Special
Funds, Revolving
Funds, Trust
Funds, and Trust
Accounts*****Special and revolving
fund criteria***

In 2002, the Legislature set the requirements for establishing and continuing special and revolving funds. Sections 37-52.3 and 37-52.4, HRS, now state that special and revolving funds may be established only by statute. The criteria used to review special and revolving funds are the extent to which each fund:

- Serves a need, as demonstrated by the purpose of the program to be supported by the fund; the scope of the program, including financial information on fees to be charged, sources of projected revenue, and costs; and an explanation of why the program cannot be implemented successfully under the general fund appropriation process;
- Reflects a clear nexus between the benefits sought and charges made upon the program users or beneficiaries, or a clear link between the program and the sources of revenue—as opposed to serving primarily as a means to provide the program or users with an automatic means of support, removed from the normal budget and appropriation process;

- Provides an appropriate means of financing for the program or activity that is used only when essential to the successful operation of the program or activity; and
- Demonstrates the capacity to be financially self-sustaining.

Trust fund and trust account criteria

Unlike the requirements for special and revolving funds, the law is silent on whether a trust fund or trust account can be established other than by statute. The criteria used to review trust funds and trust accounts are the extent to which each fund or account:

- Continues to serve the purpose for which it was originally created;
- Provides the benefits or services originally intended to beneficiaries;
- Requires no general fund appropriation; and
- Meets the definition of a trust fund or trust account, respectively.

The first two criteria are derived from the objectives of section 23-12, HRS, which ask for an evaluation of the original intent of each fund and account and the degree to which each fund and account achieves its stated purpose. The third criterion assesses whether a fund or account relies on general fund appropriations. If general fund appropriations are needed to finance the fund or account's activities (as opposed to providing seed moneys only), classification as a trust fund or trust account may not be warranted. The fourth criterion assesses whether a fund or account is held by the State only for the benefit of those with a vested interest in the assets.

Objectives of the Review

1. Identify and review all special funds, revolving funds, trust funds, and trust accounts of OHA.
2. For each special fund, revolving fund, trust fund, and trust account, determine the original intent and purpose, per statute and as understood by OHA, and determine the degree to which each fund or account achieves its stated and claimed purposes.
3. Evaluate fund performance standards established by OHA.
4. Provide a five-year (FY2012–FY2016) unaudited financial summary for each fund or account reviewed.

Scope and Methodology

We reviewed all special funds, revolving funds, and trust funds directly administered by OHA during the five-year period under review (FY2012–FY2016). Funds included those established by statute as well as by administrative authority. OHA did not have any trust accounts during our review period.

To identify funds subject to this review, we used a variety of sources, including our prior reviews, accounting reports from DAGS, non-general fund reports, legislative budget briefing documents, and other documents. We researched statutes, session laws, and legislative history. To gain an understanding of fund operations, we reviewed applicable agency administrative rules and interviewed key fiscal and program personnel, as necessary.

We obtained a summary statement for each fund that reflects total fund transactions in the preceding five fiscal years (July 1, 2011 to June 30, 2016), including beginning fund balances, total revenues, amount of interest earned, total expenditures, transfers, and ending fund balances for each fiscal year. We requested explanations for any discrepancies between ending balances for FY2011 reported in our last review, Report No. 11-04, and opening balances reported for FY2012. We did not audit OHA's financial data, which is provided for informational purposes only.

Procedures were performed on each fund using relevant criteria as stated above. We reviewed fund information for consistency with the intent of each fund's use and to ascertain the relationship between charges on users and expenditures. We reviewed and compared fund balances to financial activity and projected program needs and standards. We reviewed information on performance standards established for the funds and performed other procedures as necessary.

Where appropriate, we relied on our prior reports, including Report Nos. 96-21, *Review of Revolving and Trust Funds of the Office of the Governor, Office of Hawaiian Affairs, and the Department of Education*; 02-05, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs*; 06-08, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education and Hawai'i State Public Library System, and Office of Hawaiian Affairs*; 11-04, *Review of Revolving Funds, Trust Funds, and Trust Accounts of the Office of the Governor, Office of the Lieutenant Governor, Department of Education*

and Hawai'i State Public Library System, and Office of Hawaiian Affairs; and 12-04, Study of the Transfer of Non-general Funds to the General Fund.

Our review was conducted from June 2016 to September 2016. Recommendations were made where applicable.

Chapter 2

Office of Hawaiian Affairs

This chapter presents the results of our review of three special funds, one revolving fund, and one trust fund of the Office of Hawaiian Affairs (OHA). Fund fiscal year-end balances amounted to at least \$370 million during the period reviewed.

Exhibit 2.1 displays the totals for these fund balances at the end of each fiscal year.

Exhibit 2.1
Cash Balances for OHA Non-General Funds, FY2012–FY2016
(in millions)



Source: Office of the Auditor

Substantial amounts are also collected, expended, and transferred by the funds annually. In the FY2016, OHA special funds, revolving funds, and trust funds collected more than \$36 million and spent or transferred almost \$62 million.

Exhibit 2.2 presents totals for the combined revenue and interest, expenses and transfers, and ending fund balances for the different fund types for FY2016.

Exhibit 2.2
OHA Fund and Account Totals by Type, FY2016

Fund Type	Revenue and Interest	Expenses and Transfers	Year-End Cash Balance
Special Funds	\$70,000	\$61,000	\$362,000
Revolving Fund	\$3,759,000	\$1,557,000	\$20,453,000
Trust Fund	\$32,514,000	\$59,985,000	\$362,693,000
Total	\$36,343,000	\$61,603,000	\$383,508,000

Source: Office of the Auditor

For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use and whether it meets the criteria for continuance of a special or revolving fund or the definition of a trust fund. We do not assess the effectiveness of programs and their management. The funds are presented in alphabetical order.

Exhibit 2.3 presents the OHA fund that does not meet criteria for continuance and should be closed.

Exhibit 2.3
OHA Fund Not Meeting Criteria

Fund Name	Fund Type	FY2016 Ending Balance (rounded)	No longer serves original purpose	No clear nexus between benefits sought and user charges or a clear link between the program and revenue sources	Program can operate under general fund appropriation process	Inappropriate financing mechanism	Not financially self-sustaining	Does not serve a need	Does not meet special or trust fund definition
Planning & Research	Special	\$ 1,000	✓					✓	

Source: Office of the Auditor

***Hawaiian Projects Fund
(special fund)******Administratively
established*****Financial Data for Fiscal Years 2012–2016 (in thousands)**

	FY2012	FY2013	FY2014	FY2015	FY2016
Beginning Balance	\$239	\$408	\$906	\$21	\$27
Revenues	99	87	78	76	70
Interest	0	0	0	0	0
Expenditures	(1,200)	(3,335)	(2,485)	(943)	(474)
Transfers (net)*	1,270	3,746	1,522	873	413
Ending Balance	\$408	\$906	\$21	\$27	\$36
Encumbrances	\$408	\$901	\$21	\$0	\$0

*Transfers are related to repayments from the OHA-DHHL Homesteader Loan Program and legal settlements, which were initially deposited into OHA's main operating account.

This fund continues to serve the purpose for which it was created and meets the criteria for a special fund. Administratively created in 1987, the fund receives revenues from the sale of advertising space on OHA's monthly newspaper, *Ka Wai Ola*; OHA's portion of proceeds from the sale of publications or books; legal settlements; repayments from the OHA-DHHL Homesteader Loan Program; and other donations designated for OHA's programs impacting the Hawaiian community. Expenditures are for printing OHA's monthly newspaper, public information products such as books and videos, equipment to produce public information videos, and software related to special projects.

***Native Hawaiian
Revolving Loan Fund
(revolving fund)******Administratively
established*****Financial Data for Fiscal Years 2012–2016 (in thousands)**

	FY2012	FY2013	FY2014	FY2015	FY2016
Beginning Balance	\$21,175	\$ 11,125	\$8,013	\$15,311	\$18,251
Revenues	6,836	3,019	5,534	4,717	3,738
Interest	(6,977)	4	4,550	(12)	21
Expenditures	(14,805)	(6,135)	(2,786)	(1,765)	(1,557)
Transfers (net)*	4,896	0	0	0	0
Ending Balance	\$11,125	\$8,013	\$15,311	\$18,251	\$20,453
Encumbrances	\$112	\$102	\$126	\$111	\$154

*Transfers in FY2012 were made to separate investments for the revolving fund from the Public Land Trust Fund.

This fund serves the purpose for which it was created and meets the criteria for a revolving fund. It was administratively created in 1988 with funding by OHA and a series of seven grants from the United States Administration of Native Americans. The purpose of the fund is to provide qualified Native Hawaiian individuals and Native Hawaiian-owned businesses better access to financial capital and financial services. Fund revenues are from principal repayments from loans, interest earned from loans and investments, loan fees, and recovery of loans written-off. Expenditures consisted of loan disbursements, loan application fees, legal services, technical assistance, investment management, bad debt, personnel and various overhead costs.

***Native Hawaiian Rights
Fund
(special fund)***

***Administratively
established***

Financial Data for Fiscal Years 2012–2016 (in thousands)

	FY2012	FY2013	FY2014	FY2015	FY2016
Beginning Balance	\$148	\$196	\$235	\$325	\$325
Revenues	48	39	90	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers (net)	0	0	0	0	0
Ending Balance	\$196	\$235	\$325	\$325	\$325
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund serves the purpose for which it was created and meets the criteria for a special fund. Administratively created in 1987, the fund provides legal services to Native Hawaiians defending their property interests in quiet title actions such as water rights hearings and historic site protection. Revenues come from OHA's portion of legal fees recovered through settlements of Native Hawaiian Legal Corporation land title cases.

**Planning and Research
(special fund)****Administratively
established****Financial Data for Fiscal Years 2012–2016 (in thousands)**

	FY2012	FY2013	FY2014	FY2015	FY2016
Beginning Balance	\$1	\$1	\$1	\$1	\$1
Revenues	0	0	0	0	0
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers (net)	0	0	0	0	0
Ending Balance	\$1	\$1	\$1	\$1	\$1
Encumbrances	\$0	\$0	\$0	\$0	\$0

This fund no longer serves a purpose and should be closed. The fund had no activity in the period under review. OHA personnel recommend the fund be closed and the remaining balance of \$750 transferred to OHA's main trust account.

**Public Land Trust
(trust fund)****Hawai'i State
Constitution,
Article XII, Section 4****Financial Data for Fiscal Years 2012–2016 (in thousands)**

	FY2012	FY2013	FY2014	FY2015	FY2016
Beginning Balance	\$396,147	\$358,950	\$382,279	\$395,501	\$390,164
Revenues	15,791	19,431	23,843	21,268	27,792
Interest	4,056	66,915	54,692	29,070	4,722
Expenditures	(36,259)	(41,437)	(44,935)	(40,310)	(44,776)
Transfers (net)*	(20,785)	(21,580)	(20,378)	(15,365)	(15,209)
Ending Balance	\$358,950	\$382,279	\$395,501	\$390,164	\$362,693
Encumbrances	\$20,816	\$18,443	\$17,982	\$20,336	\$16,914

*Net transfers are disbursements made from OHA's operating account for other accounts not included in the trust funds consolidation and subsequently reimbursed.

This fund continues to serve the purpose for which it was created and meets the criteria for a trust fund. The Public Land Trust, also known as OHA's Native Hawaiian Trust Fund, was established in 1981 to account for OHA's portion of revenues derived from the Public Land Trust. The passage of Act 178, Session Laws of Hawai'i (SLH) 2006, established the annual sum of \$15.1 million as OHA's pro rata portion of the Public Land Trust. For the purposes of this report, all accounts funded with

public land trust funds (as legislatively and board mandated) were combined to show the total revenues and expenditures related to the Public Land Trust. Additional revenue consists of investment income, interest earned from the Consumer Micro-Loan Program, lease and other revenues generated from Na Lama Kukui, and ten percent of estimated lease and other revenues generated from Kakaako Makai parcels. Expenditures of this fund consisted of operating and program costs, plus grant and sponsorship funding for the benefit of Native Hawaiians. In 2015, trust fund accounts were created for the management of the Palaeua Cultural Preserve and Wao Kele O Puna Forest Reserve.

Chapter 3

The Office of Hawaiian Affairs Did Not Report Non-General Funds As Required by Law

As we reported in our *Study of the Transfer of Non-general Funds to the General Fund*, Report No. 12-04, special, revolving, and other types of non-general funds collectively represent about half of the State's operating budget—moneys that are not subject to the same level of legislative scrutiny as the general fund. Accurate and complete reporting of all funds as required by law would greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility. Fund reports are one of the primary means through which legislative money committees track non-general funds.

During our review of the non-general funds of the Office of Hawaiian Affairs (OHA), we noted non-compliance with statutory requirements to report financial activity and balances as required by section 37-47, Hawai'i Revised Statutes (HRS), as well as fund information for administratively established funds under section 37-52.5, HRS. OHA did not report to the 2016 Legislature all non-general funds with balances totaling \$408,769,154 at the end of FY2015. In addition, four of those non-general funds were administratively created and were not reported to the Legislature as required by section 37-52.5, HRS.

Section 37-47, HRS, requires departments to submit to the Legislature an annual report of each non-general fund account, including information such as the intended purpose of the fund, current program activities supported by the fund, and financial data. The Director of Finance annually issues a memorandum requesting all departments to complete and submit Form 37-47, *Report on Non-General Fund Information*, to the Department of Budget and Finance for each of their non-general funds. The Department of Budget and Finance compiles a report of all non-general fund accounts and submits it to the Legislature prior to the start of each legislative session.

Section 37-52.5, HRS, requires any department or agency (excluding the Judiciary) that administratively establishes a new fund or account to submit a report to the Legislature. Shortly after passage of section 37-52.5, HRS, the State Comptroller issued Memorandum No. 2002-35 in October 2002 alerting agency heads as well as departmental administrative and fiscal officers of the legislative reporting requirement. The report must be filed within 30 working days of a fund or account's creation, and should include a justification for the fund or account and identification of its sources of revenue. In addition, prior to the start of each legislative session, the law requires each department

to submit to the Legislature a listing of all administratively established funds or accounts along with a statement of their revenues, expenditures, encumbrances, and ending balances for each fund or account.

Office of the Auditor's Comments on the Affected Agency Response

Comments on the Affected Agency Response

We transmitted a draft of this review to the Office of Hawaiian Affairs on November 1, 2016. The Office of Hawaiian Affairs subsequently provided its written response to the draft report on November 14, 2016 (Attachment 1).

The Office of Hawaiian Affairs generally agreed with our findings and will take appropriate action to close the one special fund that no longer serves its original purpose. The Office of Hawaiian Affairs stated that it will ensure compliance with all reporting requirements.

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STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS
560 N. NIMITZ HWY., SUITE 200
HONOLULU, HAWAII 96817

November 14, 2016

Leslie H. Kondo
State Auditor
465 South King Street
Room #500
Honolulu, Hawaii 96813-2917

Aloha Mr. Kondo:

Mahalo for your recent transmittal of the draft report on your review entitled *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Office of Hawaiian Affairs* ("OHA"). We would like to respond to the findings noted in your review as follows:

I. OHA (Special) Fund Not Meeting Criteria

In Exhibit 2.3 on page 8 of the draft report, your office notes that the "Planning and Research" (Special) Fund "had no activity in the period under review." Although OHA took steps to close the fund due to inactivity during the review period, OHA did not notify the State's Department of Accounting and General Services (DAGS) until August 2016. The fund is now closed.

II. OHA Did Not Report Non-General Funds As Required By Law

In Chapter 3 on page 13 of the draft report, your office notes "non-compliance with statutory requirements to report financial activity and balances as required by section 37-47, Hawaii Revised Statutes (HRS), as well as fund information for administratively established funds under section 37-52.5, HRS." We are in general agreement with this finding and will submit the FY 2016 timely. We would like to note, however, the following:

- Our office confirmed with the State's Department of Budget and Finance (B&F) that their memorandum issued annually by the Director of Finance, addressed to 'All Department Heads,' refers to the Executive Branch and therefore, OHA is not included. B&F did not comment on OHA's specific reporting requirement, but gave an example that the Judiciary Branch is also excluded from this memorandum and therefore submits their reports directly to the Legislature.
- Section 10-5, HRS, provides the OHA Board of Trustees with the power to "manage, invest, and administer" non-general funds without legislative appropriation.

Leslie H. Kondo, State Auditor


November 14, 2016

Page 2

- OHA, as required by section 10-15, HRS, provides the Legislature with an annual report, which includes “an enumeration of their activities, income, and expenditures during the year” and is “submitted to the governor and the legislature ten days prior to the convening of each regular session of the legislature.”
- To date, all annual reports have been provided timely and all requests from Legislators to OHA have been fulfilled.

We appreciate the diligence your office demonstrated during this review. OHA staff reports that your office was exemplary in our mutual working relationship. We appreciate the thoroughness and professionalism they demonstrated and we look forward to continued constructive joint efforts in future engagements as we continue to fulfill our mission in providing benefits and services to our beneficiaries.

‘O wau iho nō,

A handwritten signature in black ink, appearing to read "Robert K. Lindsey, Jr.", written in a cursive style.

Trustee Robert K. Lindsey, Jr.
Chairperson, Board of Trustees

Cc: Kamana‘opono M. Crabbe, Ph. D., Ka Pouhana, Chief Executive Officer



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

Trustee Leina'ala Ahu Isa, *At-Large*
Trustee Dan Ahuna, *Kaua'i / Ni'ihau*
Trustee Kaleihikina Akaka, *O'ahu*
Trustee Keli'i Akina, *At-Large*
Trustee Brendon Kalei'aina Lee, *At-Large*
Trustee Carmen Hulu Lindsey, *Maui*
Trustee Keola Lindsey, *Hawai'i Island*

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Tuesday, March 23, 2021

TIME: 1:30 p.m.

PLACE: Virtual Meeting

Viewable at www.oha.org/livestream OR

Listen by phone: (213) 338-8477,

Webinar ID: 964 7182 5187

Due to the threat of COVID-19, Governor Ige issued the most recent Emergency Eighteenth Supplementary Proclamation dated February 12, 2021 that suspends parts of Hawai'i Revised Statutes Chapter 92, Public Agency Meetings and Records to, among other things, enable boards to conduct business without any board members or members of the public physically present at the same location.

The OHA Board of Trustees and its Standing Committees will hold virtual meetings until further notice. The virtual meetings can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listen by phone: (213) 338-8477, Webinar ID: 964 7182 5187

AGENDA

- I. Call to Order
 - II. Public Testimony on Items Listed on the Agenda*
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
 - III. Approval of Minutes
A. February 16, 2021
 - IV. Unfinished Business
 - V. **New Business**
 - A. ACTION ITEM RM #21-02: Approval to Close the Native Hawaiian Rights Fund
(Special Fund S-331-z1)†
 - B. PRESENTATION: DRAFT Financial Statements with Independent Auditor's Report for the
Year ended June 30, 2020 by N&K CPAs, Inc., Dwayne S. Takeno, Principal
and Charles T. Goodin, Senior Manager
 - VI. Community Concerns**
(Please see page 2 on how to submit written testimony or provide oral testimony online.
Oral testimony by telephone/landline **will not** be accepted)
 - VII. Announcements
 - VIII. Adjournment
- If you require an auxiliary aid or accommodation due to a disability, please contact Raina Gushiken at telephone number 594-1772 or by email at: rainag@oha.org no later than three (3) business days prior to the date of the meeting. Meeting materials will be available to the public 72-hours prior to the meeting and posted to OHA's website at: www.oha.org/rm.




OFFICE OF HAWAIIAN AFFAIRS
Interoffice Memorandum

Date: March 19, 2021

To:

Ke Kauhuhu Carmen Hulu Lindsey
Ke Kua Leina‘ala Ahu Isa
Ke Kua Dan Ahuna
Ke Kua Kaleihikina Akaka
Ke Kua Keli‘i Akina

Ke Kua Luana Alapa
Ke Kua Brendon Kalei‘āina Lee
Ke Kua Keola Lindsey
Ke Kua John Waihe‘e IV

From: Sylvia M. Hussey, Ed.D., Ka Pouhana, Chief Executive Officer 

cc: Ramona G. Hinck, Ka Pou Kihī Kanaloa Wai, Chief Financial Officer
Casey K. Brown, Ka Pou Nui, Chief Operating Officer
Raina Gushiken, Ka Paepae Puka, Senior Legal Counsel

Subject: Presentation Materials for RM Committee Meeting, Tuesday, March 23, 2021

Documents: 1) DRAFT Financial Statements with Independent Auditor’s Report, June 30, 2020; 2) Single Audit Report, June 30, 2020; and 3) Presentation to the Resource Management Committee of the Board of Trustees FYE June 30, 2020 by N&K CPAs, Inc.

Overview: This memo transmits the above two documents in preparation for the presentation by N&K CPAs, Inc., Dwayne S. Takeno, Principal and Charles T. Goodin, Senior Manager, at the Resource Management Committee meeting on Tuesday, March 23, 2021. A presentation by the independent audit firm (vs. an action item) is consistent with the March 2019 presentation (for the June 30, 2018 financials); and no presentation was done in March 2020 (for the June 30, 2019 financials), due to COVID-19 stay-at-home orders and the organization’s move to telework.

Please note the following to set the context of the documents and the presentation (in no priority order):

1. The final DRAFT is pending Administration's final review including providing the Management Representation letter signed by the CEO and CFO;
2. The deadline to file the single audit (i.e., federal programs—Native Hawaiian Revolving Loan Fund, Halawa-Lulukū Interpretive Development) in the Federal Audit Clearinghouse is March 31, 2021;
3. The financial reporting period is as of June 30, 2020 and covers the financial activity period of July 1, 2019 to June 30, 2020, plus any subsequent events up until the report date (March 2021);
4. The organization experienced interim leadership (e.g., CEO, CFO and COO), see table below:

Period	CEO	COO	CFO
1/1/2019 to 1/9/2019	Kamana`opono Crabbe	Sylvia Hussey	David Laeha
1/10/2019 to 6/30/2019	Kamana`opono Crabbe	Sylvia Hussey	Sylvia Hussey (Interim)
7/1/2019 to 11/30/2019	Sylvia Hussey (Interim)	Lisa Watkins-Victorino (Interim)	Gloria Li (Interim)
12/1/2019 to 3/31/2020	Sylvia Hussey	Lisa Watkins-Victorino (Interim)	Gloria Li (Interim)
4/1/2020 to 6/30/2020	Sylvia Hussey	Lisa Watkins-Victorino (Interim)	Sylvia Hussey (Interim)
7/1/2020 to 10/15/2020	Sylvia Hussey	Sterling Wong (Interim)	Sylvia Hussey (Interim)
10/16/2020 to 10/26/2020	Sylvia Hussey	Sterling Wong (Interim)	Ramona Hinck
10/27/2020 to 11/1/2020	Sylvia Hussey	Sylvia Hussey (Interim)	Ramona Hinck
11/2/2020 to present	Sylvia Hussey	Casey Brown	Ramona Hinck

5. Entire agency across the state and in Washington D.C. migrated to telework due to COVID-19 in March 2020; Stay-at-home and Governor's proclamations, restricted travel;

6. OHA information includes General Funds, Trust Funds, Special Funds, Federal Funds (e.g., Halawa-Lulukū Interpretive Development, Native Hawaiian Revolving Loan Fund);
7. The CEO Letter and Management's Discussion and Analysis accompanies the financial statements;
8. Limited Liability Company information include the following explanation: "OHA is the sole member of two limited liability companies, Hi'ilei Aloha LLC (Hi'ilei) and Ho'okele Pono LLC (Ho'okele Pono). Hi'ilei is the sole member of two limited liability companies Hi'ipaka LLC (Hi'ipaka) and Hi'ikualono LLC (Hi'ikualono). Ho'okele Pono is the sole member of a single limited liability company Ho'okipaipai LLC (Ho'okipaipai). Based on the common governance structure and financial obligations, limited liability companies (LLC), have been classified as blended component units under proprietary funds. As a result, the financial results of Ho'okele Pono and Hi'ilei and its member owned LLCs through December 31, 2019 have been included as business-type activities in the government-wide financial statements of OHA for the year ended June 30, 2020.

In May 2019, the Board of Trustees (BOT) approved the: 1) Amendment of the Operating Agreement of Hi'ilei to permit persons who are not OHA executives to serve as managers (Managers) of Hi'ilei, and to ratify and approve the decision of the OHA executives who presently serve as Managers of Hi'ipaka to amend the Operating Agreement of Hi'ipaka permitting persons who are not OHA executives to serve as managers of Hi'ipaka; 2) Dissolution of Hi'ikualono; and 3) Dissolution of Ho'okele Pono, following the completion of the Department of Defense Procurement Technical Assistance Center grant to Ho'okipaipai, including the dissolution of Ho'okipaipai prior to the dissolution of Ho'okele Pono. Administration tracked the completion of the dissolution, operational winddown, funding and reporting, and non-OHA executives Managers' recruitment and seating activities. New non-OHA executives as Managers were approved by the Board in February 2021 to begin effective April 1, 2021.

9. Native Hawaiian Trust Fund
 - 12/31/2019 - \$397MM
 - 3/31/2020 - \$348MM
 - 6/30/2020 - \$369MM
 - 12/31/2020- \$426MM (preliminary)
10. Loan or commercial property deferrals weren't broadly offered or impacts realized as of 6/30/2020.
11. The Independent Auditor's Report includes this **Emphasis of Matters**, *Adjustments to Prior Period Financial Statements*; As discussed in Note Q to the financial statements, certain errors were discovered by OHA management as of June 30, 2019. Accordingly, the accompanying financial statements have been restated to correct these errors. Our opinion is not modified with respect to this matter.
12. The **Emphasis of Matters** described above relates to the Schedule of Findings and Questioned Costs dated June 30, 2020 for the Native Hawaiian Revolving Loan Fund (NHRLF); **Audit Period:** July 1, 2019 to June 30, 2020; **Finding:** Financial

Statement, Internal Control Finding, Significant Deficiency; **Ref No. 2020-001:** Reconciliation of the General Ledger to Financial Statements; **Recommendation:** We recommend that management exercise greater care to ensure that OHA's financial statements agree or reconcile to OHA's general ledger; **Views of Responsible Officials and Planned Corrective Action:** OHA management agrees with the finding and the recommendation and provides additional contextual information. A loan schedule was prepared for the Native Hawaiian Revolving Loan Fund (NHRLF) as of June 30, 2019. This loan schedule included incorrect maturity dates that overstated interest income by \$63,654 over 71 accounts. A corrected loan schedule was subsequently submitted, and the adjustment was made in June 30, 2019 on the NHRLF general ledger. However, the external auditors did not receive this adjustment and it was not reflected on the NHRLF audited financial statements. A reconciliation of the general ledger to the audited financial statements was not performed that would have caught the omission. Management considers this an isolated incident. There are explanations as to how this incident occurred; however, at the end of the day, management takes responsibility of this oversight and it will not happen again.

13. The approval of reworded strategies, addition of endowment strategy and strategic outcomes for SP2020-2035.
14. **Subsequent Event: Act 37 Withholding of FY20-21 General Fund Appropriations (same language used in the FB22-23 Budget Bill).** OHA has yet to receive approximately \$3M in appropriated FY21 general funds, despite complying with its obligations under Act 37, 2019, which conditions the release of these funds upon the submission of the State Auditor's findings and recommendations in a "financial and management audit" of OHA to the legislature. OHA has dutifully submitted all documents requested by the State Auditor, including executive session minutes with appropriate redactions to preserve OHA's privileged communications with its attorneys. Despite receiving 930 requested documents consisting of thousands of pages, the State Auditor has insisted that he is entitled to OHA's unredacted attorney-client communications and has refused to submit the audit report as required by the Legislature in Act 37. Notably, a September 2020 circuit court ruling by Judge Crabtree held that the State Auditor does not have the power to compel the production of OHA's privileged communications; in coming to its conclusion, the court expressed concern about the "potential chilling effect" on the legal advice public agencies would receive if the State Auditor could review confidential discussions with their attorneys. Despite Judge Crabtree's ruling, the State Auditor has still not submitted his report, which has prevented the release of OHA's FY 21 general funds.

If OHA is not able to access the appropriated FY21 general funds, it would be a historic policy shift and most likely represent the first fiscal year of OHA's existence that it has not received a general fund appropriation from the State. This would also disrupt the State's long and well-established history of partnering with OHA through OHA's budget act to make strategic and efficient community investments in specific areas of need. The first legislative carve-out for legal services funds within the OHA appropriations law occurred in 2001; the first carve-out for social services occurred in 1993; and the first carve-out for education of gifted Hawaiian children also occurred in 1993. In recent biennia, general funds received under these carve-outs have been

matched by OHA's trust funds and strategically leveraged against private funds, resulting in community investments that have quadrupled the impact of every general fund dollar received by OHA. Unfortunately, the withholding of the FY21 general fund appropriation would result in a commensurate opportunity cost for the State, for OHA and for programs and services of critical importance to OHA's beneficiaries.

Follow Up

If there are any questions regarding any of the items highlighted above or the documents themselves, please feel free to reach out to Administration prior to the Resource Management Committee meeting on Tuesday, March 23, 2021.

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAI'I**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

Year Ended June 30, 2020



N&K CPAs, Inc.
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STATE OF HAWAII**

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Office of Hawaiian Affairs, State of Hawai'i
LETTER FROM THE CHIEF EXECUTIVE OFFICER - UNAUDITED
June 30, 2020

To the Board of Trustees of the Office of Hawaiian Affairs

It is my pleasure to present to you, the Financial Statements and Report of Independent Certified Public Accountants of the Office of Hawaiian Affairs (OHA) for the fiscal year ended June 30, 2020. This report has been prepared by *ka Paia Kanaloa Wai*, Resource Management Division. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with OHA. I believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of OHA as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of OHA's financial affairs has been included.

The report includes the independent auditors' report, management's discussion and analysis, basic financial statements and notes to the financial statements.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

THE REPORTING ENTITY

OHA was established by the 1979 Hawai'i State Legislature under the provisions of Chapter 10, Hawai'i Revised Statutes (Act 196). In 1980, the Hawai'i State Legislature approved Act 273, which, in addition to Act 196, initiated the appropriate process to organize and fund the entity. OHA's mission is to mālama (protect) Hawai'i's people and environmental resources and OHA's assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and Lāhui, recognized nationally and internationally.

GASB Statement No. 14, *The Financial Reporting Entity*, establishes standards for defining and reporting on the financial reporting entity. The financial reporting entity consists of OHA as the primary government, as well as other organizations for which the primary government is financially responsible as component units.

LIMITED LIABILITY COMPANIES

OHA is the sole member of two limited liability companies, Hi'ilei Aloha LLC (Hi'ilei) and Ho'okele Pono LLC (Ho'okele Pono). Hi'ilei is the sole member of two limited liability companies Hi'ipaka LLC (Hi'ipaka) and Hi'ikualono LLC (Hi'ikualono). Ho'okele Pono is the

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sole member of a single limited liability company Ho'okipaipai LLC (Ho'okipaipai). Based on the common governance structure and financial obligations, limited liability companies (LLC), have been classified as blended component units under proprietary funds. As a result, the financial results of Ho'okele Pono and Hi'ilei and its member owned LLCs through December 31, 2019 have been included as business-type activities in the government-wide financial statements of OHA for the year ended June 30, 2020.

In May 2019, the Board of Trustees (BOT) approved the: 1) Amendment of the Operating Agreement of Hi'ilei to permit persons who are not OHA executives to serve as managers (Managers) of Hi'ilei, and to ratify and approve the decision of the OHA executives who presently serve as Managers of Hi'ipaka to amend the Operating Agreement of Hi'ipaka permitting persons who are not OHA executives to serve as managers of Hi'ipaka; 2) Dissolution of Hi'ikualono; and 3) Dissolution of Ho'okele Pono, following the completion of the Department of Defense Procurement Technical Assistance Center grant to Ho'okipaipai, including the dissolution of Ho'okipaipai prior to the dissolution of Ho'okele Pono. Administration tracked the completion of the dissolution, operational winddown, funding and reporting, and non-OHA executives Managers' recruitment and seating activities. New non-OHA executives as Managers were approved by the Board in February 2021 to begin effective April 1, 2021.

ORGANIZATIONAL STRUCTURE - FINANCIAL REPORTING

A division, for financial reporting purposes is a combination of resources and activities designed to achieve an objective or objectives. OHA prepares biennial budgets and records expenditures separately for each of its divisions. The three division titles below correspond to the financial reporting structure, aggregated and displayed as Governmental Activities; and descriptions of a few of the aggregated programs under each of the Division titles is provided for clarity and improved understanding.

The title and objective of each financial reporting division are listed below along with aggregated programs:

Division Title	Division Objectives
1. Board of Trustees <i>Board of Trustees, Board of Trustees Staff</i>	To work for the betterment of all Hawaiians by setting policy and strategies in response to the concerns and interest of the beneficiaries, in order to ensure the well-being of Native Hawaiians; to protect their rights and entitlements in their homeland; to assist them to achieve self-determination and self-governance; and to nurture and honor their culture.

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Division Title	Division Objectives
2. Support Services <i>Chief Executive Officer, Chief Operating Officer, Kaka 'ako Makai, Na Lama Kukui, Corporate Counsel, Travel Services, Human Resources, Program Improvement, Systems Office, Operation Management, Chief Financial Officer, Land & Property Management, Palauea Cultural Preserve, Wao Kele o Puna, Investments, Information Systems, Procurement, Community Relations, Digital Media, Communications, Land Assets Director, Commercial Property, Legacy and Programmatic Lands, Land Assets Facilities, Ho'omana, Kekaha Armory, Kukaniloko, Pahua Heiau, Waialua Courthouse</i>	<p>To work for the betterment of all Hawaiians by providing leadership, guidance, direction, and executive oversight. OHA seeks to excel among Hawai'i's organizations in managing resources, as well as applying technology to streamline processes, and fully integrate all aspects of information sharing and program support, and to coordinate data gathering, planning, research, and development efforts with other Hawaiian agencies. Included in this financial reporting division are OHA commercial property and land operations.</p>

Division Title	Division Objectives
3. Beneficiary advocacy <i>Grants, Halawa-Luluku Interpretive Development, Native Hawaiian Revolving Loan Fund, Community Outreach, Hawaiian Registry, Research, Culture & History, Demographics, Special Projects, Program Improvement, Chief Advocate, WDC Bureau, Compliance Monitoring, Public Policy, Papahānaumokuākea, Micro Loans</i>	<p>To work for the betterment of all Hawaiians by improving access to resources, benefits, and services, particularly in the areas of housing, education, health, and economic development. To advance the rights and interests of Hawaiians through advocacy, public policy development, dialogue, community outreach, and litigation.</p>

PURPOSE OF THE REPORT AND DEFINITIONS

The purpose of the financial audit was to enable the independent auditors to form opinions on the financial statements of the Office of Hawaiian Affairs as of June 30, 2020, and for the year then ended. The auditors' report represents the conclusion of the independent auditors regarding the fairness of the presentations, in conformity with accounting principles generally accepted in the United States of America, set forth in the financial statements and is used to communicate such conclusion to interested parties.

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The following is a glossary of certain accounting terms associated with the financial statements.

Appropriations - Authorizations granted by the State Legislature or OHA Board of Trustees permitting the agency within established fiscal and budgetary controls to incur obligations and to make expenditures for specific purposes. An appropriation is usually limited in amount and as to the period during which it may be expended.

Lapse - As applied to appropriations, this term denotes the automatic termination of an appropriation. At the end of the appropriation period, any unexpended or unencumbered balance lapses. This terminated amount is available for appropriation by the authorizing entity in the ensuing fiscal year.

Encumbrances - Commitments related to unperformed (executory) contracts for goods or services.

Expenditures - Decreases in net financial resources. Expenditures include current operating expenses and capital outlays that require the current use of net current assets.

Fund - A fiscal and accounting entity with a self-balancing set of accounts recording cash and other current financial resources, together with all related liabilities and residual equities or balances, and changes therein, that are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

FACTORS AFFECTING FINANCIAL CONDITION, INCLUDING COVID-19

The information presented in the basic financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which OHA operates, including events that occur between the time of the financial statements (June 2020) and the report date (March 2021).

COVID-19

From an initial reported cluster of cases of pneumonia, seemingly localized in Wuhan, Hubei Province, China on December 31, 2019, to the announcement by World Health Organization on January 30, 2020, that the outbreak constituted a Public Health Emergency of International Concern, the conditions migrated into an explosive, unprecedented global impact that we have all come to know as the novel coronavirus or COVID-19. COVID-19 severely disrupted Native Hawaiian well-being as all facets being disrupted by the COVID-19 disease itself or the impacts of the responses to COVID-19 (e.g., job loss, need for food, clothing, medication, diapers, social distancing, closure of schools, reduction in tourism, hotel occupancy, layoffs, multi-generational needs in the household, inequitable access to technology).

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In March 2020, just as stay-at-home orders and migration to telework occurred for the organization, OHA's published an *ISSUE BRIEF: COVID-19 AND NATIVE HAWAIIAN COMMUNITIES, Native Hawaiians Over-Represented in COVID-19 At-Risk Populations* which demonstrated the needs, impacts, and vulnerabilities of the Native Hawaiian community amid the COVID-19 public health crisis. Key findings such as: Native Hawaiians (NH) are at greater risk due to existing medical conditions; many NH are members of vulnerable populations (e.g., homeless, limited access to quality healthcare, rural communities); NH communities are poised to suffer disproportionate share of financial hardship and have fewer financial resources to weather emergencies (e.g., income, credit, savings); NH students and caregivers losing needed supports; technology and the digital divide exacerbated; and caregiving for a household member with underlying health conditions (e.g., respiratory, diabetes).

In April 2020, OHA announced the launch of Kaiāulu Meals, a \$450,000 program that partnered with a statewide network of community organizations to deliver 12 weeks of locally-sourced food to nearly 1,500 kūpuna in need. In May 2020, the BOT approved and authorized \$3,000,000 in COVID-19 aid--\$2,170,000 for emergency financial assistance and \$830,000 for food security community grants.

OHA's COVID-19 advocacy activities included: state-wide moratorium on home evictions due to rent or mortgage non-payment; testifying on public school reopening protocols; advocating for pa'ahao testing, protections and related supports upon release; commenting on military exercises and related community protections and communication protocols; collaborating with State departments on data disaggregation and reporting for Native Hawaiians and Pacific Islanders (NHPI); participating in the NHPI COVID-19 3R (response, recovery and resilient) advocates for vulnerable populations; and conducting surveys and studies for Native Hawaiian businesses.

Sources of Funding

The sources of funding for OHA include State of Hawai'i general fund appropriations, ceded land revenue payments, federal grants, and miscellaneous other income. In addition, a substantial portion of the funding comes from withdrawals made from the Native Hawaiian Trust Fund (NHTF). The goal of the NHTF is to provide superior investment returns to sustain the beneficiaries in perpetuity and to uphold OHA's mission. In this regard the Board of Trustees has established both an investment and a spending policy. Generally, the investment policy targets the growth of the NHTF at least inflation plus five percent annually, while the spending policy limits the amount of withdrawals that can be made from the fund in any given fiscal year. Withdrawals are limited to five (5) percent of the NHTF's 20-quarter rolling average market value, as defined, to ensure that resources held within the trust are available for future spending.

The beneficiary needs for services is closely tied to the local economy, while the primary source of funding, the Native Hawaiian Trust Fund (NHTF), is closely tied to the national economy.

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State of the Local Economy

Hawaii's economy has been greatly impacted by the COVID-19 pandemic but is starting to see signs of recovery with the welcome news about coming vaccines. The latest data from the Hawaii Department of Business, Economic Development & Tourism (DBEDT) reported during the April-December 2020 period, the average unemployment rate (not seasonally adjusted) was at 15.1 percent. Hawaii lost 110,600 non-agriculture payroll jobs during the April-December period as compared with the same period a year ago. All industry sectors lost jobs except for federal government jobs. According to the Economic Research Organization at the University of Hawaii (UHERO), service industries requiring personal contact were hit the hardest, while construction and real estate, supported by low-interest rates, have quickly rebounded. Home resale prices at the high and low ends of the market have diverged, reflecting the more severe economic impact of the crisis on lower-income households and perhaps a rising preference for larger homes during the pandemic. Rents have also softened at the lower end.

Looking forward, UHERO expects to see an improvement in economic growth for the second half of 2021 as vaccines become more widely available, with a more meaningful economic recovery delayed until the middle of next year, and thereafter an attenuated recovery process albeit at a faster pace than previously forecast.

State of the National Economy

The COVID-19 pandemic has taken a heartbreaking human toll with over 115 million cases and nearly 2.6 million deaths globally at the time of writing. The pandemic led to an unprecedented global economic shutdown creating panic buying, supply disruptions, and job losses that decimated the global economy. The initial market reaction in March to the economic implications of the pandemic was quick and dramatic. Global equity markets fell 32% from peak-to-trough, high-yield credit spreads blew out to over 1000 basis points, and oil prices collapsed to under \$12. These market moves and the economic uncertainty surrounding the pandemic escalated into the largest globally coordinated government stimulus effort. In the U.S. alone, fiscal stimulus has totaled \$2.4 trillion and the Fed balance sheet is projected to reach nearly \$7 trillion by December 2020. This unprecedented level of stimulus caused the drawdowns in the financial markets to promptly reverse course and has since propelled the markets to near pre-pandemic levels. We are starting to observe the beginnings or foundation of an economic recovery with the news and roll-out of several successful COVID-19 vaccines globally. The latest unemployment rate at 6.3% is a huge improvement from the 14.8% rate realized back in April, but still above the pre-pandemic levels of 3.5%. While we are optimistic about an economic recovery, headwinds remain, and that economic data points are likely to remain volatile in the near-term.

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OHA's Investments

OHA's NHTF reported a 1.4% net loss for the year ending June 30, 2020. Total assets decreased to \$368,939,827 from \$383,890,461, which includes organizational spending totaling \$12,000,000. The NHTF was not immune from both sets of macro shocks in the second half of 2020. The portfolio largely participated in the initial drawdown and subsequent recovery as nearly all asset classes became correlated to one another and there were few places to seek diversification outside of US Treasuries and cash. For the fiscal year, the NHTF underperformed its policy benchmark with detractors coming from across all asset classes except for public global equities. While it was an unprecedented year, the success of an investment program for a perpetual trust is measured not in years, but decades. Success is measured by preserving the purchasing power of the Trust after spending, inflation, and all fees and expenses. Over the last 10 years, NHTF returned 7.3% or 5.6% real, meeting its long-term return objective of CPI + 5%.

MANA I MAULI OLA

OHA 15-Year Strategic Plan for 2020-2035

OHA's Strategic Plan "Mana I Maui Ola" (Strength to Wellbeing) includes three foundations: 'ohana (family), mo'omeheu (culture), and 'āina (land and water). OHA recognizes these foundations have the power to affect the wellbeing of Native Hawaiians. Therefore, they are woven into OHA's plans to affect change in the areas of education, health, housing, and economics. These four directions will be used to guide OHA's work to better the conditions of Native Hawaiians. Over the next 15 years, OHA will be implementing strategies, aligned with our foundations and directions to achieve our envisioned outcomes for a thriving and abundant Lāhui.

Strategic Direction: Educational Pathways

Supporting initiatives, leveraging partnerships, engaging in strategies to develop educational pathways that strengthen culture-based education, early education, K-12 and post-secondary education will ensure that Native Hawaiians are grounded in their past while participating in a technologically oriented future.

Outcome: Strengthened and Integrated Community, Culture based Learning Systems

Strategy 1: Support development and use of educational resources for all Hawaiian life-long learners in schools, communities and 'ohana.

Strategy Outcomes:

- 1.1. Increased number or percent of Native Hawaiian students who enter educational systems ready to learn;
- 1.2. Increased number or percent of Native Hawaiian students graduating high school who are college, career, and community ready; and

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1.3. Increased number of Native Hawaiians engaged in traditional learning systems (i.e., hale, hālau, hale mua, hale pe'a) that reestablish/maintain strong cultural foundations and identity.

Strategy 2: Support education through Hawaiian language medium and focused Charter Schools.

Strategy Outcomes:

- 2.1. Adequately resourced Hawaiian Focused Charter Schools and Hawaiian-medium schools, including funding of transportation, special education, facilities, and meals, and availability of qualified teachers;
- 2.2. Increased availability of Hawaiian Focused Charter Schools and Hawaiian-medium schools; and
- 2.3. Establishment of a Native Hawaiian Charter School and Hawaiian-medium system.

Strategic Direction: Health Outcomes

Supporting initiatives, leveraging partnerships, engaging in strategies to promote healthy and strong families.

Outcome: Strengthened 'Ōiwi (Cultural Identity), Ea (Self-Governance), 'Āina Momona (Healthy Lands and People), Pilina (Relationships), Waiwai (Shared Wealth), Ke Akua Mana (Spirituality)

Strategy 3: Advance policies, programs and practices that strengthen Hawaiian well-being, including physical, spiritual, mental and emotional health.

Strategy Outcomes:

- 3.1. Increased availability and access to quality, culturally based, and culturally adapted prevention and treatment interventions in 'ohana, schools, and communities; (E Ola Mau a Mau)
- 3.2. Establishment of a fully functional, high quality, culturally adapted, primary Native Hawaiian Health System which coordinates effective wellness activities/ programs; (E Ola Mau a Mau)
- 3.3. Decrease the number /percent of Native Hawaiians in jails and prison; and
- 3.4. Communities are empowered to take care of iwi kupuna.

Strategy 4: Advance policies, programs and practices that strengthen the health of the 'āina and mo'omeheu.

Strategy Outcomes:

- 4.1 Preservation and perpetuation of Hawaiian language, culture, traditions, identity and sense of lāhui;

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4.2 Increased community stewardship of Hawai'i's natural and cultural resources that foster connection to 'āina, 'ohana, and communities; and

4.3 Increased restoration of Native Hawaiian cultural sites, landscapes, kulāiwi and traditional food systems.

Strategic Direction: Quality Housing

Leveraging partnerships to ensure Native Hawaiians can obtain affordable rentals as well as homeownership while also engaging in opportunities to affect legislation that support Hawaiian Home Lands, overall housing costs, and housing supply will greatly enhance the ability for Native Hawaiians who so desire to remain in Hawai'i.

Outcome: Strengthened Capability for 'Ohana to Meet Living Needs, including Housing; Strengthened Effective Implementation of the Hawaiian Homes Commission Act.

Strategy 5: Advance policies, programs and practices that strengthen Hawaiian resource management knowledge and skills to meet the housing needs of their 'ohana.

Strategy Outcomes:

5.1. Increased numbers/percent of Native Hawaiians who rent housing that meets their 'ohana's financial and well-being needs

5.2. Increased numbers/percent of Native Hawaiians who own housing that meets their 'ohana's financial and well-being needs

5.3. Increased safety, stability, social support networks, and cultural connection in Native Hawaiian communities

Strategy 6: Support implementation of the Hawaiian Homes Commission Act and other efforts to meet the housing needs of 'ohana.

Strategy Outcomes:

6.1. Increased affordable non-traditional housing options (accessory dwelling units/tiny homes, large multi-generational lots or homes) in communities of 'ohana's choice;

6.2. Increased housing unit supply on Hawaiian Home Lands; and

6.3. Decreased rate of Native Hawaiian 'ohana out of state migration.

Strategic Direction: Economic Stability

Engaging in strategies to enhance the economic development and financial empowerment of the lāhui will ensure that Native Hawaiians progress toward a state of economic stability.

Outcome: Strengthened Capability for 'Ohana to Meet Living Needs, including Housing; Strengthened Effective Implementation of the Hawaiian Homes Commission Act

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Strategy 7: Advance policies, programs and practices that strengthen 'ohana abilities to pursue multiple pathways toward economic stability

Strategy Outcomes:

- 7.1. Increased number / percent of Native Hawaiian 'ohana who are able to provide high quality keiki and kupuna care;
- 7.2. Increase access to capital and credit for community strengthening Native Hawaiian businesses and individuals;
- 7.3. Increase number of Native Hawaiian 'ohana who are resource stable (financial, subsistence, other); and
- 7.4. Increased Native Hawaiian employment rate.

Strategy 8: Cultivate economic development in and for Hawaiian communities.

Strategy Outcomes:

- 8.1. Increased number of successful, community strengthening Native Hawaiian-owned businesses;
- 8.2. Establishment of new markets for Native Hawaiian products (eg. kalo, loko i'a grown fish, etc.) that can provide Native Hawaiian producers a livable wage; and
- 8.3. Established and operationalized indigenous economic system consistent with Native Hawaiian knowledge, culture, values, and practices.

CLOSING COMMENTS

I would like to express gratitude to the Board of Trustees, Administration of the State of Hawai'i and members of the Hawai'i State Legislature for their continuing support. We look forward to helping even more Hawaiians as we continue to carry out our new Strategic Plan and hope that everyone will join us in looking toward a brighter future for our Native Hawaiian people.

Respectfully submitted,

Sylvia M. Hussey, Ed.D.
Ka Pouhana, Chief Executive Officer
Office of Hawaiian Affairs

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the Office of Hawaiian Affairs,
State of Hawai'i

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 Office of Hawaiian Affairs (OHA), State of Hawai'i, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise OHA'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 did not audit the financial statements of Hi'ilei Aloha LLC, which is both a major fund and 99.9 percent, 100 percent, and 98.3 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Hi'ilei Aloha LLC, is based solely on the report of the other auditor. 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, based on our audit and the report of the other auditor, 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 OHA, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adjustments to Prior Period Financial Statements

As discussed in Note Q to the financial statements, certain errors were discovered by OHA management as of June 30, 2019. Accordingly, the accompanying financial statements have been restated to correct these errors. 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 on pages 17 through 23 and the schedules of OHA's proportionate share of the net pension liability, contributions (pension), changes in the net OPEB liability and related ratios, and contributions (OPEB) on pages 70 to 75 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 opinions on the financial statements that collectively comprise OHA's basic financial statements. The Letter from the Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Letter from the Chief Executive Officer has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March XX, 2021 on our consideration of OHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OHA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OHA's internal control over financial reporting and compliance.

Honolulu, Hawaii
March XX, 2021

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

As management of OHA, we offer the following narrative overview and analysis to readers of our financial statements. While the financial statements and notes present only the financial activities for the fiscal year ended June 30, 2020, management discussion and analysis will address both this year and the year ended June 30, 2019, including any subsequent events and disclosures that should be made to understand the financial statements between the fiscal year ended June 30, 2020 and the report issuance date of March XX, 2021.

Management's discussion and analysis is provided at the beginning of the financial statements and notes to explain the past and current position of OHA's financial condition in layman's terms. This summary should not be taken as a replacement for the financial statements and notes that immediately follow this narrative.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to OHA's basic financial statements. OHA's basic financial statements include four components: 1) *Government-wide Financial Statements*, 2) *Governmental Funds Financial Statements*, 3) *Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund*, and 4) *Notes to Financial Statements*. The first three components are intended to present different financial views of OHA. The fourth component is intended to further explain some of the information in the financial statements and provide more detail. These components are described below.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Government-wide Financial Statements provide a broad view of OHA's operations in a manner similar to a private-sector business. These statements provide both short-term and long-term information about OHA's financial position, which assists in assessing OHA's financial condition at the end of the year.

Statement of Net Position presents all of OHA's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the residual reported as "net position" at a point in time. Over time, increases or decreases in OHA's net position may serve as a useful indicator of whether the financial position of OHA is improving or deteriorating.

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

Statement of Net Position

Summarized financial information of OHA's Statement of Net Position as of June 30, 2020 and 2019 is as follows:

	2020	(As restated) 2019
ASSETS		
Capital assets	\$ 246,885,678	\$ 247,480,101
Other assets	<u>432,682,644</u>	<u>442,953,430</u>
Total assets	<u>679,568,322</u>	<u>690,433,531</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	4,991,503	5,801,500
Deferred outflows of resources related to OPEB	<u>2,473,361</u>	<u>2,418,015</u>
Total deferred outflows of resources	<u>7,464,864</u>	<u>8,219,515</u>
LIABILITIES		
Other liabilities	6,945,052	7,030,596
Long-term liabilities	<u>93,245,866</u>	<u>93,688,259</u>
Total liabilities	<u>100,190,918</u>	<u>100,718,855</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	295,237	528,581
Deferred inflows of resources related to OPEB	<u>402,703</u>	<u>521,102</u>
Total deferred inflows of resources	<u>697,940</u>	<u>1,049,683</u>
NET POSITION		
Invested in capital assets, net of related debt	223,188,697	221,500,308
Restricted	25,379,277	25,335,251
Unrestricted	<u>337,576,354</u>	<u>350,048,949</u>
Total net position	<u>\$ 586,144,328</u>	<u>\$ 596,884,508</u>

The assets and deferred outflows of resources of OHA exceeded its liabilities and deferred inflows of resources as of June 30, 2020 by \$586,144,328 (presented as "Total net position"). Of this amount, \$337,576,354 is reported as "Unrestricted", while \$25,379,277 is reported as "Restricted" federal funds and \$223,188,697 is reported as "Invested in capital assets, net of related debt."

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

The assets and deferred outflows of resources of OHA exceeded its liabilities and deferred inflows of resources as of June 30, 2019 by \$596,884,508 (presented as "Total net position"). Of this amount, \$350,048,949 is reported as "Unrestricted", while \$25,335,251 is reported as "Restricted" federal funds and \$221,500,308 is reported as "Invested in capital assets, net of related debt."

Unrestricted net position represents the amount available to be used to meet OHA's ongoing obligations to beneficiaries and creditors. Restricted assets represent amounts that have legal requirements on their use.

OHA's total net position, from June 30, 2020 of \$586,144,328 and June 30, 2019 of \$596,884,508 decreased by \$10,740,180 (a 1.80% decrease) in 2020.

Statement of Activities presents information showing how the government's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

The governmental activities of OHA include program revenues (revenues dedicated internally including federal and other grants that break out charges for services (e.g, lease rents), operating grants, and investment income and net gains/losses) and general revenues (including legislative appropriations, Public Land Trust Fund (PLTF), investment income and net gains/losses on investments in the NHTF, newspaper advertisements, donations, non-imposed fringe benefits, and other revenues).

It also includes the results of Business-Type Activities, Ho'okele Pono LLC (Ho'okele) and Hi'ilei Aloha LLC (Hi'ilei) and its wholly-owned subsidiaries, through its separate year end, December 31, 2019. Ho'okele Pono LLC and Hi'ilei Aloha LLC have been included as blended component units due to the fact that OHA is the sole corporate member of each entity.

In May 2019, the Board of Trustees (BOT) approved the: 1) Amendment of the Operating Agreement of Hi'ilei to permit persons who are not OHA executives to serve as managers (Managers) of Hi'ilei, and to ratify and approve the decision of the OHA executives who presently serve as Managers of Hi'ipaka to amend the Operating Agreement of Hi'ipaka permitting persons who are not OHA executives to serve as managers of Hi'ipaka; 2) Dissolution of Hi'ikualono; and 3) Dissolution of Ho'okele Pono, following the completion of the Department of Defense Procurement Technical Assistance Center grant to Ho'okipaipai, including the dissolution of Ho'okipaipai prior to the dissolution of Ho'okele Pono.

Administration tracked the completion of the dissolution, operational winddown, funding and reporting, and non-OHA executives Managers' recruitment and seating activities. New non-OHA executives as Managers were approved by the Board in February 2021 to begin effective April 1, 2021. However, since the results of Business-Type Activities of Ho'okele and Hi'ilei as of December 31, 2019 are included in the Statement of Activities as of June 30, 2020, accordingly, limited winddown and dissolution activities are reflected.

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

Statement of Activities

Summarized financial information of OHA's Statement of Activities for the fiscal years ended June 30, 2020 and 2019 is as follows:

	2020	(As restated) 2019
REVENUES		
Program revenues:		
Charges for services	\$ 14,605,273	\$ 14,501,281
Operating grants	1,158,046	1,281,115
General revenues:		
State allotments, net of lapsed appropriations	3,037,879	3,018,899
Public land trust revenue	15,100,000	15,100,000
Unrestricted contributions	471,247	468,624
Interest and investment earnings	1,420,776	24,532,335
Non-imposed employee fringe benefits	660,844	594,067
Total revenues	<u>36,454,065</u>	<u>59,496,321</u>
EXPENSES		
Current divisions:		
Board of trustees	3,079,741	3,111,437
Support services	20,084,271	20,292,212
Beneficiary advocacy	16,862,133	17,892,353
Unallocated depreciation	1,066,249	1,985,592
Hi'ilei Aloha LLC	6,583,971	6,248,529
Ho'okele Pono LLC	276,394	478,849
Total expenses	<u>47,952,759</u>	<u>50,008,972</u>
NET TRANSFERS (TO) / FROM OTHER FUNDS	<u>758,514</u>	<u>937,326</u>
Change in net position	\$ <u>(10,740,180)</u>	\$ <u>10,424,675</u>

OHA's Change in net position, decreased by \$21,164,855 (a 203.0% decrease) during the year. Key elements of this decrease compared to the prior year are as follows:

A significant decrease in investment and interest earnings of approximately \$23.2 million due to the pandemic which led to global economic shutdown, job losses, global equity falling markets, oil prices collapsing, etc. Approximately \$17 million was due to the market value decrease of the assets in the portfolio. Additional information regarding OHA's investments can be found in Note H to the financial statements.

The change in net position was offset by a decrease in overall expenses of approximately \$2.1 million.

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

A “*fund*” is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. OHA, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The governmental funds financial statements focus on individual parts of OHA, reporting OHA's operations in more detail than the government-wide statements. All of the funds of OHA are considered “*governmental funds*” as opposed to proprietary (operate more like those of commercial enterprises) and fiduciary funds (used to account for resources held for the benefit of parties outside OHA).

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental funds financial statements focus on near-term inflows and outflows of expendable resources. They also focus on the balances of available resources at the end of the year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. These statements provide a detailed short-term view of OHA's finances that assist in determining whether there will be adequate financial resources available to meet the current needs of OHA.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are included on page 29 and 31 of this report.

OHA has two types of governmental funds that are presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. OHA's two types of governmental funds are General Fund and Special Revenue Funds. The Special Revenue Funds are the PLTF, Federal Grants Fund, and Other Fund.

The business type activities of blended component units, Ho'okele Pono LLC and Hi'ilei Aloha LLC and its wholly-owned subsidiaries, have been classified as a proprietary funds. Like the government-wide financial statements, the proprietary fund statements report long-term (noncurrent) and short-term (current) financial information. The Statement of Cash Flows for the proprietary funds presents changes in cash and cash equivalents, resulting from operating, noncapital financing, capital and related financing, and investing activities. OHA's proprietary funds are classified as business-type activities in the government-wide financial statements on pages 24 and 25.

At the close of FY20, OHA's governmental funds reported an ending fund balance of \$421,498,456. Fund balance was segregated into the following categories: Nonspendable, Restricted, Committed, Assigned and Unassigned.

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

Nonspendable fund balance totaled \$304,411, or 0.07% due to amounts related to inventory, prepaid items and security deposits.

Restricted fund balance totaled \$25,379,277 or 6.02%, and is comprised of 95.76% for the Native Hawaiian Revolving Loan Fund program and 4.24% restricted for other federal programs administered by OHA.

Committed fund balance totaled \$26,447,876 or 6.28% based on the Board of Trustees' resolution to commit these funds towards the debt service of DHHL-issued revenue bonds.

Assigned fund balance totaled \$368,811,069 or 87.50% of fund balance and is comprised of the following: 4.48% has been encumbered, 0.03% represents the non-current portion of outstanding loans and 95.49% is available for future expenditures, including Board designations.

Unassigned fund of \$555,823, or 0.13%.

OHA's governmental funds experienced a decrease of \$10,589,704 or (2.45%) in fund balance during FY20. This is a decrease of \$22,257,916 in comparison to the \$11,668,212 or 2.77% increase in fund balance during FY19. The primary reason for the decrease is interest and investment revenues decreased by \$23,182,659 from prior fiscal year.

PROPRIETARY FUNDS FINANCIAL ANALYSIS

Proprietary funds' net position totaled \$19,399,539 at the end of FY20 compared to \$18,693,354 at the end of FY19, representing an increase of \$706,185 or 3.78%.

Invested in capital assets represents the largest portion of proprietary funds' net position at \$15,428,116 or 79.53% and is primarily comprised of capital assets of Hi'ilei Aloha LLC and its wholly-owned subsidiary.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Act 37 Withholding of FY20-21 General Fund Appropriations

OHA has yet to receive approximately \$3M in appropriated FY21 general funds, despite complying with its obligations under Act 37, 2019, which conditions the release of these funds upon the submission of the State Auditor's findings and recommendations in a "financial and management audit" of OHA to the legislature. OHA has dutifully submitted all documents requested by the State Auditor, including executive session minutes with appropriate redactions to preserve OHA's privileged communications with its attorneys. Despite receiving 930 requested documents consisting of thousands of pages, the State Auditor has insisted that he is entitled to OHA's unredacted attorney-client communications and has refused to submit the audit report as required by the Legislature in Act 37. Notably, a September 2020 circuit court ruling by Judge Crabtree held that the State Auditor does not have the power to compel the production of OHA's privileged communications; in coming to its conclusion, the court expressed concern about the "potential chilling effect" on the legal advice public agencies would receive if the State Auditor could review confidential discussions with their attorneys. Despite Judge Crabtree's ruling, the State Auditor has still not submitted his report, which has prevented the release of OHA's FY 21 general funds.

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

If OHA is not able to access the appropriated FY21 general funds, it would be a historic policy shift and most likely represent the first fiscal year of OHA's existence that it has not received a general fund appropriation from the State. This would also disrupt the State's long and well-established history of partnering with OHA through OHA's budget act to make strategic and efficient community investments in specific areas of need. The first legislative carve-out for legal services funds within the OHA appropriations law occurred in 2001; the first carve-out for social services occurred in 1993; and the first carve-out for education of gifted Hawaiian children also occurred in 1993. In recent biennia, general funds received under these carve-outs have been matched by OHA's trust funds and strategically leveraged against private funds, resulting in community investments that have quadrupled the impact of every general fund dollar received by OHA. Unfortunately, the withholding of the FY21 general fund appropriation would result in a commensurate opportunity cost for the State, for OHA and for programs and services of critical importance to OHA's beneficiaries.

ECONOMIC CONDITIONS IMPACTED BY THE COVID-19 PANDEMIC

On March 11, 2020 the World Health Organization (WHO) declared COVID-19 a pandemic, pointing to the over 118,000 cases of the coronavirus in over 110 countries around the world and the risk of further widespread infection within major populations. Previously, the illness (thought to be related to the 2003 SARS virus) was classified as an epidemic confined to a region in, and around Wuhan, China, at the end of December 2019. Repression of disease outbreak knowledge from China officials contributed to the explosion of exposed individuals from Europe and the United States.

We continue to monitor the widespread economic impact from the COVID-19 pandemic. With the dramatic drop in the stock market from its peak in less than a month, along with the crash in oil prices, the Federal Reserve Bank reacted with a two-step reduction in the Federal Funds rate to 0.25% and an additional commitment to purchase US backed securities in the bond market. This effort to support the economy from the dampening effect of nationwide closures and cancellations is expected to keep the financial markets volatile in the near term.

REQUEST FOR INFORMATION

Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

Office of Hawaiian Affairs
Attn: Chief Financial Officer
560 N. Nimitz Hwy, Suite 200
Honolulu, Hawai'i 96817

Office of Hawaiian Affairs, State of Hawai'i
STATEMENT OF NET POSITION
June 30, 2020

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Petty cash	\$ 700	\$ --	\$ 700
Cash:			
Held in bank	16,332,458	3,977,768	20,310,226
Held by investment managers	5,083,037	--	5,083,037
Held in State Treasury	2,358,770	--	2,358,770
Restricted cash	265,579	--	265,579
Accounts receivable, net	2,951,388	372,753	3,324,141
Interest and dividends receivable	103,034	--	103,034
Inventory, prepaid items and other assets	572,124	289,550	861,674
Notes receivable, net:			
Due within one year	979,072	--	979,072
Due after one year	4,996,439	--	4,996,439
Investments	394,399,972	--	394,399,972
Capital assets			
Non-depreciable assets	214,026,998	13,429,733	227,456,731
Depreciable assets, net	17,430,564	1,998,383	19,428,947
Total assets	<u>659,500,135</u>	<u>20,068,187</u>	<u>679,568,322</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	4,991,503	--	4,991,503
Deferred outflows of resources related to OPEB	2,473,361	--	2,473,361
Total deferred outflows of resources	<u>7,464,864</u>	<u>--</u>	<u>7,464,864</u>
LIABILITIES			
Accounts payable and accrued liabilities	5,976,404	668,648	6,645,052
Due to State of Hawaii	300,000	--	300,000
Long-term liabilities:			
Due within one year	3,082,860	--	3,082,860
Due after one year	22,046,365	--	22,046,365
Other liabilities due in more than one year:			
Net pension liability	34,499,547	--	34,499,547
Net OPEB liability	33,617,094	--	33,617,094
Total liabilities	<u>99,522,270</u>	<u>668,648</u>	<u>100,190,918</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	295,237	--	295,237
Deferred inflows of resources related to OPEB	402,703	--	402,703
Total deferred inflows of resources	<u>697,940</u>	<u>--</u>	<u>697,940</u>
NET POSITION			
Invested in capital assets, net of related debt	207,760,581	15,428,116	223,188,697
Restricted	25,379,277	--	25,379,277
Unrestricted	333,604,931	3,971,423	337,576,354
Total net position	<u>\$ 566,744,789</u>	<u>\$ 19,399,539</u>	<u>\$ 586,144,328</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai‘i
STATEMENT OF ACTIVITIES
Year Ended June 30, 2020

Functions / Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Beneficiary advocacy	\$ 16,862,133	\$ --	\$ 1,158,046	\$ (15,704,087)	\$ --	\$ (15,704,087)
Board of trustees	3,079,741	--	--	(3,079,741)	--	(3,079,741)
Support services	20,084,271	7,797,237	--	(12,287,034)	--	(12,287,034)
Unallocated depreciation	1,066,249	--	--	(1,066,249)	--	(1,066,249)
Total governmental activities	41,092,394	7,797,237	1,158,046	(32,137,111)	--	(32,137,111)
Business-Type Activities:						
Hii'ilei Aloha LLC	6,583,971	6,691,351	--	--	107,380	107,380
Ho'okele Pono LLC	276,394	116,685	--	--	(159,709)	(159,709)
Total business-type activities	6,860,365	6,808,036	--	--	(52,329)	(52,329)
Total government-wide	\$ 47,952,759	\$ 14,605,273	\$ 1,158,046	\$ (32,137,111)	\$ (52,329)	\$ (32,189,440)
General Revenues:						
Interest and investment earnings				\$ 1,420,776	\$ --	\$ 1,420,776
Non-imposed employee fringe benefits				660,844	--	660,844
Public land trust revenue				15,100,000	--	15,100,000
State allotments				3,037,879	--	3,037,879
Unrestricted contributions				471,247	--	471,247
Total general revenues				20,690,746	--	20,690,746
Transfers				--	758,514	758,514
Total general revenues and transfers				20,690,746	758,514	21,449,260
Change in net position				(11,446,365)	706,185	(10,740,180)
Net position at beginning of year, as previously reported				578,254,808	18,693,354	596,948,162
Prior period adjustment				(63,654)	--	(63,654)
Net position at beginning of year, as restated				578,191,154	18,693,354	596,884,508
Net position at end of year				\$ 566,744,789	\$ 19,399,539	\$ 586,144,328

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
GOVERNMENTAL FUNDS - BALANCE SHEET
June 30, 2020

	ASSETS				Total
	General Fund	Public Land Trust	Federal Grants	Other	
Petty cash	\$ --	\$ 700	\$ --	\$ --	\$ 700
Cash:					
Held in bank	360,178	12,985,815	2,884,715	101,750	16,332,458
Held by investment managers	--	2,609,672	2,473,365	--	5,083,037
Held in State Treasury	649,686	1,709,084	--	--	2,358,770
Restricted cash	--	--	265,579	--	265,579
Accounts receivable, net	--	2,931,678	10,299	9,411	2,951,388
Interest and dividends receivable	--	1,167	101,867	--	103,034
Inventory, prepaid items and other assets	--	304,411	--	--	304,411
Notes receivable:					
Due within one year	--	88,336	890,736	--	979,072
Due after one year	--	116,562	4,879,877	--	4,996,439
Investments	--	380,144,476	14,255,496	--	394,399,972
Total assets	\$ 1,009,864	\$ 400,891,901	\$ 25,761,934	\$ 111,161	\$ 427,774,860

Office of Hawaiian Affairs, State of Hawai'i
GOVERNMENTAL FUNDS - BALANCE SHEET (Continued)
June 30, 2020

	General Fund	Public Land Trust	Federal Grants	Other	Total
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable and accrued liabilities	\$ 127,386	\$ 5,765,392	\$ 82,657	\$ 969	\$ 5,976,404
Due to State of Hawaii	--	--	300,000	--	300,000
Total liabilities	<u>127,386</u>	<u>5,765,392</u>	<u>382,657</u>	<u>969</u>	<u>6,276,404</u>
Fund balances					
Nonspendable -					
Inventory, prepaid items and other assets	--	304,411	--	--	304,411
Restricted for:					
Beneficiary advocacy	--	--	1,074,896	--	1,074,896
Long-term portion of notes receivable	--	--	4,879,877	--	4,879,877
Native Hawaiian loan programs	--	--	19,424,504	--	19,424,504
Committed to:					
DHHL-issued revenue bonds	--	26,447,876	--	--	26,447,876
Assigned to:					
Beneficiary advocacy	326,655	7,976,916	--	110,192	8,413,763
Board of trustees	--	81,157	--	--	81,157
Support services	--	8,024,069	--	--	8,024,069
Long-term portion of notes receivable	--	116,562	--	--	116,562
Public land trust	--	352,175,518	--	--	352,175,518
Unassigned	<u>555,823</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>555,823</u>
Total fund balances	<u>882,478</u>	<u>395,126,509</u>	<u>25,379,277</u>	<u>110,192</u>	<u>421,498,456</u>
Total liabilities and fund balances	<u>\$ 1,009,864</u>	<u>\$ 400,891,901</u>	<u>\$ 25,761,934</u>	<u>\$ 111,161</u>	<u>\$ 427,774,860</u>

Office of Hawaiian Affairs, State of Hawai'i
RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2020

Total fund balances - governmental funds		\$ 421,498,456
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental funds are not financial resources, and therefore, are not reported in the funds.		231,457,562
Other assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		267,713
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,432,244)	
Capital lease obligations	(82,506)	
Net pension liability	(34,499,547)	
Net OPEB liability	(33,617,094)	
Deferred outflows of resources related to pension	4,991,503	
Deferred inflows of resources related to pension	(295,237)	
Deferred outflows of resources related to OPEB	2,473,361	
Deferred inflows of resources related to OPEB	(402,703)	
Note payable	(18,519,648)	
Lines of credit	<u>(5,094,827)</u>	<u>(86,478,942)</u>
Net position of governmental activities		\$ <u>566,744,789</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2020

	General Fund	Public Land Trust	Federal Grants	Other	Total
REVENUES					
Appropriations	\$ 3,037,879	\$ --	--	--	\$ 3,037,879
Charges for services	--	9,415,010	--	55,934	9,470,944
Donations and other	--	435,060	36,187	--	471,247
Interest and investment earnings	--	1,420,052	894,682	724	2,315,458
Intergovernmental revenue	--	--	263,364	--	263,364
Non-imposed employee fringe benefits	660,844	--	--	--	660,844
Public land trust revenue	--	15,100,000	--	--	15,100,000
Total revenues	<u>3,698,723</u>	<u>26,370,122</u>	<u>1,194,233</u>	<u>56,658</u>	<u>31,319,736</u>
EXPENDITURES					
Beneficiary advocacy	1,355,460	14,318,011	1,071,585	236,164	16,981,220
Board of trustees	88,965	2,990,776	--	--	3,079,741
Support services	<u>2,097,530</u>	<u>16,635,316</u>	<u>--</u>	<u>20,926</u>	<u>18,753,772</u>
Total expenditures	<u>3,541,955</u>	<u>33,944,103</u>	<u>1,071,585</u>	<u>257,090</u>	<u>38,814,733</u>
OTHER FINANCING (USES) SOURCES					
Payment on debt	--	(3,094,707)	--	--	(3,094,707)
Net transfers to other funds	--	(173,520)	57	173,463	--
Net change in fund balances	<u>156,768</u>	<u>(10,842,208)</u>	<u>122,705</u>	<u>(26,969)</u>	<u>(10,589,704)</u>
FUND BALANCES					
Beginning of year, as previously reported	725,710	405,968,717	25,320,226	137,161	432,151,814
Prior period adjustment	--	--	(63,654)	--	(63,654)
Beginning of year, as restated	<u>725,710</u>	<u>405,968,717</u>	<u>25,256,572</u>	<u>137,161</u>	<u>432,088,160</u>
End of year	<u>\$ 882,478</u>	<u>\$ 395,126,509</u>	<u>\$ 25,379,277</u>	<u>\$ 110,192</u>	<u>\$ 421,498,456</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
RECONCILIATION OF NET CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES
Year Ended June 30, 2020

Net change in fund balances - total governmental funds		\$ (10,589,704)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Expenditures for capital assets	223,055	
Current year depreciation, amortization and other changes	<u>(1,066,249)</u>	(843,194)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year this is the principal payments on capital leases, note payable, and lines of credit.		2,282,812
Some items reported in the statement of activities do not involve current financial resources and therefore are not reported as revenues or expenditures in governmental funds. These activities are as follows:		
Decrease in other assets	(52,952)	
Decrease in compensated absences	(9,116)	
Increase in net pension liability	(1,801,002)	
Decrease in deferred outflows of resources related to pension	(809,997)	
Increase in deferred inflows of resources related to pension	233,344	
Increase in net OPEB liability	(30,301)	
Increase in deferred outflows of resources related to net OPEB	55,346	
Increase in deferred inflows of resources related to net OPEB	<u>118,399</u>	<u>(2,296,279)</u>
Change in net position of governmental activities		\$ <u>(11,446,365)</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(BUDGETARY BASIS), GENERAL FUND
Year Ended June 30, 2020

	Budgeted Amounts		Actual (Budgetary Basis)	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
State appropriations, net of lapses	\$ <u>3,037,879</u>	\$ <u>3,037,879</u>	\$ <u>3,037,879</u>	\$ <u>--</u>
EXPENDITURES				
Beneficiary advocacy	1,211,682	1,286,740	1,278,820	(7,920)
Board of trustees	58,323	59,309	57,645	(1,664)
Support services	<u>1,767,874</u>	<u>1,691,830</u>	<u>1,643,823</u>	<u>(48,007)</u>
	<u>3,037,879</u>	<u>3,037,879</u>	<u>2,980,288</u>	<u>(57,591)</u>
Excess of revenues over expenditures	\$ <u>--</u>	\$ <u>--</u>	\$ <u>57,591</u>	\$ <u>57,591</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
PROPRIETARY FUNDS - STATEMENT OF NET POSITION
June 30, 2020

	December 31, 2019		
	<u>Hi'iilei Aloha LLC</u>	<u>Ho'okele Pono LLC</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 3,954,637	\$ 23,131	\$ 3,977,768
Accounts receivable, net	372,753	--	372,753
Inventory, prepaid items and other assets	287,466	2,084	289,550
Capital assets - net	<u>15,428,116</u>	<u>--</u>	<u>15,428,116</u>
Total assets	\$ <u>20,042,972</u>	\$ <u>25,215</u>	\$ <u>20,068,187</u>
LIABILITIES AND NET POSITION			
Liabilities			
Accounts payable and accrued liabilities	\$ <u>574,133</u>	\$ <u>94,515</u>	\$ <u>668,648</u>
Net position			
Invested in capital assets	15,428,116	--	15,428,116
Unrestricted	<u>4,040,723</u>	<u>(69,300)</u>	<u>3,971,423</u>
Total net position	<u>19,468,839</u>	<u>(69,300)</u>	<u>19,399,539</u>
Total liabilities and net position	\$ <u>20,042,972</u>	\$ <u>25,215</u>	\$ <u>20,068,187</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
PROPRIETARY FUNDS - STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year Ended June 30, 2020

	December 31, 2019		
	Hi'ilei Aloha LLC	Ho'okele Pono LLC	Total
OPERATING REVENUES			
Sales - gift store and other	\$ 2,363,504	\$ --	\$ 2,363,504
Cost of sales	<u>(2,575,440)</u>	<u>--</u>	<u>(2,575,440)</u>
Gross loss	(211,936)	--	(211,936)
Admission and tours	5,224,973	--	5,224,973
Other revenue	1,679,716	--	1,679,716
Cooperative agreement - Federal government	<u>--</u>	<u>116,685</u>	<u>116,685</u>
Total operating revenues	6,692,753	116,685	6,809,438
EXPENSES			
Program services	4,596,872	230,631	4,827,503
Management and general	1,968,908	47,165	2,016,073
Fundraising	<u>18,191</u>	<u>--</u>	<u>18,191</u>
Total operating expenses	<u>6,583,971</u>	<u>277,796</u>	<u>6,861,767</u>
Operating income (loss)	108,782	(161,111)	(52,329)
NONOPERATING REVENUES AND EXPENSES			
Net transfers from other funds	708,893	49,621	758,514
	<u>708,893</u>	<u>49,621</u>	<u>758,514</u>
Change in net position	<u>817,675</u>	<u>(111,490)</u>	<u>706,185</u>
NET POSITION			
Beginning of year	<u>18,651,164</u>	<u>42,190</u>	<u>18,693,354</u>
End of year	\$ <u>19,468,839</u>	\$ <u>(69,300)</u>	\$ <u>19,399,539</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS
Year Ended June 30, 2020

	December 31, 2019		
	Hi'ilei Aloha LLC	Ho'okele Pono LLC	Total
Cash flows from operating activities			
Receipts from customers, grantors and funders	\$ 9,418,367	\$ 305,555	\$ 9,723,922
Payments to suppliers, vendors and service providers	(4,399,352)	(234,173)	(4,633,525)
Payments to employees for salaries and benefits	(4,253,647)	(182,437)	(4,436,084)
Payments of unrelated business income taxes	(78,416)	--	(78,416)
Net cash provided by (used in) operating activities	<u>686,952</u>	<u>(111,055)</u>	<u>575,897</u>
Cash flows from noncapital financing activities			
Cash grants from OHA	351,592	46,871	398,463
Advances from Hi'ilei Aloha LLC	--	149,140	149,140
Repayments of advances from Hi'ilei Aloha LLC	--	(86,000)	(86,000)
Net cash provided by noncapital financing activities	<u>351,592</u>	<u>110,011</u>	<u>461,603</u>
Cash flows from capital and related financing activities			
Grants restricted for purchase of real estate	350,701	--	350,701
Acquisition of property and equipment	(615,238)	--	(615,238)
Net cash used in capital and related financing activities	<u>(264,537)</u>	<u>--</u>	<u>(264,537)</u>
Cash flows from investing activities			
Advances to Ho'okipaipai LLC	(149,140)	--	(149,140)
Repayments of advances to Ho'okipaipai LLC	86,000	--	86,000
Net cash used in investing activities	<u>(63,140)</u>	<u>--</u>	<u>(63,140)</u>
Net increase (decrease) in cash and cash equivalents	710,867	(1,044)	709,823
Cash and cash equivalents - January 1, 2019	<u>3,243,770</u>	<u>24,175</u>	<u>3,267,945</u>
Cash and cash equivalents - December 31, 2019	\$ <u>3,954,637</u>	\$ <u>23,131</u>	\$ <u>3,977,768</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS (Continued)
Year Ended June 30, 2020

	December 31, 2019		
	Hi'ilei Aloha LLC	Ho'okele Pono LLC	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities			
Operating income (loss)	\$ 108,782	\$ (161,111)	\$ (52,329)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Expenses paid by Hi'ilei Aloha LLC and OHA	--	2,750	2,750
Depreciation	362,511	--	362,511
Loss on disposal of equipment	3,956	--	3,956
Donated advertising services	6,600	--	6,600
Change in:			
Accounts receivable, net	135,870	188,870	324,740
Inventory, prepaid items and other assets	42,413	(287)	42,126
Accounts payable and accrued liabilities	26,820	(141,277)	(114,457)
Net cash provided by (used in) operating activities	\$ <u>686,952</u>	\$ <u>(111,055)</u>	\$ <u>575,897</u>
Schedule of noncash financing activities			
Support from OHA - payment of expenses	\$ --	\$ 2,750	\$ 2,750

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE A - FINANCIAL REPORTING ENTITY

The accompanying basic financial statements present the financial activity of the Office of Hawaiian Affairs (Primary Government or OHA) and its blended component units, which are legally separate organizations.

As of June 30, 2020, OHA's blended components units are comprised of Hi'ilei Aloha LLC and Ho'okele Pono LLC, Hawai'i limited liability companies (collectively, the Companies). OHA is the sole corporate member of the Companies. The results of the Companies as of and for the year ended December 31, 2019, their year ends, have been included in OHA's basic financial statements. In May 2019, the Board of Trustees, via Resolution, authorized and approved: Amended and restated Operating Agreements of Hi'ilei Aloha LLC and Hi'ipaka LLC; Proposed Articles of Termination and Plan of Dissolution of Ho'okele Pono LLC, Ho'okipaipai LLC and Hi'ikualono LLC; Implementation actions of Managers to complete all operating and dissolution activities in accordance with state and federal requirements and/or to effect the intents of the Resolution; and A position description for Manager of Hi'ilei Aloha and Hi'ipaka, including commencement of recruitment activities for these non-OHA manager positions.

Ho'okele Pono LLC and its wholly-owned subsidiaries, Ho'okipaipai LLC and Hi'ilei Aloha LLC and its wholly-owned subsidiaries, Hi'ipaka LLC, Hi'ipoi LLC, and Hi'ikualono LLC are exempt from federal income tax under Sections 501(a) and 501(c)(3) of the Internal Revenue Code. In August 2017, Articles of Termination were processed for Hi'ipoi LLC. Hi'ikualono LLC has been inactive since formation.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

- (1) ***Basis of Presentation*** - OHA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).
- (2) ***Governmental Funds Financial Statements*** - The governmental funds 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, OHA considers revenues to be available if they are collected within 60 days of the end of the current year. Principal revenue sources susceptible to accrual include Federal grants, public land trust revenue, and interest and dividends on investments.

Expenditures are generally recorded when a liability is incurred as under accrual accounting. Modifications to the accrual basis of accounting include the employees' accumulated annual leave, workers' compensation, net pension liability, net other postemployment benefits (OPEB) liability and capital lease obligations which are recorded as expenditures when utilized or paid. The amount of accumulated annual leave unpaid, accrued workers' compensation, net pension liability, net OPEB liability and capital lease obligations as of June 30, 2020 have been reported only in the government-wide financial statements.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

When both restricted and unrestricted resources are available for use, it is OHA's policy to use restricted funds first, then unrestricted resources as they are needed.

The operations of each fund are accounted for by providing a separate set of self-balancing accounts that comprise the assets, liabilities, fund balance, revenues and expenditures of the fund. The funds are intended to conform to the State of Hawai'i general accounting system and are structured to comply with the requirements of appropriations and allotments authorized by State law.

OHA reports the following funds as major:

General Fund - The general fund of OHA is part of the State of Hawai'i General Fund. OHA's general fund financial statements reflect only OHA's appropriations and obligations. The general fund is used to account for all financial resources except those required to be accounted for in another fund, and includes the operating budget of general funds appropriated by the Hawai'i State Legislature.

Public Land Trust Fund (PLTF) - Reflects the income and expenditures from the Public Land Trust as defined in Chapter 10, Hawai'i Revised Statutes, as well as the proceeds and income of the Native Hawaiian Trust Fund. Expenditures reflect those from the OHA board of trustee appropriations of the Public Land Trust Funds.

Federal Grants Fund - Reflects the interest income earned from the Native Hawaiian Revolving Loan Fund (NHRLF) and the funds earned under other federal grants. Expenditures reflect necessary costs to administer the NHRLF and other federal grants.

- (3) **Proprietary Funds Financial Statements** - The focus of proprietary fund measurement is upon determination of operating income (loss), changes in net position, and net position. The intent of these funds is to be self-sufficient. The applicable GAAP are those similar to businesses in the private sector.

OHA reports the following funds as major:

Hi'ilei Aloha LLC - Reflects the revenues and expenditures related to the preservation and perpetuation of cultural and natural resources which are primarily generated from managing admissions to Waimea Valley on Oahu and the activities and events held there.

Ho'okele Pono LLC - Reflects the revenues and expenditures related to community economic development activity in the State of Hawaii which are primarily related to the operation of the Hawaii Procurement Technical Assistance Center. Although this fund does not meet the major fund criteria, management believes this fund is important to financial statement users and has elected to report it as a major fund.

- (4) **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 related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

provider have been met. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Resources that are dedicated internally are reported as general revenues rather than as program revenues. Net position is restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position.

- (5) **Investments** - Investments are reported at fair value using a variety of techniques. Mutual funds are actively traded on major stock exchanges, thus fair value is obtained using values from these exchanges, which are based on trades of identical securities available daily on a last trade or official close basis. Certain debt securities, such as U.S. Treasuries, have an active market. These securities can typically be valued using the closing or last traded price on a specific date. Hedge funds, private equity funds, and private debt funds are valued using their net asset value (NAV) and are audited annually. The most significant input into the NAV of such entities is the fair value of its investment holdings. These holdings are valued by the general partners on a quarterly basis, in accordance with GAAP. Commingled funds are valued based upon the NAV determined by the investment managers and are audited annually.

Purchases and sales of investments are recorded on the trade date. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

- (6) **Inventory and Prepaid Items** - All inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.
- (7) **Capital Assets** - Capital assets include tangible and intangible assets acquired with estimated useful lives greater than one year. Capital assets acquired for general organization purposes are recorded as expenditures in the governmental funds financial statements. Donated fixed assets are recorded at estimated fair value at the time received on the government-wide and proprietary fund financial statements.

Depreciation and amortization expense is recorded in the government-wide financial statements. Buildings, equipment, furniture and fixtures are depreciated on the straight-line method over their estimated useful lives. There is no depreciation recorded for land. The estimated useful lives of capital assets are as follows:

Buildings	30 Years
Leasehold improvements	Shorter of lease term or useful life
Furniture, fixtures, and equipment	5 Years

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (8) ***Deferred Outflows of Resources and Deferred Inflows of Resources*** - Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The deferred outflow of resources related to pensions and other postemployment benefits (OPEB) resulted from differences between expected and actual experiences, changes in assumptions, the net difference between projected and actual earnings on pension plan investments, changes in proportion which will be amortized over five years, and OHA's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the plans which will be recognized as reductions of the net pension and net OPEB liabilities in the subsequent year. The deferred inflow of resources related to pensions and OPEB resulted from differences between expected and actual experiences and changes in proportion of the pension plan which will be amortized over five years.
- (9) ***Compensated Absences and Compensatory Pay*** - OHA accrues all vacation and compensatory pay at current salary rates; including additional amounts for certain salary-related expenses associated with the payment of compensated absences, in accordance with GASB Codification Section C60, Compensated Absences. The balance at June 30, 2020 includes fringe benefits computed at the rate of 7.65% of accrued vacation and compensatory pay. Accrued vacation is reported as an expense when earned in the government-wide and proprietary fund financial statements, but not reported as an expenditure in the governmental funds financial statements, as current financial resources are not used.
- (10) ***Risk Management*** - OHA is exposed to various risks of loss from torts, theft of or damage to assets, errors and omissions, and employee injuries and illnesses.
- (11) ***Governmental Funds - Fund Balance*** - GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) provides guidance on the reporting of stabilization arrangements and changes the classifications and definitions to the following:

Nonspendable Fund Balance

Includes amounts that are (a) not in a spendable form or (b) legally or contractually required to remain intact. Examples include prepaid expenses and security deposits. These balances have been identified for proper presentation in OHA's Governmental Funds - Balance Sheet.

Restricted Fund Balance

Includes amounts restricted to a specific purpose as constraints placed on the use of these resources are either (a) externally imposed (e.g. grantors, creditors, laws, regulations) or (b) imposed by law through constitutional provisions or enabling legislation. Federal grants administered by OHA and specific provisions identified in OHA's general fund appropriation have been presented under "restricted fund balance."

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed Fund Balance

Includes amounts that can only be used for specific purposes based on constraints imposed by formal action of the entity's highest level of decision-making authority. For OHA purposes, "committed" funds have been identified as constraints imposed by Board of Trustee resolution.

Assigned Fund Balance

Includes amounts that are constrained as to use by the entity's intent to be used for specific purposes, but are neither "restricted" nor "committed". Intent should be expressed by (a) the governing body itself or (b) a body or official to which the governing body has delegated such authority to assign amounts to be used for specific reasons. These constraints are more easily modified and/or removed. Generally all funding of any fund, other than the General Fund are "assigned." Public Land Trust as presented on OHA's Governmental Funds - Balance Sheet includes trust fund corpus for which no specific purpose has been defined. Draws from this line item are made annually pursuant to biennium budget approved by the Board of Trustees.

Unassigned Fund Balance

Is the residual classification for the general fund that has not been "restricted", "committed" or "assigned" in any way, however, may be subject to future reclassification. This classification also includes any negative residual balance when actual expenditures exceed available resources of a fund.

Stabilization Arrangements

In September 2019, the Board approved a new Fiscal Stabilization Policy, including Withdrawal Guidelines and eliminated the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy. The Fiscal Stabilization Fund (FSF) was established by an initial, one-time appropriation of \$1,500,000 into a separate fund account outside the Native Hawaiian Trust Fund (NHTF) upon adoption of this policy. This appropriation shall be counted toward maximum withdrawal limitation in the BOT Spending Policy. Deposits and withdrawals into the FSF shall follow the requirements of this policy. Upon adoption of this policy, "OHA's Native Hawaiian Trust Fund Spending Policy's Fiscal Reserve Management Guidelines" shall terminate. At the discretion of the BOT, additional deposits of up to \$3,000,000 may be made in each subsequent fiscal year from funds that were budgeted from the NHTF Financial Assets Portfolio that were unspent at the end of previous fiscal years. The audited financial statements and audited processes (i.e., lapsing of prior encumbered purchase orders) for each respective fiscal year shall be used as the sole basis to determine the eligible deposits into the FSF. Annual deposits shall be counted toward the maximum withdrawal limitations in the BOT Spending Policy. The monies in the FSF may be carried over from year to year, provided that the total amount in the FSF shall not exceed \$10,000,000. Funds above and beyond the \$10,000,000 cap shall be redeposited into the NHTF. Withdrawals from the FSF shall not be included in the maximum withdrawal limitations in the BOT Spending Policy for the fiscal year in which the withdrawal is made. Temporarily idle moneys in the FSF may be invested as directed by the BOT, and the interest earned may be either transferred permanently into the NHTF or may remain in the FSF, at the discretion of the BOT. If the interest remains in the FSF, it may serve to increase the fund balance, but in no event shall the balance of the FSF be allowed to exceed the \$10,000,000.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Once established, reserves for contingencies may be designated in the Fiscal Stabilization Fund to acknowledge and recognize the responsibilities of the OHA. Such reserves for contingencies may include but not be limited to estimates for legal or other settlements, repatriation, budget stabilization needs and emergencies such as natural disasters.

Funds from the Fiscal Stabilization Fund may be withdrawn and used as authorized by the BOT through an Action Item for the following defined purposes only: budget stabilization, emergencies, reserves and contingencies. The maximum withdrawals in any given fiscal year, for any combination of authorized uses in section IV, are limited to no more than \$3,000,000 annually, and no more than \$750,000 per quarter, regardless of the total balance of the fund. The funds that are withdrawn must be used during the current fiscal year, and do not carry over to subsequent fiscal years.

In June 2020, the Board authorized the additional funding of the Fiscal Stabilization Fund in the amount of \$1,500,000, noting the balance will be \$3,000,000; approved the use of the Fiscal Stabilization Fund in the amount of \$3,000,000 in FY20, to be drawn in quarterly increments of \$750,000 in FY21, to replace the General Funds appropriation for FY21; authorized the additional funding of the Fiscal Stabilization Fund in the amount of \$1,000,000; and approve the use of the Fiscal Stabilization Fund in the amount of \$1,000,000 for COVID-19 related purposes in FY21.

- (12) **Encumbrances** - Encumbrances against budgeted appropriations are recorded upon the execution of contracts or purchase orders. Such encumbrances have been classified by expenditure division (i.e. Board of Trustees, Support Services, Beneficiary Advocacy) by fund balance classification (i.e. Restricted, Committed, Assigned) in the governmental funds financial statements. The related expenditure is reported in the period in which the liability is incurred.

Encumbrances as of June 30, 2020 consist of the following:

General Fund	\$ 326,655
Public Land Trust Fund	16,082,142
Federal Grants Fund	1,074,896
Other Funds	<u>110,192</u>
	<u>\$ 17,593,885</u>

- (13) **Use of Estimates** - The preparation of financial statements in conformity with 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 expenses during the reporting period. Actual results could differ from estimates.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (14) **Notes Receivable** - Notes receivable consist of notes made to Native Hawaiian-owned businesses and individuals. Management provides an allowance for doubtful accounts equal to the estimated amounts deemed uncollectible by management which it considers outstanding for more than 90 days. Management also provides a general allowance for its notes receivable.
- (15) **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 (ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.
- (16) **Postemployment Benefits Other Than Pensions** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from EUTF's fiduciary net position have been determined on the same basis as they are reported by EUTF. For this purpose, EUTF recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for investments in commingled and money market funds, which are reported at net asset value (NAV). The NAV is based on the fair value of the underlying assets held by the respective fund less its liabilities.
- (17) **Recent Accounting Pronouncements** - In May 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* (GASBS 95) due to the COVID-19 pandemic. OHA has implemented or is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements based on the new guidance:

The GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Management has determined that this Statement did not have a material impact on OHA's financial statements.

The GASB issued Statement No. 87, *Leases*. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021, as postponed by GASB 95. Management has not yet determined the effect this Statement will have on OHA's financial statements.

The GASB issued Statement No. 90, *Majority Equity Interest - an amendment of GASB Statement No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as postponed by GASB 95. Management has not yet determined the effect this Statement will have on OHA's financial statements.

The GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021, as postponed by GASB 95. Management has not yet determined the effect this Statement will have on OHA's financial statements.

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on OHA's financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITA) for government end users. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset-an intangible asset-and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on OHA's financial statements.

NOTE C - BIENNIAL BUDGET

Because it is not a part of the executive branch, OHA's budget is considered by the Hawai'i State Legislature to be separate from the State Administration's submittal, and its development follows a different procedure. The budgetary data reflected in the basic financial statements is established as follows:

The Budget - In the fall of each odd-numbered fiscal year, OHA's Administration drafts the program and budget recommendations that will be the basis for OHA's biennium budget request. Once approved by OHA's Board of Trustees, the general funds budget is submitted directly to the State Legislature prior to its convening. The Budget is composed of amounts for personnel, operations and provisions for social, education and legal services, and includes the matching Trust Funds for those purposes.

Legislative Review - Once the budget is submitted to the State Legislature, the review process follows that which is applied to the executive branch, with the budget being reviewed by House Finance Committee, Senate Ways and Means Committee, and the respective subject matter committees in the House and Senate. The State Legislature may request provisos and may require financial analysis and evaluation of those programs funded with general funds, but has no discretion over trust fund allocations.

Program Execution - Except as limited by policy decisions of OHA's Board of Trustees, provisions of the State Legislature, and other provisions of law, OHA's Administration is responsible for the proper management of the programs. Appropriation changes and transfers can be authorized by OHA's Board of Trustees; those impacting general funds are reported to the State Legislature.

The budget is adopted for the general fund and is prepared on a basis other than GAAP. The actual results of operations are presented on the budgetary basis in the statement of revenues and expenditures - budget and actual to provide a meaningful comparison of actual results to the legislative budget.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE C - BIENNIAL BUDGET (Continued)

The major differences between the budgetary basis and GAAP basis are that (1) encumbrances are recorded as the equivalent of expenditures under the budgetary basis; and (2) revenue is recognized when received under the budgetary basis.

Adjustments necessary to reconcile the results of operations for the year ended June 30, 2020 from the budgetary basis to GAAP basis are as follows:

	Amount
Excess of revenues over expenditures - actual (budgetary basis)	\$ 57,591
Reserve for encumbrances at June 30, 2020	326,655
Prior year reserve for encumbrances	(78,580)
Accrued payables and payroll	55,898
Expenditures for liquidation of prior-year encumbrances	<u>(204,796)</u>
Revenues over expenditures - actual (GAAP basis)	\$ <u>156,768</u>

NOTE D - APPROPRIATIONS

OHA is authorized to transfer appropriation amounts and staffing positions between programs for operating purposes, provided that a report of all transfers are made to the State Legislature prior to convening of the next legislative session. Act 37, Session Laws of Hawaii 2019 authorized a total of \$3,037,879 in general fund appropriations for fiscal year ended June 30, 2020 and there were no lapsed appropriations for the same period. Act 37 conditioned the release of the same amount of \$3,037,879 for fiscal year ended June 30, 2021 (which began on July 1, 2020) based on the submission of the State Auditor's findings and recommendations in a "financial and management audit". OHA has yet to receive the conditioned appropriation for the fiscal year ended June 30, 2021.

NOTE E - CASH

The State maintains a cash pool that is used by all agencies. OHA's portion of this pool is indicated on the Governmental Funds Balance Sheet as "Cash Held in State Treasury." The Hawai'i Revised Statutes (HRS) authorizes the Director of Finance to invest in obligations of, or guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally-insured financial institutions. OHA has elected not to receive any earnings from this cash pool.

OHA's cash included in State pooled funds is fully collateralized with securities held by third-party agents in the State's name, as required by the HRS, Section 38-8. As of June 30, 2020, OHA's cash held in the State Treasury totaled \$2,358,770. OHA holds cash in banking institutions held outside of the State Treasury to maximize investment returns in accordance with HRS Section 10-5.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE E - CASH (Continued)

As of December 31, 2019, Hi'ilei Aloha LLC had a cash and cash equivalents balance of \$3,954,637. Hi'ilei Aloha LLC and its wholly-owned subsidiary, Hi'ipaka LLC maintain separate legal entity cash accounts with a financial institution in the State of Hawai'i. Balances are insured up to \$250,000 per account holder by the FDIC. Balances may at times, however, exceed the FDIC's insurance limits. As of December 31, 2019, Ho'okele Pono LLC did not have bank balances that exceed FDIC insurance limits. Balances may at times, however, exceed the FDIC's insurance limits.

NOTE F - INVENTORY, PREPAID ITEMS AND OTHER ASSETS

As of June 30, 2020, OHA's governmental funds had inventory, prepaid items and other assets totaling \$304,411. As of December 31, 2019, Hi'ilei Aloha LLC and Ho'okele Pono LLC, had inventory, prepaid items, and other assets of \$287,466 and \$2,084, respectively.

NOTE G - NOTES RECEIVABLE

At June 30, 2020, notes receivable bear interest from 2% to 6.25%, mature on various dates through March 2028, and consists of the following:

	<u>Amount</u>
Notes receivable (of which \$15,528 is guaranteed by the Department of Hawaiian Home Lands (DHHL))	\$ 22,341
Native Hawaiian Revolving Loan Fund	7,102,870
Other	<u>1,226,881</u>
Total	8,352,092
Less allowance for doubtful accounts	<u>(2,376,581)</u>
Notes receivable, net	5,975,511
Amounts due within one year	<u>(979,072)</u>
Amounts due after one year	<u>\$ 4,996,439</u>

NOTE H - INVESTMENTS

Under the HRS Chapter 10, OHA's Board of Trustees may collect, receive, deposit, withdraw, and invest money and property to further the mission of OHA. On May 29, 2003, OHA's Board of Trustees adopted the Native Hawaiian Trust Fund Investment Policy Statement (NHTF investment policy), as updated September 27, 2012. OHA's Board of Trustees maintain responsibility for setting the investment policy guidelines, asset allocation constraints, and monitoring the advisors to ensure they act prudently and follow the investment policy.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE H - INVESTMENTS

OHA's investment policy allows for investments in U.S. large cap, U.S. small cap equities, international equities, core fixed income, high yield, real estate, absolute return, private equity, and private debt securities. Investments as of June 30, 2020 and their maturities were as follows:

Investment type	Fund	Reported Value	Investment maturities (in years)	
			Less than one	One through five
U.S. Treasuries	NHRLF	\$ 14,255,496	\$ 3,454,673	\$ 10,800,823
Mutual funds	NHTF	\$ 193,908,624		
Commingled funds	NHTF	67,213,022		
Alternative investments				
Private equity	NHTF	69,420,428		
Hedge funds	NHTF	43,978,336		
Private debt	NHTF	5,624,066		
Subtotal - NHTF		<u>380,144,476</u>		
Total investments		<u>\$ 394,399,972</u>		

For all investments held in accordance with OHA's NHTF investment policy, funds are managed by investment advisors who are responsible for the prudent management of all assets subject to their oversight and are involved in all key decisions, such as manager selection, within the context set by the investment policy. The advisors are also responsible for the adherence to the NHTF investment policy which provides objectives, guidelines and procedures as to the type of investments, assets allocations, long term targets, asset diversification, benchmark, performance objectives, and of restricted investments. The NHTF investment policy provides for the optimal investment returns to sustain the beneficiaries of the Trust in perpetuity and to uphold the mission of the NHTF.

In addition, OHA has a separate investment policy for the NHRLF, which is restricted to investments in government backed securities (fixed securities) which strive for higher rates of return with the potential for greater principal stability than longer term fixed income investments.

Foreign currency, interest rate, credit and concentration of credit risks for OHA's investments are as follows:

- (1) **Foreign Currency Risk** - To diversify the NHTF portfolio against market fluctuations, OHA's investment policy allows for investments in foreign countries. As of June 30, 2020, OHA's foreign currency risks are as follows:

Investment Type	Currency	Value (US Dollar)
Private equity funds	Euro	\$ 2,278,203

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE H - INVESTMENTS (Continued)

- (2) **Interest Rate Risk** - As a means to limit the amount of exposure to fair market value losses attributed to rising interest rates, OHA's NHRLF investment policy for the liquidity portfolio limits investments to the following maximum maturities:

<u>Type of Investment</u>	<u>Maximum Maturity</u>
U.S. treasuries	5 Years

The duration of the investment portfolio, under normal market conditions, range between plus or minus 50% of the investment policy benchmark.

- (3) **Credit Risk** - Pursuant to 45 C.F.R. 1336.72(a), "any portion of the revolving loan fund that is not required for expenditure must be invested in obligations of the United States or in obligations guaranteed or insured by the United States." At June 30, 2020, credit rates for all securities of government agencies were rated at least Aa (Moody's) or AA (Standard & Poor's).
- (4) **Concentration of Credit Risk** - The NHRLF investment policy states that except for U.S. Treasury securities, fixed income securities will be limited to not more than 5% of the total portfolio, at the time of purchase, in any one issue. OHA is in compliance with this policy.
- (5) **Fair Value Measurements** - The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that OHA can access at the time of measurement date.

Level 2 Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE H - INVESTMENTS (Continued)

If the asset or liability has a specific (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs that are unobservable for the asset or liability.

The fair value of mutual funds and U.S. Treasury obligations is obtained by using the closing price reported on active markets.

The valuation of private equity, commingled funds, hedge funds, and private debt are obtained by using the NAV, and are excluded from the fair value measurement table below.

The following table sets forth by level, within the fair value hierarchy, assets measured at fair value on a recurring basis as of June 30, 2020.

	Fund	Level 1	Level 2	Level 3	Total
Mutual funds					
Blended	NHTF	\$ 88,905,480	\$ --	\$ --	\$ 88,905,480
Bond funds	NHTF	51,225,849	--	--	51,225,849
Value	NHTF	24,827,390	--	--	24,827,390
Diversified emerging markets	NHTF	12,191,426	--	--	12,191,426
Real estate	NHTF	2,627,817	--	--	2,627,817
Growth	NHTF	14,130,662	--	--	14,130,662
Total mutual funds		193,908,624	--	--	193,908,624
U.S. Treasuries	NHRLF	14,255,496	--	--	14,255,496
Total investments at fair value		208,164,120	--	--	208,164,120
Investments held at NAV					
Commingled funds					67,213,022
Alternative investments					
Private equity					69,420,428
Hedge funds					43,978,336
Private debt					5,624,066
Total investments at NAV					186,235,852
Total investments					\$ 394,399,972

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that OHA's investments have fluctuated since June 30, 2020.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE H - INVESTMENTS (Continued)

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Required Redemption Notice</u>
Investments measured at NAV				
Commingled funds				
Domestic equity	\$ 23,032,334	None	Monthly/Quarterly	Various up to trade date
International equity	20,440,652	None	Monthly/Quarterly	Various up to trade date
Domestic core fixed income	23,740,036	None	Monthly/Quarterly	Various up to trade date
Alternative investments				
Marketable alternatives	43,978,336	None	Monthly/Quarterly	Various up to trade date
Illiquid alternatives	<u>75,044,494</u>	26,162,024	Upon realization	Not applicable
Total investments measured at NAV	\$ <u>186,235,852</u>			
Invested securities lending collateral				
Money market fund	\$ <u>2,609,672</u>			Same as trade date

- **Domestic equity** - State Street Equity 500 Index Fund - primary objective is to replicate as closely as possible, before expenses, the performance of the Standard & Poor's 500 Index (the "S&P 500" or sometimes referred to in context as the "Index"). This Index is commonly used to represent the broad U.S. equity market.
- **International equity** - State Street Global Equity ex-U.S. Index Fund - primary objective is to provide investment results, before fees and expenses, correspond generally to the total return performance of a broad-based index of world (ex-U.S.) equity markets over the long term.
- **Domestic core fixed income** - State Street Aggregate Bond Index Fund - primary objective is to provide investment results that, before fees and expenses, correspond generally to the price and yield performance of an index that tracks the U.S. dollar denominated investment grade bond market over the long term.
- **Marketable alternatives** - The marketable alternatives portfolio seeks to provide a consistently positive return source above the risk free rate that has a low volatility and low correlation to other asset classes. The portfolio is diversified by strategies which may include but are not limited to macro, relative value, opportunistic, distressed, market neutral, and quantitative strategies.
- **Illiquid alternatives** - The illiquid alternatives portfolio seeks to enhance total return through investments/partnerships which may have limited liquidity and/or utilize leverage. The types of investments may consist of leveraged buy-outs, venture capital, secondary transactions, private debt (mezzanine, convertible, secured loans), recapitalization, distressed (debt and/or equity), and acquisitions. Staff and investment consultant will conduct diligence on each fund and the CEO must approve commitments into funds. Each commitment is made as a limited partner. The funds are generally illiquid for five to ten years.
- **Money market funds** - State Street Institutional U.S. Government Money Market Fund - primary objective is to maximize current income, to the extent consistent with the preservation of capital and liquidity and the maintenance of a stable \$1.00 per share net asset value ("NAV").

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE I - CAPITAL ASSETS

OHA's capital assets of governmental activities during the year ended June 30, 2020 are as follows:

	Balance July 1, 2019	Additions	Deductions	Balance June 30, 2020
Capital assets not depreciated:				
Land	\$ 213,961,981	\$ --	\$ --	\$ 213,961,981
Construction in progress	<u>21,041</u>	<u>65,017</u>	<u>(21,041)</u>	<u>65,017</u>
	213,983,022	65,017	(21,041)	214,026,998
Capital assets being depreciated:				
Buildings	23,708,949	--	--	23,708,949
Leasehold improvements	6,215,252	--	--	6,215,252
Furniture, fixtures and equipment	<u>6,233,495</u>	<u>179,079</u>	<u>(1,036)</u>	<u>6,411,538</u>
Total capital assets being depreciated	36,157,696	179,079	(1,036)	36,335,739
Less accumulated depreciation	<u>(17,839,962)</u>	<u>(1,066,249)</u>	<u>1,036</u>	<u>(18,905,175)</u>
Capital assets being depreciated, net	<u>18,317,734</u>	<u>(887,170)</u>	<u>--</u>	<u>17,430,564</u>
Governmental activities capital assets, net	<u>\$ 232,300,756</u>	<u>\$ (822,153)</u>	<u>\$ (21,041)</u>	<u>\$ 231,457,562</u>

Hi'ilei Aloha LLC's capital assets activities during the year ended December 31, 2019 are as follows:

	Balance January 1, 2019	Additions	Deductions	Balance December 31, 2019
Capital assets not depreciated:				
Land	\$ 13,072,711	\$ 357,022	\$ --	\$ 13,429,733
Capital assets being depreciated:				
Buildings and improvements	3,445,360	120,854	(48,787)	3,517,427
Furniture, fixtures and equipment	923,806	75,306	(32,112)	967,000
Vehicles	<u>227,402</u>	<u>62,056</u>	<u>--</u>	<u>289,458</u>
Total capital assets being depreciated	4,596,568	258,216	(80,899)	4,773,885
Less accumulated depreciation	<u>(2,489,934)</u>	<u>(362,511)</u>	<u>76,943</u>	<u>(2,775,502)</u>
Total capital assets being depreciated	<u>2,106,634</u>	<u>(104,295)</u>	<u>(3,956)</u>	<u>1,998,383</u>
Capital assets, net	<u>\$ 15,179,345</u>	<u>\$ 252,727</u>	<u>\$ (3,956)</u>	<u>\$ 15,428,116</u>

NOTE J - CAPITAL LEASES

OHA leases photocopiers and mail postage meter machines for all offices. Capital leases are recorded as assets and liabilities and amortized over the term of the lease agreement by use of the straight line method. The amortization of assets recorded under capital leases is included with depreciation expenses. As of June 30, 2020, assets recorded under capital lease included in furniture, fixtures and equipment is approximately \$247,500 and related amortization is approximately \$165,000.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE J - CAPITAL LEASES (Continued)

Annual debt service requirements to maturity for the capital leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 50,461	\$ 2,778
2022	27,439	626
2023	4,606	58
	<u>\$ 82,506</u>	<u>\$ 3,462</u>

NOTE K - OPERATING LEASES

OHA leases office space and equipment under various noncancelable operating leases through November 2024. Future minimum payments under these operating leases as of June 30, 2020 are approximately as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 166,600
2022	141,600
2023	123,500
2024	79,500
2025	10,800
	<u>\$ 522,000</u>

In August 1998, OHA entered into a 35-year lease with the Department of Land and Natural Resources (DLNR) for the use of the premises known as the Old Waialua Court House in Waialua, Oahu. Lease rent is gratis, however, OHA pays for all operating and repair costs associated with maintaining the property. OHA sublets a portion of the property to a not-for-profit organization which reimburses OHA for their portion of the costs associated with maintaining the property as set forth in the lease agreement between OHA and DLNR. Rent expense (including taxes and common area maintenance) under this operating lease totaled approximately \$271,500 for the year ended June 30, 2020.

Hi'ilei Aloha LLC leases office space for its office located in Honolulu, Hawai'i, under a lease that expired in November 2019. The lease includes base rent, plus a proportionate share of building operating expenses and general excise tax.

Rent expense (including taxes and common area maintenance) under operating leases totaled approximately \$110,800 for the year ended December 31, 2019. Hi'ilei Aloha LLC sub-leases a portion of its office space to Ho'okele Pono LLC under an agreement that renews annually. Rent revenue and related expenses of \$1,402 for the year ended December 31, 2019, are eliminated in the government-wide adjustments.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE K - OPERATING LEASES (Continued)

Portions of Kaka'ako Makai, land included in capital assets, and Na Lama Kukui, building included in capital assets, are currently leased under operating lease arrangements that expire through December 2042 and October 2028, respectively. For the year ended June 30, 2020, rental revenue from Kaka'ako Makai and Na Lama Kukui amounted to approximately \$4,903,000 and \$4,509,000 respectively, and are recorded in the PLTF as charges for services.

As of June 30, 2020, approximate minimum future lease rentals under non-cancellable operating leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 4,702,500
2022	3,389,400
2023	1,821,900
2024	941,700
2025	663,900
2026 - 2030	2,936,400
2031 - 2035	2,912,200
2036 - 2040	1,763,400
2040 - 2042	881,700
	<u>\$ 20,013,100</u>

NOTE L - LONG-TERM LIABILITIES

On August 14, 2012, OHA entered into a \$21,370,000 long term note payable with a bank, to finance the purchase of Na Lama Kukui. The interest rate is fixed at 3.35%. The note is due in full on September 1, 2022 and is collateralized by a mortgage lien on the property, assignment of OHA's right, title and interest as landlord in and to any rents under tenant leases and rental agreements on Na Lama Kukui and security interest in all furniture, fixtures, and equipment. On July 26, 2013 the agreement was modified to increase the interest rate to 3.6% and include certain financial covenants. The outstanding balance on the note payable as of June 30, 2020 was \$18,519,648. At June 30, 2020, OHA was in compliance with those covenants. In the event of default, OHA is liable for the immediate repayment of 53.2% of the outstanding principal balance of the loan, together with accrued interest and reimbursement of the fees and costs incurred by the bank in connection with the loan. The remaining 46.8% of the principal balance of the loan and all other obligations under the loan shall be enforced solely against the collateral.

As of June 30, 2020, future principal and interest payments from direct borrowings for the note payable are as follows:

<u>Fiscal Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 640,903	\$ 656,691	\$ 1,297,594
2022	664,360	633,234	1,297,594
2023	<u>17,214,385</u>	<u>154,543</u>	<u>17,368,928</u>
	<u>\$ 18,519,648</u>	<u>\$ 1,444,468</u>	<u>\$ 19,964,116</u>

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE L - LONG-TERM LIABILITIES (Continued)

On June 28, 2013 OHA entered into a \$6,758,000 line of credit to finance the renovation of Na Lama Kukui, which is due in full on June 28, 2023. On January 28, 2015, OHA entered into a \$5,000,000 line of credit to finance OHA's governance planning initiative and other projects, which is due in full on February 3, 2024. OHA had drawn a total of \$5,094,827 between the lines of credit as of June 30, 2020. The interest rates are contingent upon certain elections by OHA. The lines of credit are collateralized by all investment property and financial assets held in certain investment accounts. The lines of credit are also subject to certain financial covenants. At June 30, 2020, OHA was in compliance with those covenants. Future principal and interest payments for direct borrowings on the lines of credit are as follows:

<u>Fiscal Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$ 1,614,666	\$ 172,443	\$ 1,787,109
2022	1,614,666	123,771	1,738,437
2023	1,614,666	55,227	1,669,893
2024	<u>250,829</u>	<u>4,151</u>	<u>254,980</u>
	<u>\$ 5,094,827</u>	<u>\$ 355,592</u>	<u>\$ 5,450,419</u>

In the past, long-term liabilities have generally been paid by the Public Land Trust Fund.

Changes in long-term liabilities for the year ended June 30, 2020 were as follows:

	<u>Balance July 1, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2020</u>	<u>Amount due within one year</u>	<u>Amount due after one year</u>
Compensated absences	\$ 1,423,128	\$ 717,089	\$ (707,973)	\$ 1,432,244	\$ 776,830	\$ 655,414
Capital lease obligation	132,269	--	(49,763)	82,506	50,461	32,045
Note payable	19,136,485	--	(616,837)	18,519,648	640,903	17,878,745
Lines of credit	<u>6,711,039</u>	<u>--</u>	<u>(1,616,212)</u>	<u>5,094,827</u>	<u>1,614,666</u>	<u>3,480,161</u>
Total	<u>\$ 27,402,921</u>	<u>\$ 717,089</u>	<u>\$ (2,990,785)</u>	<u>\$ 25,129,225</u>	<u>\$ 3,082,860</u>	<u>\$ 22,046,365</u>

NOTE M - EMPLOYEE BENEFITS

(1) Defined Benefit Pension Plan

Pension Plan Description - Generally, all full-time employees of the State are required to be members of the Employees' Retirement System of the State of Hawai'i (ERS), a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. The employees of Hi'ilei Aloha LLC and Ho'okele Pono LLC are excluded from the ERS plans. Benefits, eligibility, and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at ERS's website: <https://ers.ehawaii.gov/resources/financials>.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

Benefits Provided - The ERS Pension Trust is comprised of three pension classes for membership purposes and is considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.00%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members 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 members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

Each retiree's original retirement allowance is increased on each July 1 beginning the calendar year after retirement. Retirees first hired as members prior to July 1, 2012 receive a 2.5% increase each year of their original retirement allowance without a ceiling. Retirees first hired as members after June 30, 2012 receive a 1.5% increase each year of their original retirement allowance without a ceiling. The annual increase is not compounded.

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. 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 ten 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.

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.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. 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 the 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 and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

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% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% 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 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 one 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

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 ten years of credited service are eligible to retire at age 60.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

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.

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

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 five 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 surviving spouse/reciprocal 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 until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent 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 five 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 ten 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.

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 ten 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.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

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 ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at time of death but was credited with at least ten 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.

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 rates for fiscal year 2020 was 22.00% for general employees. Contributions to the pension plan from OHA were \$1,846,492 for the year ended June 30, 2020.

Per Act 17 (SLH 2017), employer contributions from the State are expected to increase over four years beginning July 1, 2017. The rate for general employees' increased to 19.00% on July 1, 2018; 22.00% on July 1, 2019; and 24.00% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012, are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012, are required to contribute 9.8% of their salary. Hybrid members hired prior to 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.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, OHA reported a liability of \$34,499,457 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OHA's proportion of the net pension liability was based on a projection of OHA's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2019, OHA's proportion was 0.37% as compared to its proportion measured as of June 30, 2018 of 0.41%.

There were no changes between the measurement date, June 30, 2019, and the reporting date, June 30, 2020, that are expected to have a significant effect on the proportionate share of the net pension liability.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

For the year ended June 30, 2020, OHA recognized pension expense of \$2,377,655. At June 30, 2020, OHA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 599,677	\$ 101,075
Changes in assumptions	2,467,357	469
Net difference between projected and actual earnings on pension plan investments	--	11,723
Changes in proportion and differences between OHA contributions and proportionate share of contributions	77,977	181,970
OHA's contributions subsequent to the measurement date	<u>1,846,492</u>	<u>--</u>
	<u>\$ 4,991,503</u>	<u>\$ 295,237</u>

The \$1,846,492 reported as deferred outflows of resources related to pensions resulting from OHA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending June 30,	Amount
2021	\$ 1,700,662
2022	754,133
2023	156,774
2024	208,204
2025	<u>30,001</u>
	<u>\$ 2,849,774</u>

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS Board of Trustees on August 12, 2019, based on the 2018 Experience Study for the five year period from July 1, 2013 through June 30, 2018:

Inflation	2.50%
Payroll growth rate	3.50%
Investment rate of return	7.00% compounded annually including inflation

Office of Hawaiian Affairs, State of Hawai‘i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

There were no changes to ad hoc postemployment benefits including cost of living allowances.

Mortality rates used in the actuarial valuation as of June 30, 2019 were based on the following:

Healthy retirees: The 2019 Public Retirees of Hawaii mortality table, generational projection using the BB projection table from the year 2019 and with multipliers based on plan and group experience.

Disabled retirees: Base table for healthy retirees’ occupation, set forward five years, generational projection using the BB projection table from the year 2019. Minimum mortality rate of 3.5% for males and 2.5% for females.

The long-term expected rate of return on pension plan investments was determined using a “top down approach” of the Client-Constrained Simulation-based Optimization Model (a statistical technique known as “re-sampling with a replacement” that directly keys in on specific plan-level risk factors as stipulated by the ERS Board of Trustees) 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 nominal rates of return (real returns and inflation) by the target asset allocation percentage. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Strategic Allocation (Risk-Based Classes)</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>	<u>Long-Term Expected Real Rate of Return*</u>
Broad growth	63.0%	7.65%	5.40%
Principal protection	7.0%	3.00%	0.75%
Real return	10.0%	4.55%	2.30%
Crisis risk offset	20.0%	5.15%	2.90%
Total investments	<u>100.0%</u>		

* Uses an expected inflation rate of 2.25%

Discount Rate - The discount rate used to measure the net pension liability at June 30, 2019 was 7.00%, consistent with the rate used at the prior measurement date. 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 State 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 determine the total pension liability.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

Sensitivity of OHA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents OHA's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what OHA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
OHA's proportionate share of the net pension liability	\$ 47,098,829	\$ 34,499,547	\$ 28,512,271

Pension Plan Fiduciary Net Position - The pension plan's fiduciary net position is determined on the same basis used by the pension plan. The ERS's 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 <https://www.ers.hawaii.gov/resources/financials>.

Payables to the Pension Plan - At June 30, 2020, the amount payable to the ERS was \$144,136.

(2) ***Postemployment Health Care and Life Insurance Benefits***

Plan Description - The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the EUTF, an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports/>. The report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten 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 a family plan to cover dependents.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE M - EMPLOYEE BENEFITS (Continued)

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

For employees hired on or after July 1, 2001, and who retire with less than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State 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.

Employees Covered by Benefit Terms - At July 1, 2019, the following number of plan members of the State were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	36,993
Inactive plan members entitled to but not yet receiving benefits	7,678
Active plan members	<u>50,591</u>
Total plan members	<u>95,262</u>

Contributions - Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF from OHA were \$2,053,803 for the year ended June 30, 2020. OHA is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2020, OHA reported a net OPEB liability of \$33,617,094. The net OPEB liability was measured as of July 1, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

At June 30, 2019, OHA's proportionate share of the State's net OPEB liability was 0.27%.

There were no changes between the measurement date, July 1, 2019, and the reporting date, June 30, 2020, that are expected to have a significant effect on OHA's proportionate share of the State's net OPEB liability.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

For the year ended June 30, 2020, OHA recognized OPEB expense of \$143,444. At June 30, 2020, OHA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ --	\$ 402,703
Changes in assumptions	370,296	--
Net difference between projected and actual earnings on OPEB plan investments	49,262	--
OHA's contributions subsequent to the measurement date	<u>2,053,803</u>	<u>--</u>
	\$ <u>2,473,361</u>	\$ <u>402,703</u>

The \$2,053,803 reported as deferred outflows of resources related to OPEB resulting from OHA's contribution subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30,	Amount
2021	\$ 1,079
2022	1,079
2023	4,056
2024	4,681
2025	4,808
Thereafter	<u>1,152</u>
	\$ <u>16,855</u>

Actuarial Assumptions - The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 13, 2020, based on the experience study covering the five-year period ended June 30, 2018 as conducted for the ERS:

Inflation	2.50%
Payroll growth rate	3.50% to 7.00%, including inflation
Investment rate of return	7.00%

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

Healthcare cost trend rates:

PPO*	Initial rates of 8.00%; declining to a rate of 4.86% after 12 years
HMO*	Initial rates of 8.00%; declining to a rate of 4.86% after 12 years
Contribution	Initial rates of 5.00%; declining to a rate of 4.70% after 11 years
Dental	Initial rates of 5.00% for the first two years; followed by 4.00%
Vision	Initial rates of 0.00 for the first two years; followed by 2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drug.

Mortality rates used in the actuarial valuation as of June 30, 2019 were based on the following:

Active members: Multiples of the RP 2014 mortality table for active employees based on the occupation of the member.

Healthy retirees: The 2019 Public Retirees of Hawaii mortality table, generational projection using the BB projection table from the year 2019 and with multipliers based on plan and group experience.

Disabled retirees: Base table for healthy retirees' occupation, set forward five years, generational projection using the BB projection table from the year 2019. Minimum mortality rate of 3.5% for males and 2.5% for females.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB 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.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

The target allocation and best estimates of arithmetic real rates of return for each asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Private equity	10.00%	8.80%
U.S. microcap	7.00%	7.30%
U.S. equity	15.00%	5.35%
Non-U.S. equity	17.00%	6.90%
Global options	7.00%	4.75%
Core real estate	10.00%	3.90%
Private credit	6.00%	5.60%
Core bonds	3.00%	1.50%
TIPS	5.00%	1.20%
Long treasuries	6.00%	2.00%
Alternative risk premia	5.00%	2.75%
Trend following	9.00%	3.25%
	100.00%	

Single Discount Rate - The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00% and the municipal bond rate of 3.62% (based on the daily rate closet to but not later than the measurement date of the Fidelity "20-year Municipal GO AA index"). Beginning with the fiscal year 2019 contribution, the State's funding policy is to pay the recommended actuarially determined contribution, which is based on layered, closed amortization periods. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

OPEB Plan Fiduciary Net Position - The OPEB plan's fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF's financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer 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 on a trade-date basis. Administrative expenses are financed exclusively with investment income. There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. EUTF's complete financial statements are available at <https://eutf.hawaii.gov/reports/>.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

Changes in OHA's Proportionate Share of the State's Net OPEB Liability - The following table represents a schedule of changes in OHA's proportionate share of the State's net OPEB liability. The ending balances are as of the measurement date, July 1, 2019.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2019	\$ 37,384,200	\$ 3,797,407	\$ 33,586,793
Changes for the fiscal year:			
Service cost	638,464	--	638,464
Interest on the total OPEB liability	2,012,496	--	2,012,496
Contributions - employer	--	2,125,953	(2,125,953)
Net investment income	--	193,288	(193,288)
Benefit payments	(963,777)	(963,777)	--
Administrative expense	--	(1,328)	1,328
Difference between expected and actual experience	(16,757)	--	(16,757)
Change in assumptions	161,749	--	161,749
Other	--	447,738	(447,738)
Net changes	<u>1,832,175</u>	<u>1,801,874</u>	<u>30,301</u>
Balance at June 30, 2020	\$ <u>39,216,375</u>	\$ <u>5,599,281</u>	\$ <u>33,617,094</u>

Sensitivity of OHA's Proportionate Share of the State's Net OPEB Liability to Changes in the Discount Rate - The following table represents OHA's proportionate share of the State's net OPEB liability calculated using the discount rate of 7.00%, as well as what OHA's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
OHA's proportionate share of the net OPEB liability	\$ <u>40,054,165</u>	\$ <u>33,617,094</u>	\$ <u>28,537,931</u>

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE M - EMPLOYEE BENEFITS (Continued)

Sensitivity of OHA's Proportionate Share of the State's Net OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following table represents OHA's proportionate share of the State's net OPEB liability calculated using the assumed healthcare cost trend rate, as well as what OHA's net OPEB liability would be if it were calculated using a trend rate that is one percentage point lower or one percentage point higher than the current healthcare cost trend rate:

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
OHA's proportionate share of the net OPEB liability	\$ <u>28,306,551</u>	\$ <u>33,617,094</u>	\$ <u>40,478,240</u>

Payables to the OPEB Plan - OHA's employer contributions payable to the EUTF as of June 30, 2020, was \$-0-.

- (3) ***Deferred Compensation*** - The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's nor OHA's financial statements.

- (4) ***Hi'ilei Aloha LLC and Ho'okele Pono LLC Retirement Plan*** - Hi'ilei Aloha LLC and Ho'okele Pono LLC offer 401(k) profit sharing plans. Employees become eligible upon six months of employment and may contribute to the plan to the extent allowed by law. Hi'ilei Aloha LLC and Ho'okele Pono LLC match employees' contributions up to a specified percentage of salary. For the year ended December 31, 2019, contribution expense amounted to \$80,068 and \$1,267 for Hi'ilei Aloha LLC and Ho'okele Pono LLC, respectively.
- (5) ***Sick Leave*** - Accumulated sick leave amounted to approximately \$2,930,000 as of June 30, 2020. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Employees who retire or leave government service in good standing with sixty or more unused sick days are entitled to additional service credit in the ERS. Accordingly, no liability for sick leave is recorded in the accompanying basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE N - NON-IMPOSED EMPLOYEE FRINGE BENEFITS

Payroll fringe benefit costs for employees of OHA funded by state appropriations (general fund) are assumed by the State and are not charged to OHA's operating funds. These costs, totaling \$660,844 for the year ended June 30, 2020, have been reported as revenues and expenditures of OHA's general fund.

NOTE O - RISK MANAGEMENT AND CONTINGENT LIABILITIES

- (1) ***Workers' Compensation and Other Self-Insurance Liabilities*** - As a state agency, the Office of Hawaiian Affairs (OHA) participates in the State's risk management program. The State maintains certain insurance coverage to satisfy bond indenture agreements, cover liability and property exposures as well as for other risk mitigation purposes, but is substantially self-insured for many perils. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. In addition to the coverages provided by the State under the State's risk management program, the OHA purchases public officials and employment practices liability insurance, bankers' professional liability insurance, property coverage and general and excess liability coverage for property owned or required by lease agreements entered into.

The State is self-insured for workers' compensation. Accordingly, the OHA is liable for workers' compensation claims filed by its employees to the extent not otherwise covered by insurance. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. Beginning in fiscal year 2013 OHA began purchasing a third party workers' compensation policy, but was still liable for outstanding claims related to periods in which the OHA was self-insured. As of June 30, 2020, there are no outstanding claims for which OHA is liable.

- (2) ***Quiet Title Litigation*** - Under Haw. Rev. Stat. Section 669-3(e), OHA is required to be statutorily joined as a defendant in any action to quiet title to an interest in kuleana if an owner of an inheritable interest in the kuleana died intestate or partially intestate and without any heirs or other takers. OHA typically responds in these actions by answering the complaint, seeking discovery and information, reviewing the evidence to determine whether OHA has an escheat interest in the kuleana, and participating in the litigation as necessary. OHA retains outside counsel for quiet title litigation. As of June 30, 2020, OHA is currently evaluating its potential interest in 11 quiet title actions. OHA continues to monitor these actions for any potential escheated interest.
- (3) ***Litigation*** - OHA is a party to administrative and court proceedings that arise in the ordinary course of business. Although occasional adverse decisions (or settlements) may occur, OHA believe that the final disposition of such matters will not have a material adverse effect on the financial position or changes in the financial position of OHA.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE P - RELATED PARTY TRANSACTIONS

OHA receives a portion of ceded land revenues from various state agencies. In June 2006, Act 178 was passed which laid the foundation for a quarterly guaranteed ceded land revenue stream of \$3,775,000, totaling \$15,100,000 per year. Ceded land revenue of \$15,100,000 is included as public land trust revenue in the PLTF. As of June 30, 2020 \$2,539,560 is included in accounts receivable, net in the PLTF.

Besides property leased from DLNR, as discussed in Note K, Executive Order 3724 granted OHA a set aside of land located in Kekaha, Kaua'i (Kekaha Armory), to be used for Hawaiian cultural and educational purposes in which OHA would control and manage the property. OHA is responsible for all maintenance costs associated with the property. Upon cancellation of the Executive Order and/or in the event of non-use for a continuous period of one year, for purposes described above, the property will revert back to DLNR, free of all liens and encumbrances. Unless sooner terminated, OHA leases the Kekaha Armory to a not-for-profit organization for a maximum period of 65 years commencing on November 2000, to utilize such property for purposes in accordance with the Executive Order.

In December 2008, OHA and DHHL mutually agreed to a collaborative financing arrangement to provide funds for DHHL's use in the planning, design and construction of infrastructure for homesteads for native Hawaiians on properties owned and controlled by DHHL, in fulfillment of OHA's mission to better the conditions of Native Hawaiians. OHA's commitment under the agreement was to pay DHHL an annual fee not to exceed \$3,000,000 for 23 years. Payments to DHHL are presented as beneficiary advocacy expenditures in the PLTF; governmental funds - statement of revenues, expenditures, and changes in fund balances. As of June 30, 2020, OHA has approximately \$36,000,000 in future payments committed to DHHL.

NOTE Q - PRIOR PERIOD ADJUSTMENTS

The accompanying financial statements reflect adjustments resulting from a restatement of the beginning net position in governmental activities and fund balance of the Federal Grants Fund as of June 30, 2019 of \$63,654. The effect for the fiscal year ended June 30, 2019 was a decrease in interest and investment earnings and change in net position for governmental activities and a decrease in interest and investment earnings and net change in fund balance for the Federal Grants Fund of \$63,654.

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF OHA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
Last Ten Fiscal Years

Measurement Period Ended	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a %age of Covered Payroll	Plan Fiduciary Net Position as a %age of the Total Pension Liability
June 30, 2019	0.41%	\$ 34,499,547	\$ 8,810,968	391.55%	54.80%
June 30, 2018	0.41%	\$ 32,698,545	\$ 9,008,205	362.99%	54.80%
June 30, 2017	0.41%	\$ 31,892,391	\$ 10,027,875	318.04%	54.80%
June 30, 2016	0.42%	\$ 32,669,717	\$ 10,033,406	325.61%	51.28%
June 30, 2015	0.43%	\$ 21,773,504	\$ 9,966,952	218.46%	62.42%
June 30, 2014	0.42%	\$ 20,332,122	\$ 9,270,781	219.31%	63.92%
June 30, 2013	0.43%	\$ 22,136,982	\$ 9,028,381	245.19%	57.96%

Note: GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF CONTRIBUTIONS (PENSION)
Last Ten Years *

Year Ended	Statutorily Required Contribution	Contributions in Relation to Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2020	\$ 1,846,492	\$ 1,846,492	\$ --	\$ 8,362,878	22.08%
June 30, 2019	\$ 1,663,734	\$ 1,663,734	\$ --	\$ 8,810,968	18.88%
June 30, 2018	\$ 1,694,776	\$ 1,621,477	\$ 73,299	\$ 9,008,205	18.81%
June 30, 2017	\$ 1,633,906	\$ 1,633,906	\$ --	\$ 10,027,875	16.29%
June 30, 2016	\$ 1,705,768	\$ 1,634,903	\$ 70,865	\$ 10,033,406	17.00%
June 30, 2015	\$ 1,644,547	\$ 1,644,547	\$ --	\$ 9,966,952	16.50%
June 30, 2014	\$ 1,483,325	\$ 1,483,325	\$ --	\$ 9,270,781	16.00%

* GASB 67 was implemented in 2014. This schedule is being built prospectively. Ultimately, ten years of data will be presented.

Office of Hawaiian Affairs, State of Hawai‘i
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 68
Year Ended June 30, 2020

There were no changes of assumptions or other inputs that significantly affected the measurement of the total pension liability since the measurement period June 30, 2016.

Amounts reported in the schedule of the proportionate share of the net pension liability as of the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017) were significantly impacted by the following changes of actuarial assumptions:

- The investment return assumption decreased from 7.65% to 7.00%
- Mortality assumptions were modified to assume longer life expectancies as well as to reflect continuous mortality improvement

Prior to the measurement period ended June 30, 2016 (fiscal year ended June 30, 2017), there were no other factors, including the use of different assumptions that significantly affect trends reported in these schedules.

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
Year Ended June 30, 2020*

	2020	2019	2018
Total OPEB liability			
Service cost	\$ 638,464	\$ 631,702	\$ 510,265
Interest on the total OPEB liability	2,012,496	1,955,895	1,549,389
Difference between expected and actual experience of the total OPEB liability	(16,757)	(578,349)	--
Change in assumptions	161,749	350,035	--
Benefit payments	(963,777)	(952,352)	(766,044)
Net change in total OPEB liability	1,832,175	1,406,931	1,293,610
Total OPEB liability - Beginning	<u>37,384,200</u>	<u>35,977,269</u>	<u>34,683,659</u>
Total OPEB liability - Ending	<u>\$ 39,216,375</u>	<u>\$ 37,384,200</u>	<u>\$ 35,977,269</u>
Plan fiduciary net position			
Contributions - employer	\$ 2,125,953	\$ 1,881,695	\$ 1,523,372
Net investment income	193,288	216,804	152,522
Benefit payments	(963,777)	(952,352)	(766,044)
Administrative expense	(1,328)	(710)	(391)
Other	447,738	--	12,248
Net change in plan fiduciary net position	1,801,874	1,145,437	921,707
Plan fiduciary net position - Beginning	<u>3,797,407</u>	<u>2,651,970</u>	<u>1,730,263</u>
Plan fiduciary net position - Ending	<u>\$ 5,599,281</u>	<u>\$ 3,797,407</u>	<u>\$ 2,651,970</u>
Net OPEB liability	<u>\$ 33,617,094</u>	<u>\$ 33,586,793</u>	<u>\$ 33,325,299</u>
Plan fiduciary net position as a percentage of the total OPEB liability	14.28%	10.16%	7.37%
Covered payroll	\$ 8,810,968	\$ 9,008,205	\$ 10,027,875
Net OPEB Liability as a Percentage of Covered Payroll	381.54%	372.85%	369.94%

* The schedule is intended to present information for ten years for each respective fiscal year. Additional years will be built prospectively as information becomes available.

Office of Hawaiian Affairs, State of Hawai‘i
SCHEDULE OF CONTRIBUTIONS (OPEB)
Last Ten Years*

<u>Year Ended</u>	<u>Actuarially Determined Contribution (ADC)</u>	<u>Contributions in Relation to the ADC</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2020	\$ 2,144,512	\$ 2,053,803	\$ 90,709	\$ 8,362,878	25.64%
June 30, 2019	\$ 2,125,952	\$ 2,048,768	\$ 77,184	\$ 8,810,968	24.13%
June 30, 2018	\$ 2,123,100	\$ 1,881,695	\$ 241,405	\$ 9,008,205	23.57%

* The data is presented for the years for which information is available.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 75
Year Ended June 30, 2020

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the fiscal year ended June 30, 2020:

Actuarial valuation date	July 1, 2018
Actuarial cost method	Entry Age Normal
Amortization method*	Level percent, closed
Remaining amortization period	25 years
Asset valuation method	Smoothed
Actuarial assumptions	
Investment rate of return	7.00%
Payroll growth	3.50%
Healthcare inflation rates	
PPO**	8.00% initial, declining to 4.86% after 12 years
HMO**	8.00% initial, declining to 4.86% after 12 years
Part B	5.00% initial, declining to 4.70% after 11 years
Dental	5.00% for the first 2 years, then to 4.00% for all future years
Vision	0.00% for the first 2 years, then 2.50% for all future years

* Closed bases are established at each valuation for new unfunded liabilities.

** Blended rates for medical and prescription drugs.

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAI'I**

**REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS AND
UNIFORM GUIDANCE**

Year Ended June 30, 2020



N&K CPAs, Inc.

ACCOUNTANTS|CONSULTANTS

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

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OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAI'I

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PART I

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

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

To the Board of Trustees of the Office of Hawaiian Affairs,
State of Hawai'i

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Office of Hawaiian Affairs (OHA), State of Hawai'i, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise OHA's basic financial statements, and have issued our report thereon dated March XX, 2021. Our report includes a reference to another auditor who audited the financial statements of Hi'ilei Aloha, LLC as described in our report on OHA's financial statements. This report includes our consideration of the results of the other auditor's testing of internal control over financial reporting and compliance and other matters that are reported on separately by that other auditor. However, this report, insofar as it relates to the results of the other auditor, is based solely on the report of the other auditor.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered OHA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OHA's internal control. Accordingly, we do not express an opinion on the effectiveness of OHA's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompany schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether OHA's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditor disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Honolulu, Hawaii
March XX, 2021

PART II

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND
NATIVE HAWAIIAN LOAN FUND FINANCIAL STATEMENTS**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE AND
NATIVE HAWAIIAN LOAN FUND FINANCIAL STATEMENTS**

To the Board of Trustees of the Office of Hawaiian Affairs,
State of Hawai'i

Report on Compliance for Each Major Federal Program

We have audited the Office of Hawaiian Affairs (OHA), State of Hawai'i's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of OHA's major federal programs for the year ended June 30, 2020. OHA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions applicable to its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of OHA's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about OHA's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of OHA's compliance.

Opinion on Each Major Federal Program

In our opinion, OHA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of OHA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered OHA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of OHA's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Native Hawaiian Revolving Loan Fund Financial Statements

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OHA as of and for the year ended June 30, 2020, and the related notes to the financial statements which collectively comprise OHA's basic financial statements. We issued our report thereon dated **March XX, 2021**, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. The accompanying Native Hawaiian Revolving Loan Fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and, except for the portion marked "unaudited," was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. That information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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, that information is fairly stated in all material respects in relation to the basic financial statements as a whole. The information marked as "unaudited" has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Honolulu, Hawaii
March XX, 2021

DRAFT

PART III
FINANCIAL INFORMATION

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Department of Transportation			
Pass-through Department of Transportation - State of Hawai'i			
Highway Planning and Construction Cluster			
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	20358600	\$ <u>243,389</u>
Total Highway Planning and Construction Cluster			<u>243,389</u>
Total Department of Transportation			<u>243,389</u>
Department of Health and Human Services			
Native American Programs			
Native Hawaiian Revolving Loan Program	93.612	N/A	<u>2,272,478</u>
Total Department of Health and Human Services			<u>2,272,478</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,515,867</u>

The accompanying notes are an integral part of this schedule.

Office of Hawaiian Affairs, State of Hawai‘i
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2020

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of OHA under programs of the federal government for the year ended June 30, 2020. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of OHA, it is not intended to and does not present the financial position, changes in financial position, or cash flows of OHA.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported in accordance with the modified-accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

OHA has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE D - NATIVE HAWAIIAN REVOLVING LOAN PROGRAM

The Native Hawaiian Revolving Loan Program is administered directly by OHA and balances and transactions related to this program are included in OHA’s basic financial statements. Loans issued during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2020 was \$7,102,870.

Office of Hawaiian Affairs, State of Hawai'i
Native Hawaiian Revolving Loan Fund
BALANCE SHEET
June 30, 2020

ASSETS

ASSETS

Cash held in banks	\$ 5,003,333
Cash held by investment managers	319,756
Interest and dividends receivable	101,867
Notes receivable, net of allowance for doubtful accounts	5,770,613
Investments	14,255,496
Due from other funds	<u>148</u>
Total assets	<u>\$ 25,451,213</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ <u>45,556</u>
Total liabilities	<u>45,556</u>

FUND BALANCE

Restricted	
Beneficiary advocacy	82,355
Long-term portion of notes receivable	4,879,877
Native Hawaiian loan program	<u>20,443,425</u>
Total fund balance	<u>25,405,657</u>
Total liabilities and fund balance	<u>\$ 25,451,213</u>

Office of Hawaiian Affairs, State of Hawai'i
Native Hawaiian Revolving Loan Fund
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
Year Ended June 30, 2020

REVENUES

Loan interest income	\$ 598,770
Investment earnings	294,959
Other revenue	<u>36,187</u>
Total revenues	<u>929,916</u>

EXPENDITURES

Salaries and fringe benefits	405,923
Services	235,241
Bad debt expense	99,749
Investment manager fee	35,935
Rent	31,585
Travel	5,877
Legal services	3,190
Other expenses	<u>10,638</u>
Total expenditures	<u>828,138</u>

NET CHANGE IN FUND BALANCE	101,778
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FUND BALANCE AT JULY 1, 2019, AS PREVIOUSLY REPORTED	25,367,533
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Prior period adjustment	<u>(63,654)</u>
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FUND BALANCE AT JULY 1, 2019, AS RESTATED	25,303,879
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FUND BALANCE AT JUNE 30, 2020	<u>\$ 25,405,657</u>
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Office of Hawaiian Affairs, State of Hawai'i
Native Hawaiian Revolving Loan Fund
STATEMENT OF CASH FLOWS (UNAUDITED)
Year Ended June 30, 2020

Cash flows from operating activities	
Net change in fund balance	\$ 101,778
Adjustments to reconcile net change in fund balance to net cash used in operating activities:	
Bad debt expense	99,749
Net change in fair value of investment securities	(294,959)
Amortization of discount on investment securities	(17,506)
Increase in:	
Interest and dividends receivable	3,315
Prepaid expenses	2,620
Due from other funds	(148)
Increase in:	
Accounts payable	(19,073)
Due to other funds	(48,084)
Net cash used in operating activities	<u>(172,308)</u>
Cash flows from investing activities	
Purchase of investments	(5,304,632)
Proceeds from maturities of investments	5,244,878
Notes receivable issued	(1,444,337)
Proceeds from repayment of notes receivable	<u>1,729,932</u>
Net cash provided by investing activities	<u>225,841</u>
NET INCREASE IN CASH	53,533
Cash at beginning of year	<u>5,269,556</u>
Cash at end of year	<u>\$ 5,323,089</u>
Cash consists of:	
Cash in banks	\$ 5,003,333
Cash held by investment manager	<u>319,756</u>
	<u>\$ 5,323,089</u>

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PART IV
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2020

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(ies) identified?

☒ yes ☐ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

☐ yes ☒ no

Significant deficiency(ies) identified?

☐ yes ☒ none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

☐ yes ☒ no

Identification of major federal programs:

CFDA Number

Name of Federal Program

93.612

Native American Programs

Dollar threshold used to distinguish between type A and type B programs:

\$ 750,000

Auditee qualified as low-risk auditee?

☒ yes ☐ no

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Year Ended June 30, 2020

SECTION II - FINANCIAL STATEMENT FINDINGS

<u>Ref No.</u>	Internal Control Findings
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2020-001	Reconciliation of the General Ledger to Financial Statements (Significant Deficiency)
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Criteria:	Financial statements should be prepared based on the books and records of OHA.
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Condition:	During the current year audit, it was noted that the fund balance of the Federal Grant Fund as of July 1, 2019 did not agree to OHA's financial statements as of and for the fiscal year ended June 30, 2019.
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Cause:	Subsequent to year end a journal entry was recorded in the Federal Grant Fund as of June 30, 2019.
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Effect:	Policies and procedures related to OHA's financial statement closing process did not prevent or detect this error. Net assets as of July 1, 2019 have been restated and have been decreased by \$63,654 as a result of this error.
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Identification as a Repeat Finding, if applicable:

Not applicable.

Recommendation:

We recommend that management exercise greater care to ensure that OHA's financial statements agree or reconcile to OHA's to the general ledger.

Views of Responsible Officials and Planned Corrective Action:

OHA management agrees with the finding and the recommendation. See Part V Correction Action Plan.

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PART V
CORRECTIVE ACTION PLAN



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

560 N. NIMITZ HWY., SUITE 200
HONOLULU, HAWAII 96817

March **X**, 2021

The Honorable Michelle Sauve
Acting Commissioner
Administration for Native Americans
U.S. Department of Health & Human Services
Mary E. Switzer Memorial Building
330 C Street, SW
Washington, DC 20201

VIA: E-Mail

Re: Corrective Action Plan

Dear Acting Commissioner Sauve,

The Office of Hawaiian Affairs (OHA) respectfully submits the following corrective action plan for the sole financial statement finding as listed on the Schedule of Findings and Questioned Costs dated June 30, 2020:

Name and Address of Independent Public Accounting Firm: N&K CPAs, Inc., 999 Bishop Street, Suite 2200, Honolulu, HI 96813

Audit Period: July 1, 2019 to June 30, 2020

Finding: Financial Statement, Internal Control Finding, Significant Deficiency

Ref No. 2020-001: Reconciliation of the General Ledger to Financial Statements

Recommendation: We recommend that management exercise greater care to ensure that OHA's financial statements agree or reconcile to OHA's general ledger.

Views of Responsible Officials and Planned Corrective Action: OHA management agrees with the finding and the recommendation and provides additional contextual information. A loan schedule was prepared for the Native Hawaiian Revolving Loan Fund (NHRLF) as of June 30, 2019. This loan schedule included incorrect maturity dates that overstated interest income by \$63,654 over 71 accounts. A corrected loan schedule

was subsequently submitted, and the adjustment was made in June 30, 2019 on the NHRLF general ledger. However, the external auditors did not receive this adjustment and it was not reflected on the NHRLF audited financial statements. A reconciliation of the general ledger to the audited financial statements was not performed that would have caught the omission.

Management considers this an isolated incident. There are explanations as to how this incident occurred; however, at the end of the day, management takes responsibility of this oversight and it will not happen again.

If there are any questions, please feel free to reach out via e-mail (sylviah@oha.org) or via phone 808-594-1973.

Sincerely,

Sylvia M. Hussey, Ed.D.
Ka Pouhana, Chief Executive Officer

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PART VI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Office of Hawaiian Affairs, State of Hawai‘i
STATUS REPORT
Year Ended June 30, 2020

No prior audit findings which apply under the current criteria of the Uniform Guidance were noted.

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