

## 2002 Annual Report : Office of Hawaiian Affairs

Office of Hawaiian Affairs

Kū i ka Māna

With financial statements from July 1, 2001 to June 30, 2002

SECURITY

Security Services and Systems  
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## Board of Trustees during fiscal year 2002

**Haunani Apoliona, MSW**  
Chairperson, Trustee, At-large

**Linda K. Dela Cruz**  
Vice Chair, Trustee, Hawai'i

**Rowena Akana**  
Trustee, At-large

**Donald B. Cataluna**  
Trustee, Kaua'i & Ni'ihau

**Clayton Hee**  
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**Colette Y. P. Machado**  
Trustee, Moloka'i & Lāna'i

**Charles Ota**  
Trustee, Maui

**Oz Stender**  
Trustee, At-large

**John D. Waihe'e IV**  
Trustee, At-large

## BOARD OF TRUSTEES, DECEMBER 2002

b o a r d o f t r u s t e e s

## BOARD



**Haunani  
Apoliona, MSW**



**Dante Keala  
Carpenter**



**Rowena  
Akana**



**Linda K.  
Dela Cruz**

**Donald B.  
Cataluna**



## OFFICE OF HAWAIIAN AFFAIRS

## NĀ KAHU WAIWAI O KE KE'ENA KULEANA HAWAI'I

**Haunani  
Apoliona, MSW**  
Chairperson  
Trustee, At-large

**Donald B.  
Cataluna**  
Vice Chair  
Trustee, Kaua'i  
& Ni'ihau

**Rowena  
Akana**  
Trustee, At-large

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**Lilia Kapuni'ai**, Hee  
**Gaye Miyasaki**, Akana  
**'I'ini Nicholas**, Hee  
**Kekai Perry**, Machado

**Ikaika Rawlins**, Stender  
**Martha Ross**, Apoliona  
**Winona Rubin**, Apoliona  
**Marion Shim**, Cataluna  
**Jojo Tanimoto**, Dela Cruz

**Kiva Contreras**, Hee  
**Lei-Ann Durant**, Stender  
**Reynold Freitas**, Apoliona  
**Francine Murray**, Waihe'e  
**Bobbi Ray**, Cataluna

**Gladys Rodenhurst**, Akana  
**LoriAnn Santos**, Machado  
**Jessie A. Torres**, Dela Cruz  
**Lori Vierra**, Hee  
**Tiona Wailehua**, Ota

# OFF TRUSTEES

**Colette  
Machado**



**Boyd P.  
Mossman**

**Oz Stender**



**John D.  
Waihe'e IV**

Kumu Hula Māpuana de Silva's Hālau Mōhala 'Ilima shares a moment of silence in the vast expanse of Kilauea crater.

**Colette  
Machado**

Trustee, Moloka'i  
& Lāna'i

**Boyd P.  
Mossman**

Trustee, Maui

**Oz  
Stender**

Trustee, At-large

**John D.  
Waihe'e IV**

Trustee, At-large

## Chairperson's Message

Welina mai kākou:



**Haunani Apoliona**

Chairperson  
Trustee, At-large

On behalf of the Board of Trustees of the Office of Hawaiian Affairs, we are pleased to present you with our fiscal year 2002 annual report to the community. You will note in this report that the year was a rigorous, challenging, yet satisfying one for the many people who have assisted us in better serving our beneficiaries.

During the year 2002, the Board, Administration and OHA Staff, with the support of community groups were able to accomplish the following:

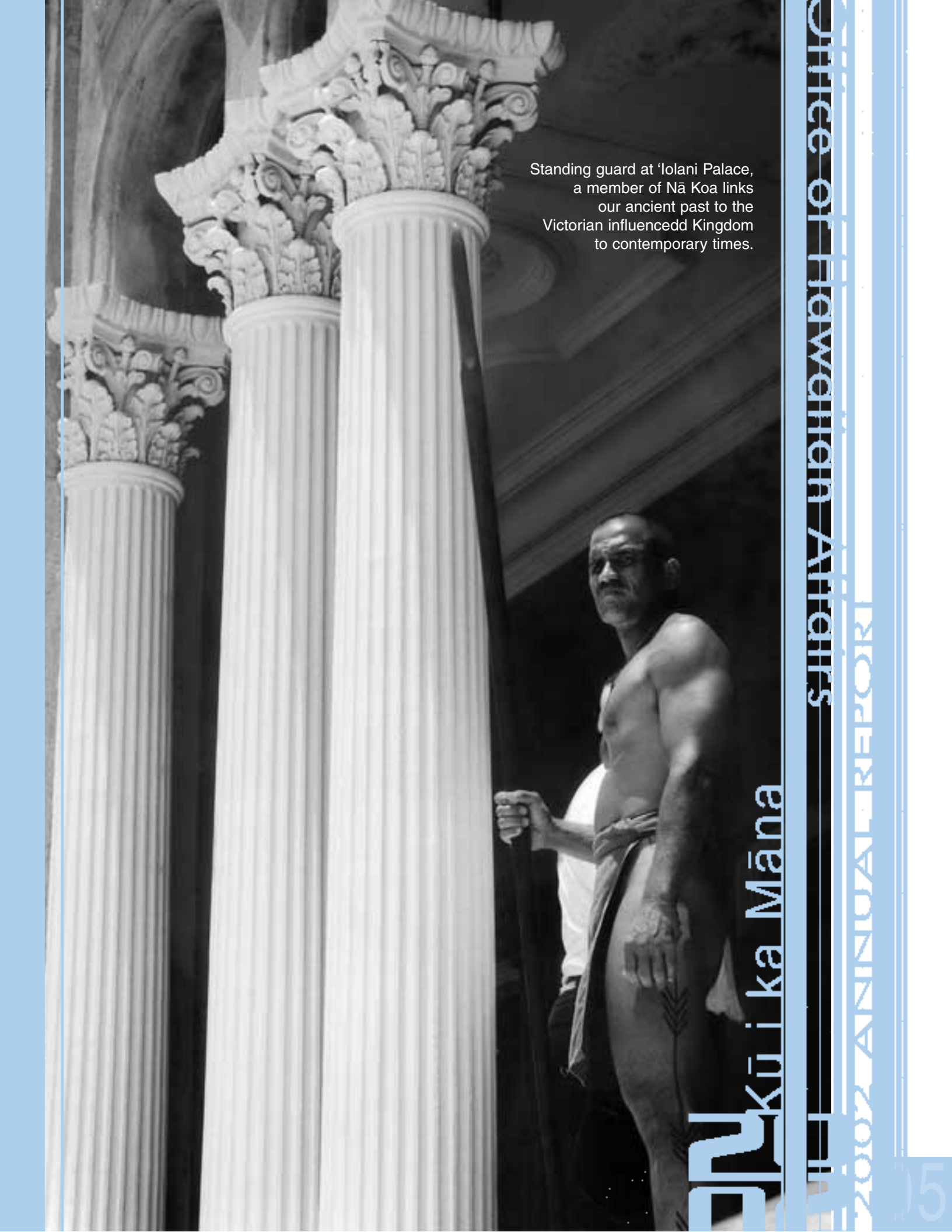
- Completed the OHA Strategic Plan for 2002-2007 and instituted a Program Planning Budget System in concert with planned priorities
- Implemented a Native Hawaiian Registry in March as a continuing project on all islands
- Signed a Memorandum of Agreement with the State Department of Land and Natural Resources for OHA matching funds of up to \$1.35 million for legislative appropriations of \$1.75 million for Kikala-Keōkea subdivision on Hawaii Island
- Approved \$1.5 million five-year grant to the University of Hawai'i at Mānoa Kamakakūokalani Center for Hawaiian studies research and training on ceded land issues and cultural education
- Launched the first-ever Native Hawaiian home buying program in the state in collaboration with Fannie Mae, Bank of Hawai'i and First Hawaiian Bank
- Collaborated with the National Congress of American Indians (NCAI) and the Alaska Federation of Natives (AFN) in a first ever National Roundtable of three indigenous peoples sponsored by the United States Senate Committee on Indian Affairs in Washington, D.C.
- Hosted televised forums on the University of Hawai'i and East-West Center campuses in September for gubernatorial candidates from several political parties and in November for the governor and lieutenant governor candidates from the two major political parties, with great success
- In November, a demand letter was delivered to Governor Cayetano for overdue ceded lands payments, since July 2001, of over \$10 million
- In December, transmitted a letter to Governor Lingle as a reminder of her promise to enable the expeditious payment by the State of the overdue payments to OHA
- Brought suit (*OHA v. Sean O'Keefe, et al*) against the National Aeronautics and Space Administration (NASA) and the University of Hawai'i's Institute for Astronomy (IFA) on our beneficiaries' concerns regarding Mauna Kea developments
- Initiated a strong legal response to a suit challenging the existence of OHA and DHHL in *Arakaki, et al v. Cayetano, et al*, filed on March 4th.

The year 2002 has been eventful and encouraging despite legal and other challenges to our existence. We look forward to a brighter and stronger proactive stance toward a promising future for Hawaiians and all Hawai'i nei.

E alu like mai kākou, e nā 'ōiwi o Hawai'i.

Me ka 'ōia'i'o,

Haunani Apoliona  
Chairperson, Board of Trustees



Standing guard at 'Iolani Palace,  
a member of Nā Koa links  
our ancient past to the  
Victorian influenced Kingdom  
to contemporary times.

**2022 ANNUAL REPORT**  
Kū i ka Māna



**Clyde W. Nāmu'o**

*Administrator*

## **Administration Staff**

**Lani Akana**, *clerk typist*

**Barbara Yuen**, *secretary*

# OHA

Aloha mai kākou

It continues to be an honor and a privilege to serve the beneficiaries of the Office of Hawaiian Affairs and its Board of Trustees as OHA's administrator. Nearly 100 staff members support our mission, "to better the conditions of Hawaiians," in OHA's main administrative office in Honolulu, as well community liaison offices in Kona, Hilo, Kahului, Kaunakakai and Lihue.

Fiscal year 2002 was pivotal for the Office of Hawaiian Affairs with a number of new initiatives of the Board of Trustees and Administration. The centerpiece of activities was the development of the OHA Strategic Plan 2002-2007. Driven by community input and the hard work of a core planning group, the Strategic Plan provides a road map for OHA programs and activities for the next five years. Activities supporting the Strategic Plan took effect July 1, 2002, with activities mirroring the ten goals adopted by the Board of Trustees (see facing page).

Core group members were Trustees Donald Cataluna and John Waihe'e IV; Trustee Aides Marion Shim and Crayn Kauahi Akina; OHA staff Jalna Keala and Rona Rodenhurst; and community members Julian Ako and Myron "Pinky" Thompson. Our heartfelt aloha goes out to the late Pinky Thompson's 'ohana, as his insight and expertise were key to the plan's success. Aloha nō.

The OHA Hawaiian Registry program was launched, establishing a database that records and verifies Hawaiian ancestry of those in Hawai'i and abroad. No blood quantum requirements allow anyone of Hawaiian ancestry to be counted and their genealogy recorded.

Another highlight was OHA's unprecedented partnership with Fannie Mae, Bank of Hawai'i and First Hawaiian Bank. The OHA Homeownership Program was designed to help Hawaiians not on Hawaiian home lands to purchase homes. The partnership program eliminates the need for down payment, and finances closing costs and a low interest rate — thus helping beneficiaries to overcome obstacles that typically deter Hawaiians from realizing the dream of owning their own home.

Included in this report are OHA divisions, offices and programs operated during the period of July 1, 2001 through June 30, 2002. Staff positions listed represent that period of time. A full financial audit by Deloitte and Touche LLP is also included.

We remain vigilant in protecting the rights and entitlements of Native Hawaiians, the indigenous people of Hawai'i. Your support of and participation in our efforts ensures stability, strength and endurance for our proud community.

'O au iho nō me ke aloha,

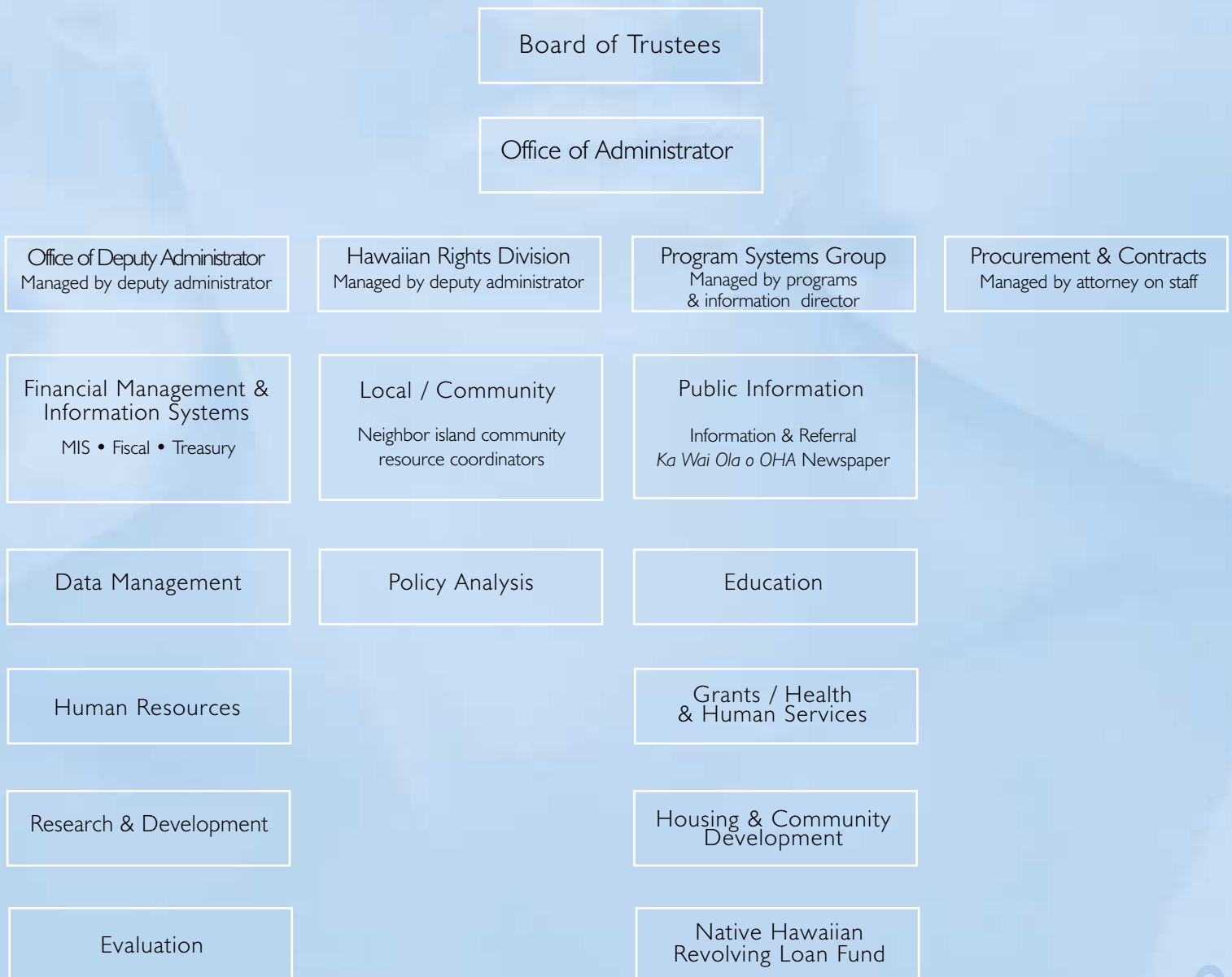
Clyde W. Nāmu'o  
Administrator.

## About the Office of the Administrator

The Office of the Administrator manages the internal operations of the Office of Hawaiian Affairs by providing leadership, guidance, direction and executive oversight. It implements the policies, rules and directives adopted by the Board of Trustees and guides the organization's operation within the parameters established by the board and in response to the concerns of OHA's beneficiaries. Additionally, the office works with other agencies, government and private, that also

serve Hawaiians and native Hawaiians toward OHA's mission of bettering the conditions of all Hawaiians. It reports to the board on OHA's fiscal status and on the status of projects and programs. This includes developing and overseeing organizational structures and procedures; securing, supervising and inspiring staff in the skills and attitudes required to work together; and guiding the implementation of OHA's functional, master and strategic plans and processes.

## Organizational Chart



Note: The chart above depicts the present structure of the organization.

# **OHA Strategic Plan 2002-2007**

Goals adopted by the OHA Board of Trustees Jan. 13, 2002

## **Advocacy-Native Rights**

By 2007 OHA shall have devised and implemented strategies to protect Native Hawaiian rights and entitlements and secured at least one significant legal outcome; created a legal mechanism to assure a predictable ongoing revenue stream from the Public Land Trust; and ensured the settlement of the blood quantum issue.

## **Culture**

By 2004 OHA shall have drafted a plan that identifies and provides solutions to safeguard endangered traditions, practices and rights, and subsequently put into practice steps that will protect, re-establish and enhance Hawaiian cultural assets by the year 2007.

## **Economic Development**

By 2007 OHA's investment in the creation and retention of wealth for Native Hawaiians shall have:

- 1) impacted at least seven percent of the total statewide Native Hawaiian population by improving economic solvency and
- 2) accounted for a return on investment to OHA "equal or greater than the cost of capital used to fund the activity and/or OHA's current rate of return (total fund) from the Native Hawaiian Trust Fund."

## **Education**

By 2007 OHA shall have assisted 28,750 Native Hawaiians to achieve age appropriate literacy.

## **Environment - Natural Resources**

By 2007 OHA shall have protected natural and cultural resources through the adoption of stewardship standards by five public and 10 private entities as evidenced by research, studies and partnerships; and the enactment of new laws, ordinances and rules.

## **Nationhood**

By 2007 OHA shall have assisted, coordinated and enabled the creation of a unified Hawaiian nation.

## **Policy**

By 2007 OHA shall have initiated, collaborated, partnered and advocated with other agencies and organizations through five Memoranda of Agreements that will commit the signatories to act assertively together on behalf of their beneficiaries-in-common.

## **Social Services**

By 2007 OHA shall have improved the quality of life for 17,500 Native Hawaiians in the areas of food, shelter, and safety.

## **Land and Housing**

By 2003 OHA shall have increased the percentage of its investment in real estate by no less than 15 percent and shall develop strategies to enhance the use of these assets to benefit the Native Hawaiian people.

## **Health**

By 2007 OHA shall have collaborated with other Native Hawaiian health care providers to increase the acquisition of resources from federal, state, counties and others, to address the health care needs of Native Hawaiians with particular focus on the needs of the aged and elderly, including but not limited to prevention, treatment, education, and other needs.



Cover: Standing vigilant at the 1998 Hawai'i Loa Kū Like Kākou commemoration, this modern warrior represents the strength of a nation.

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## Administrative Services Office

### Mission

To work in partnership with OHA divisions, beneficiaries and the public by meeting OHA's 1) financial management and information systems needs, and 2) interests through delivery of responsive and effective services in finance, treasury, accounting, information systems and technology.

### Needs Served

Within the Office of Hawaiian Affairs, the Administrative Services Office (ASO) is integral to OHA's infrastructure, managing resources and using technology to streamline processes and fully integrate all aspects of financial information processing and reporting. ASO performs these major functions:

- Accounting is responsible for the day-to-day processing and auditing of accounting transactions, accounts receivable, credit and collections, systems analysis, maintaining the general ledger and all aspects of producing accurate financial reports.
- Treasury includes reviews of OHA's Native Hawaiian Trust Fund and the coordination of OHA's biennium budget development to effectively allocate resources within the organization, as guided by OHA's long-range and strategic plans.
- Financial management involves accounting and treasury working hand-in-hand to develop financial plans in accordance with OHA's financial policies in order to safeguard and maximize return on OHA's financial assets.
- Information systems includes the management, maintenance and development of the organization's local and statewide computer information network.

### FY-02 Highlights

Each year, an independent certified public accounting firm conducts an audit of OHA's financial statements. The financial statements for the fiscal year ended June 30, 2002 are contained in this annual report.

On March 7, 2002, OHA adopted the Performance & Program Budgeting (PPB) approach. The PPB requires the measurement of the efficiency and effectiveness of the OHA objectives in meeting its five-year strategic plan goals. The adoption of the PPB concept provides OHA with an innovative mechanism to link planning and program evaluation to the budgeting process.

An assessment of OHA's existing Oracle Financial Applications were made in FY-02 with necessary modifications identified to implement project cost accounting and track OHA's Strategic Plan efforts. Project cost accounting at OHA will go "live" on July 1, 2002 (FY:03).

### Administrative Services staff

**Joan Bolte**, chief financial officer

**Earl Nakamura**, controller

**Susan Maltezo**, financial analyst

**Yi Zhao**, accountant

**Gerald Honda**, credit and collections specialist

**Gwen Valbuena**, accounting assistant

**Mylene Lacuesta**, accounting assistant

**Mona Yin**, accounting assistant

**Alan Lum**, information systems specialist

**Kauikeaolani Daunie**, information systems assistant

**Karyle Yamane**, secretary



A kūpuna in a lā'i (tī leaf)  
rain cape looks on at the  
Hawai'i Loa Kū Like  
Kākou commemoration



Master artist Kāna'e Keawe of Hilo, Hawai'i, fashions a pahu hula or hulu drum.

# Human Resources

## Mission

To effectively manage the human resources and facilities service capabilities of the agency.

## Needs Served

Human resources services include recruitment, wage and benefit administration, employee services, staff development, leave accounting and personnel record keeping, and related areas in accordance with applicable statutes, standards and guidelines. This office also coordinates the Volunteer Services Program on a statewide basis and secures volunteers to support OHA divisions and offices in meeting the needs of the beneficiaries.

Facility management services for the agency include repair and maintenance, risk management, telephone support, office equipment and supplies, messenger and transportation, postal, reception, and other related activities.

The Human Resources Office manages both the human and facility resources of the agency in conjunction with the Administration Division, Hawaiian Rights Division and the Program Systems Group.

Human resources serve such agency needs as wage and benefit administration, employee services, staff development, employment law compliance, leave accounting, personnel record keeping, volunteer, and related staff services.

Facility resources serve such agency needs as reception, messenger, office equipment and supplies, transportation services, mail, building maintenance and repair, lease management, and related agency services.

## FY-02 Highlights

During the past fiscal year, the Human Resource Office developed and/or streamlined the following programs:

- Recruitment, examination and placement
- Orientation
- Leave Accounting
- Safety and Security
- Staff Development
  - Service Award
  - Employee Assistance Program
  - Alternative Workweek Schedule Program
- Volunteer Services
  - Risk Management
- Facilities Management

## Human Resources

### Human Resources Staff

<b>Alvin Kushima,</b>	personnel manager
<b>Jennifer Chiwa,</b>	secretary
<b>JoAnne Medeiros,</b>	clerk typist

<b>Tane Mosher,</b>	personnel specialist
<b>Julie Noji,</b>	personnel specialist
<b>Tiana Young,</b>	personnel assistant
<b>Winona Gaison,</b>	receptionist

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## Public Information

### Mission

The Public Information Office (PIO) assists in communicating OHA policies, programs and activities, as well as information on Hawaiian issues vital to the Hawaiian community and general public. It also supports all OHA divisions and offices with media and information dissemination efforts and graphic design.

### Needs Served

The Hawaiian community and the community at-large are regularly informed of OHA activities through the monthly publication of *Ka Wai Ola o OHA*, with a distribution of 58,000 statewide and abroad. As OHA's sole media coordinator, PIO disseminates press releases on all OHA news to full statewide broadcast and print media as well as wire services, and coordinates press conferences with the full media, OHA staff, administration and trustees. PIO maintains OHA's principal website, [www.OHA.org](http://www.OHA.org), as well as [nativehawaiians.com](http://nativehawaiians.com), [allforaloha.com](http://allforaloha.com) and more recently [hlid.org](http://hlid.org) highlighting OHA's involvement in the Hālawā-Lūluku Interpretive Development project. PIO is increasingly involved in such multi-media projects as video and DVD production. All agency wide graphic design projects are handled internally by PIO staff.

Information and Referral staff, the "front line" at OHA's administrative offices, manage the reception area, handle phone and email inquiries, walk-in clients, beneficiary requests, and disseminate OHA meeting agendas.

### FY-02 Highlights

PIO staff is engaged in a wide range of activities from publications, graphic design, website design and maintenance, event coordination, press conferences, news release dissemination and video/DVD production. Highlights:

- Produced 12 issues of *Ka Wai Ola o OHA*
- Designed and produced numerous brochures including those for the Native Hawaiian Revolving Loan Fund, OHA Scholarship Program, OHA Homeownership Program and the OHA Hawaiian Registry
- Designed I.D. card and all collateral and promotional material for OHA Hawaiian Registry
- Produced the FY-01 OHA Annual Report
- Produced and directed two hour-long informational programs, "*OHA 2002*"
- Coordinated publication of *OHA Strategic Plan*.
- Coordinated publication of *OHA Native Hawaiian Data Book*
- Produced four 60-second television spots on OHA loan and grants recipients: Matt's Transmission, Waikiki Health Center, Kuli'ou'ou home child care and self-help housing
- Produced and distributed in-house employee newsletter, "*Ka Hoa Hana*"
- Produced and coordinated radio spots and all collateral material for the OHA Homeownership Program; assisted with media event
- Created Northwestern Hawaiian Islands educational exhibit

### Public Information Office Staff

**Ryan Mielke**, programs and information director  
**Manu Boyd**, public information specialist/editor  
**Naomi Sodeani**, publications editor  
**Caitriona Kearns**, media production specialist  
**Michael McDonald**, publications specialist  
**Leialoha Lono'ae'a**, secretary  
**Charlie Ogata**, PIO volunteer  
**Jonathan Kekoa Ching**, PIO intern

### Information and Referral Staff

**Kathy Bush**, I & R representative  
**Haunani Ching**, I & R representative, OHA Hawaiian Registry  
**Gail Gaison-Tyler**, I & R representative  
**Joanie Martinez**, I & R representative  
**Lucille Meyer**, OHA Hawaiian Registry

Oli or traditional chanting has experienced a renaissance among young people.





Clarence Kaona harvests  
kalo at a lo'i in Hanalei  
and prepares the huli  
or stalks for replanting.

# Grants/Health and Human Services

## Mission

The Office of Hawaiian Affairs is committed to serving Native Hawaiians through grant awards to support cultural, educational and socio-economic programs as well as to assist health and human service agencies and organizations in providing effective services to our beneficiaries.

## Needs Served

The Grants Program provides grant awards to non-profit organizations whose projects benefit the Hawaiian community. Proposed projects address housing needs; offer educational opportunities; fill physical and mental health needs; assure opportunities for economic self-sufficiency; and promote Hawaiian art, culture, and language. To support this activity, OHA provides technical assistance with proposal writing and project planning. OHA also encourages Hawaiians to seek grants from all possible public and private sectors.

Through OHA's Health and Human Services programs, beneficiaries are afforded access to information and the appropriate services that will promote health as well as social and economic well-being. Native Hawaiians show disproportionately low levels of employment, home ownership, income security and education, and disproportionately high levels of substance and physical abuse, medical problems, impaired health and homelessness in comparison to other residents in the state. Native Hawaiians are unlikely to seek out services and are more apt to depend on their 'ohana. In keeping with tradition and with a sense of pride, they will do without assistance until someone in the 'ohana seeks outside assistance.

## FY-02 Highlights

This has been a year of transition for the OHA Grants Program. On September 25, 2001, the State Attorney General issued an opinion which indicated that OHA could not award grants and subsidies until such time that the Legislature provided clear authority for OHA to offer such a program. As a result, no grant awards were made this year.

To resolve this problem, OHA introduced legislation to affirm the agency's grantmaking authority. On June 25, 2002, Governor Cayetano signed into law Senate Bill 2477, which once again allowed OHA to award grants.

This year, OHA conducted 10 grant workshops statewide which were attended by over 130 members of the Hawaiian community.

OHA also supported the following Health and Human Service programs:

- Traditional Hawaiian Diet Program through the Wai'anae Coast Comprehensive Health Center
- Traditional Hawaiian Diet Research Project through the Department of Health
- Multi-Service System Project to provide statewide information and referral, technical assistance and follow-up services through Alu Like, Inc.

## Grants/Health and Human Services Staff

<b>Nancy Holt,</b>	grants specialist V
<b>Esben Borsting,</b>	grants specialist III
<b>Lynn Valiente,</b>	grants specialist III
<b>Lani Ho'omana,</b>	grants assistant
<b>Michelle Oka,</b>	grants assistant

# Housing & Community Development

## Mission

The Housing and Community Development Program works cooperatively with others in building or rebuilding healthy, self-sufficient Native Hawaiian communities. This includes the planning and implementation of programs that foster the development of safe, decent, affordable housing for native Hawaiians. OHA also assists Hawaiians in achieving equality in living standards and economic endeavors through community enterprises.

## Needs Served

OHA housing programs focus on providing homeownership opportunities that particularly fit the needs of Native Hawaiian families.

Community and Economic Development programs and projects assist community-based organizations meet the needs of Hawaiians by providing training, technical support, capital improvement funds, and seed funding.

## FY-02 Highlights

### ***OHA Homeownership Program***

Created to increase the homeownership rate of Hawaiians, this program is a historic partnership between OHA, Fannie Mae, First Hawaiian Bank, and Bank of Hawai'i. The program features two components:

- OHA 103. Designed to remove some of the barriers that prevent Hawaiians from attaining homeownership, this program allows Native Hawaiians to borrow up to 103% of the purchase price of a home, which eliminates the need for a down payment and minimizes closing cost.
- OHA Pathway to Homeownership. These workshops provide Native Hawaiians with an opportunity to build financial skills, learn about the responsibilities of homeownership and other information that can help beneficiaries to reach their financial goals.

Reaching out to over 900 Native Hawaiian households statewide, OHA hired three non-profit organizations specializing in financial skills building to conduct these workshops.

### ***Self-Help Housing***

OHA continued to support ongoing self-help housing projects in Waiehu Kou, Maui and Kalama'ula, Moloka'i in FY-02. Through OHA's subsidy, self-help housing organizations assist families to build their home using the group method. Participating families contribute their own labor or "sweat equity" to reduce the cost of construction.

### ***OHA Homesteader Loan Program***

Established in 1993, this program provided over 500 loans in self-help housing, home improvement, interim construction, and down payment loans in various homesteader communities throughout the state.

## ECONOMIC AND COMMUNITY DEVELOPMENT

### ***Quality Homes of the Pacific***

This pilot economic development and housing project is OHA's first-ever business initiative. With other partners, OHA opened a steel-framed housing manufacturing plant in a leased facility at Kalaeloa (Barbers Point) for the purpose of providing affordable quality housing for Native Hawaiians and others. OHA holds the majority share interest in Quality Homes of the Pacific, a limited liability company which owns and operates the plant. Labor unions, Hawai'i Community Development Board, and MH Consultants hold minority interests.

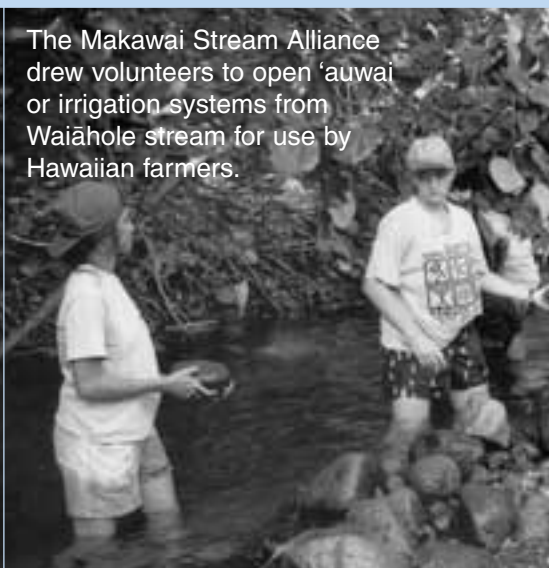
### ***Kikala-Keōkea subdivision***

Volcanic eruptions and lava flows beginning in 1983 destroyed Kalapana, one of the last traditional Hawaiian fishing village communities. In response, the Department of Land and Natural Resources (DLNR) negotiated long-term leases with displaced Kalapana families to rebuild their community and maintain their traditional fishing lifestyle in the Kikala-Keōkea homestead area. The promise of the community's renewal was not realized because of the lack of state funds for basic infrastructure improvements until the passage of Senate Bill 105, S.D. 1, H.D. 1, C.D. 1 entitled "A Bill of an Act Relating to Kikala-Keōkea" by the 2001 Legislature. This measure appropriated \$1,750,000 for infrastructure development at

## Housing & Community Development Program Staff

**Patti Tancayo,**  
**Leona Kalima,**  
**Kathryn Keala,**  
**Ka'imookalani Muhlestein,**

housing & community development program supervisor  
housing & community development program specialist  
housing & community development program specialist  
housing & community development program specialist



Kikala-Keōkea, to be matched by OHA. OHA subsequently approved \$1,350,000 for water infrastructure and entered into an agreement with the DLNR to complete the improvements.

### ***Kawānanakoa Gym***

OHA funded \$667,000 for the construction of the Kawānanakoa Hall, which will replace the old Keaukaha Gym on the island of Hawai'i. Currently under construction, the gymnasium and community meeting facility was scheduled for completion in November 2002. County of Hawai'i and Department of Parks and Recreation staff will operate the facility.

### ***Individual Development Account (IDA) Program***

OHA continued to support the IDAs through an administrative grant to Alu Like Inc. and grant funds.

This program provides a dollar-to-dollar match to low-income beneficiaries interested in saving for the purpose of post-secondary education, homeownership, home repair and business capitalization or entrepreneurship. Alu Like administers the program and Bank of Hawai'i manages the saving accounts. Other partners are Bank of America and the Queen Lili'uokalani Trust.

### ***Community Based Economic Development (CBED)***

The CBED Program provided an award to the Hawai'i Alliance for Community Based Economic Development to train and assist Native Hawaiian non-profit organizations with technical assistance and capacity-building for the sustainability of these organizations. Monitoring and funding continue to previous awardees, Oceanic Institute, Friends of Moku'ula, and Kumu A'o.

# Education Program

## Mission

To facilitate educational opportunities for Native Hawaiians that are both culturally sound and promote academic success.

## Needs Served

The Education Program strives to enhance the pride, integrity and resources of the Hawaiian 'ohana by increasing the understanding of Hawaiian values, learning style and culture as they relate to education; to affect policies relating to Hawaiian heritage and educational opportunities for Hawaiians by identifying their educational needs; to disseminate information on educational services; and to promote and support the use of teaching of Hawaiian culture and language in both public and private schools.

## FY-02 Highlights

### *Nā Pua No'eau*

OHA provided the Nā Pua No'eau (NPN) program at University of Hawai'i at Hilo \$581,948 for this fiscal year. NPN provides educational/cultural enrichment opportunities for gifted and talented Native Hawaiian children on Kaua'i, O'ahu, Moloka'i, Lāna'i, Maui, and Hawai'i. OHA served as NPN's sole source of funding this fiscal year and will extend the same amount of funding next year.

### *'Aha 'Ōpio o OHA*

The 15th annual 'Aha 'Ōpio o OHA was held June 23-28 at the Hawai'i State Capitol. Boasting an alumnus of more than 700 student legislators, the 15th 'Aha 'Ōpio o OHA class added 40 student delegates from Hawai'i and California to its roll.

The purpose of 'Aha 'Ōpio o OHA is to develop Hawaiian youth leaders. The week-long live-in program provides hands on leadership experiences, develops leadership skills in public speaking, parliamentary procedure, and group political interaction, all in a Hawaiian cultural setting.

The delegates prepared 42 pieces of legislation reflecting

a wide range of issues including: ceded lands, gambling, taxes for Hawaiian programs, better qualifications for Hawai'i's teachers, restoration of Ka'awaloa, coqui frog eradication, teen pregnancy prevention and child care, federal recognition, kupuna health care, blood quantum, improving the foster care/adoptive family system, college tuition waivers, shoreline preservation and access for Hawaiians.

### *Tutorial Grants Program*

Beginning in 1986, OHA has provided annual grants to public schools and community schools/associations for tutorial programs. Tutorial monies were not awarded this fiscal year due to the Attorney General's opinion challenging the legality of OHA's grantmaking process, thus delaying grants. Fortunately, the signing of Senate Bill 2477 by Governor Cayetano on June 25, 2002 resolved last year's struggle and affirmed OHA's granting authority.

### *OHA v. DOE*

OHA continues to work with the Department of Education (DOE) by providing up to \$500,000 each year for five years to support the Kula Kaiapuni Hawaiian Language Immersion Program in public schools. This is year two of a five-year settlement agreement reached between the DOE and OHA to assist Kula Kaiapuni in a 2:1 funding ratio (DOE:OHA respectively).

### *Post-Secondary Educational Needs*

The staff provided assistance and information to students and parents seeking financial aid by participating in community and college financial aid fairs.

Scholarship monies were not awarded this fiscal year due to the Attorney General's opinion.

OHA continued to support the University of Hawai'i at Hilo Master's Degree program for Hawaiian Language and Literature. Under a five-year grant, OHA provides \$61,128 each year to support the development and

implementation of the nation's first native language-graduate degree. The first graduate of the program was Hiapo Perreira, who received his honors this year.

## ***Ke Kukui Mālamalama***

Since 1991, OHA's annual Ke Kukui Mālamalama has honored excellence in Hawaiian education. Until 2001, OHA was the sole entity providing such recognition. In fiscal year 2001-2002, OHA partnered with the Native Hawaiian Education Association. The 2001-2002 Ke Kukui Mālamalama honorees were: Darrow Aiona, Mālia Craver, Pualani Kanahele and David Ka'upu.

## ***Merrie Monarch***

In April 2002, Mālia Petersen received OHA's Hawaiian Language Award at the annual Merrie Monarch Festival in Hilo. She is a member of Hula Hālau o Kamuela, under the direction of the late Kumu Hula Paleka Mattos. Petersen received a \$1,000 cash prize, which is presented to the Miss Aloha Hula

contestant who scores the highest in the oli category. Petersen went on to win the overall title of Miss Aloha Hula 2002.

## ***Kalihi Valley Education Center***

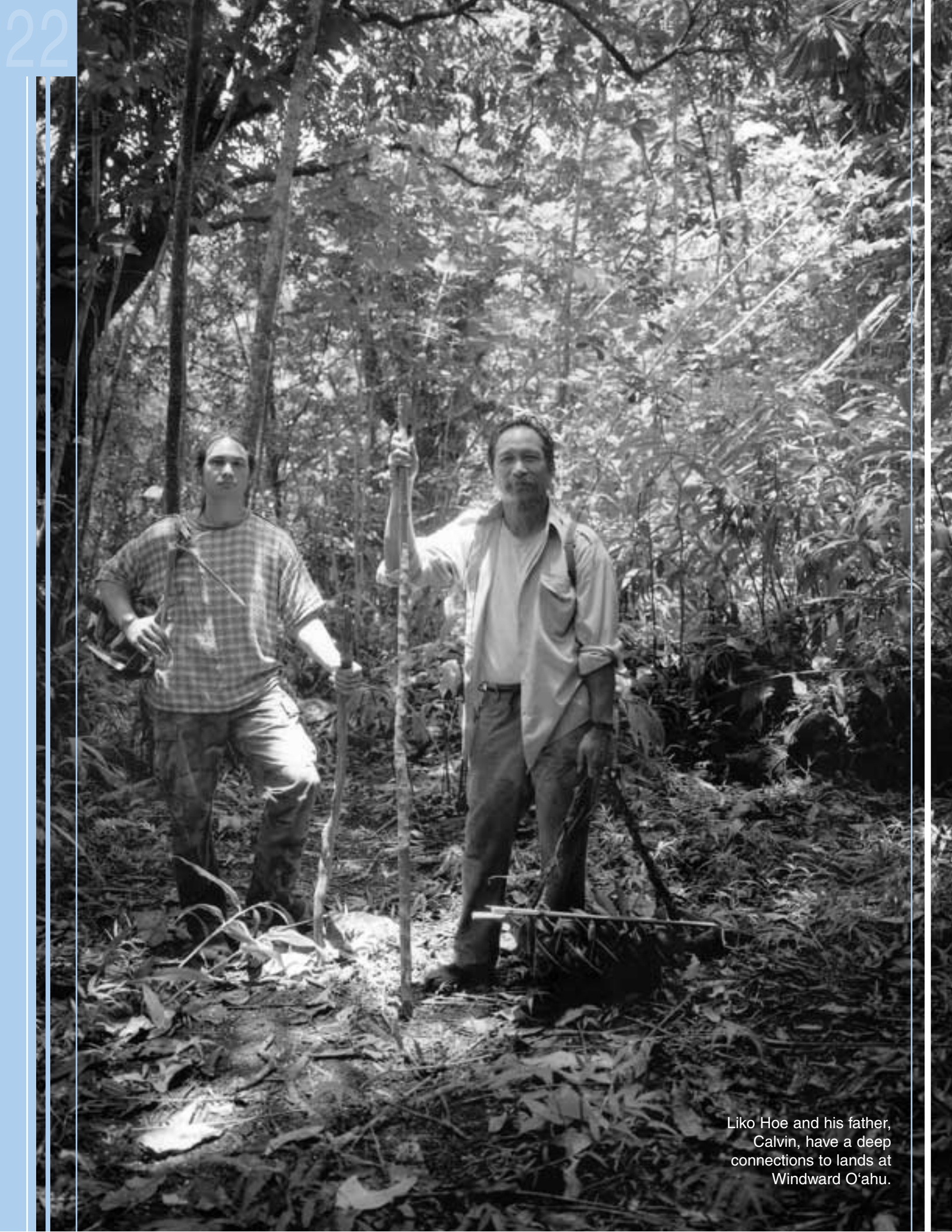
House Concurrent Resolution No. 75 (HCR75HD1) was adopted by the legislature during the regular session of 2001. This legislation requested that the Department of Land and Natural Resources negotiate with OHA, Kamehameha Schools, and the Bishop Museum on leasing the Kalihi Valley District Park for a Native Hawaiian Education Center. Staff worked with these entities to explore how we may partner.

## **Education Program Staff**

<b>Ka'iulani Vincent,</b>	education culture programs supervisor
<b>Healani Sonoda,</b>	culture - education specialist
<b>Winona Matsuzaki,</b>	education program assistant



Hawaiian immersion students at Kula Kaiapuni 'o Waiau give promise to the revitalization of 'ōlelo Hawai'i (Hawaiian language).



Liko Hoe and his father, Calvin, have a deep connections to lands at Windward O'ahu.

# Native Hawaiian Revolving Loan Fund

## Mission

To increase sustainable, Native Hawaiian-owned business by fostering economic independence, commitment, and fiscal responsibility through entrepreneurial development.

## Needs Served

The Native Hawaiian Revolving Loan Fund provides entrepreneurial training/assistance and lending to Native Hawaiian-owned businesses that are unable to secure financing through conventional lending sources. The purpose of the program is to expand business ownership and employment opportunities for Native Hawaiians. Since its inception in 1987, the NHRLF, administered by OHA and federally supported by the Administration for Native Americans, has received \$12.9 million of federal funds that have resulted in 356 business loans totaling \$15.6 million and the creation of 1,020 jobs. We have processed more than 17,000 loan inquiries, requesting approximately \$145 million for loans. The borrowers represent a variety of industries that include agriculture, commercial fishing, construction, food service, professional services, retail, and wholesale. Statewide entrepreneurial training and business assistance is provided through contracted consultants that have assisted 3,912 Native Hawaiians.

## FY-02 Highlights

During FY-02, the program held its third small business conference that drew over 130 attendees,

and featured Hawai'i's first lady Vicky Cayetano as the keynote speaker; developed a website that features 30 business loan recipients; and developed a short-term business disaster program for struggling Native Hawaiian-owned businesses that were negatively impacted in the wake of the September 11 national tragedy. The following are numerical activities that resulted during the fiscal year:

- Nine loans approved for \$398,900
- Seven disbursed loans totaling \$340,800
- 20 jobs created
- 11 loans totalling \$443,000 were repaid in full
- 259 Native Hawaiians provided with training and/or business assistance

The program continues to provide OHA beneficiaries with entrepreneurial opportunities while providing the best professional resources available to meet their entrepreneurial needs. The program continues to seek creative strategies that will achieve successful Native Hawaiian-owned small business independence.

## NHRLF Staff

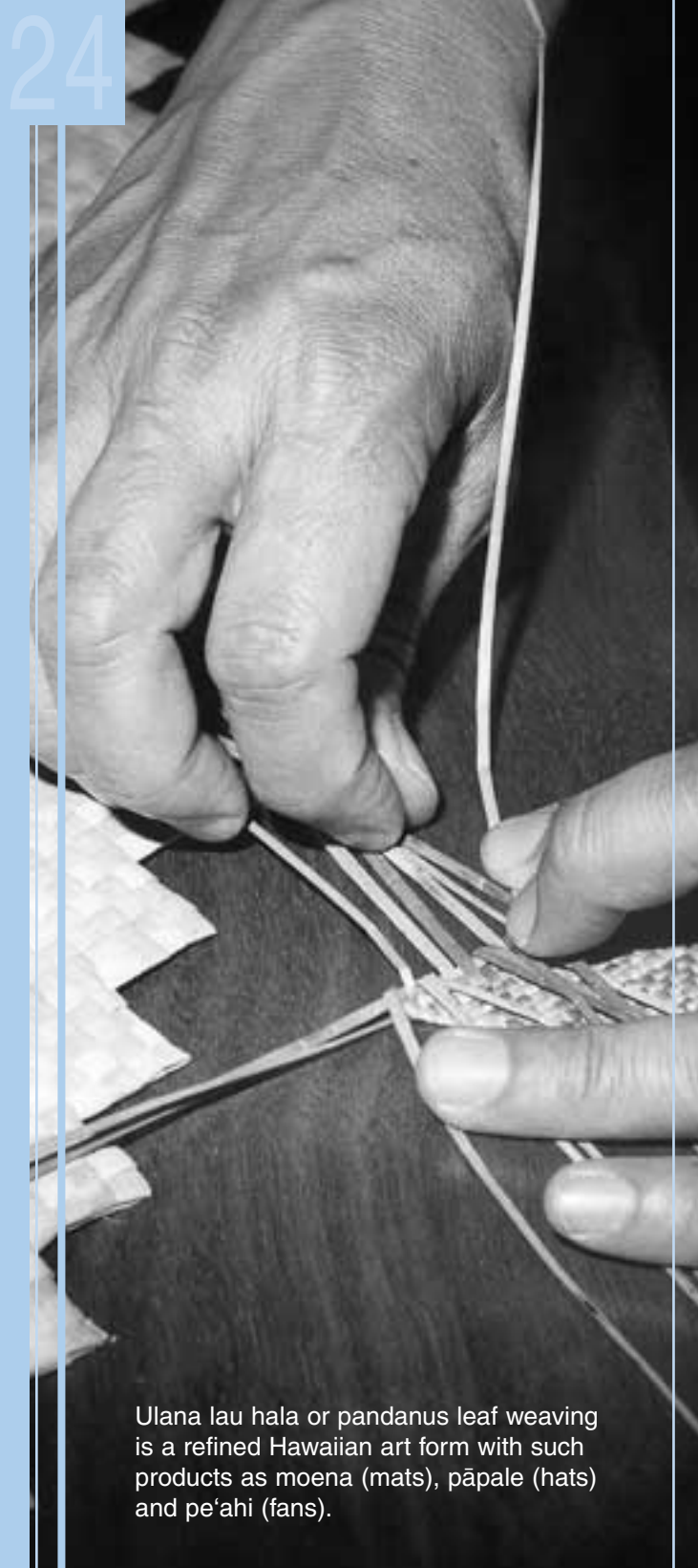
**Kaulana Park**, NHRLF manager

**Susan Maltezo**, finance and operations officer

**Carolyn Afong**, loan operations assistant

**Noel Fujimoto**, business loan officer

**Dana Hauani'o**, business loan officer



Ulana lau hala or pandanus leaf weaving is a refined Hawaiian art form with such products as moena (mats), pāpale (hats) and pe'ahi (fans).

## Evaluation Unit

### Mission

To systematically evaluate OHA programs and projects for integrity, impact and significance to the Hawaiian community.

### Needs Served

The Evaluation Unit has three major goals to ensure services are maximized on all OHA programs and projects:

- To conduct a minimum of four program evaluations, six project evaluations or reviews, and planning evaluations on all new programs and projects by the end of fiscal year 2003
- To be a viable and objective resource for improvement of OHA programs and projects by the end of year 2002
- To obtain 100% participation by all stakeholders in evaluations

### FY-02 Highlights

Evaluation selection guidelines were created to formalize the evaluation selection, design, and planning process. The guidelines were approved by the OHA Board of Trustees enabling the Evaluation Unit to identify mandatory evaluations and reviews for the fiscal year.

To promote the sharing of information and ideas affecting the Hawaiian community, the Evaluation Unit created the Collaborative Resource Group. The group is comprised of evaluators from the Office of Hawaiian Affairs, Kamehameha Schools, Queen Lili'uokalani Children's Center, Alu Like, and the Social Science Research Institute at the University of Hawaii at Mānoa.

The Evaluation Unit was involved in the following projects during the FY-02:

- Grants and contract monitoring
- Comprehensive Master Strategic Plan
- Waimea Falls Park
- Hāna Village Marketplace
- Waimānalo Kupuna Housing Project
- Hawaiian Registry program design

### Evaluation Unit Staff

<b>Richard Pezzulo,</b>	evaluation manager
<b>Paulette Hedemark,</b>	evaluation specialist
<b>Myrna Junk,</b>	evaluation assistant

## Data Management

### Mission

To maintain and report descriptive demographics and data on the Hawaiian population and to assist OHA's internal divisions and other external Hawaiian agencies to increase services and service accessibility for OHA's beneficiaries.

### Needs Served

Data Management works closely with Planning and Development within OHA's Administration Group.

Data Management is tasked with the coordination and development of databases that keeps OHA and other agencies in touch with the needs and issues of OHA's beneficiaries, voters, social service agencies and other organizations via data collection, analysis and information dissemination.

In collaboration with other agencies, the unit coordinates services and activities with public, private and governmental entities to present consistent and accurate information on the broader Hawaiian community.

Census 2000 data has provided the most comprehensive snapshots of more than 239,000 Hawaiians in Hawai'i and more than 409,000 Hawaiians in the United States.

### FY-02 Highlights

- OHA's Native Hawaiian Data Book
- Hawaiian Registry
- OHA Strategic Plan Implementation
- State Data Center Affiliate
- Hawaiian Document Reference Repository

In a parallel effort with other agencies that require ancestry verification, a repository of public record documents and other reference information is under development.

## Data Management Unit


**Noella Kong,** data program manager  
**Lucille Meyer,** registry specialist

Practitioners of lā'au lapa'au or traditional healing prepare herbs and 'alaea with a pōhaku ku'i 'ai or stone pounder.



## Mission Statement

“To mālama 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 nation, recognized nationally and internationally.”



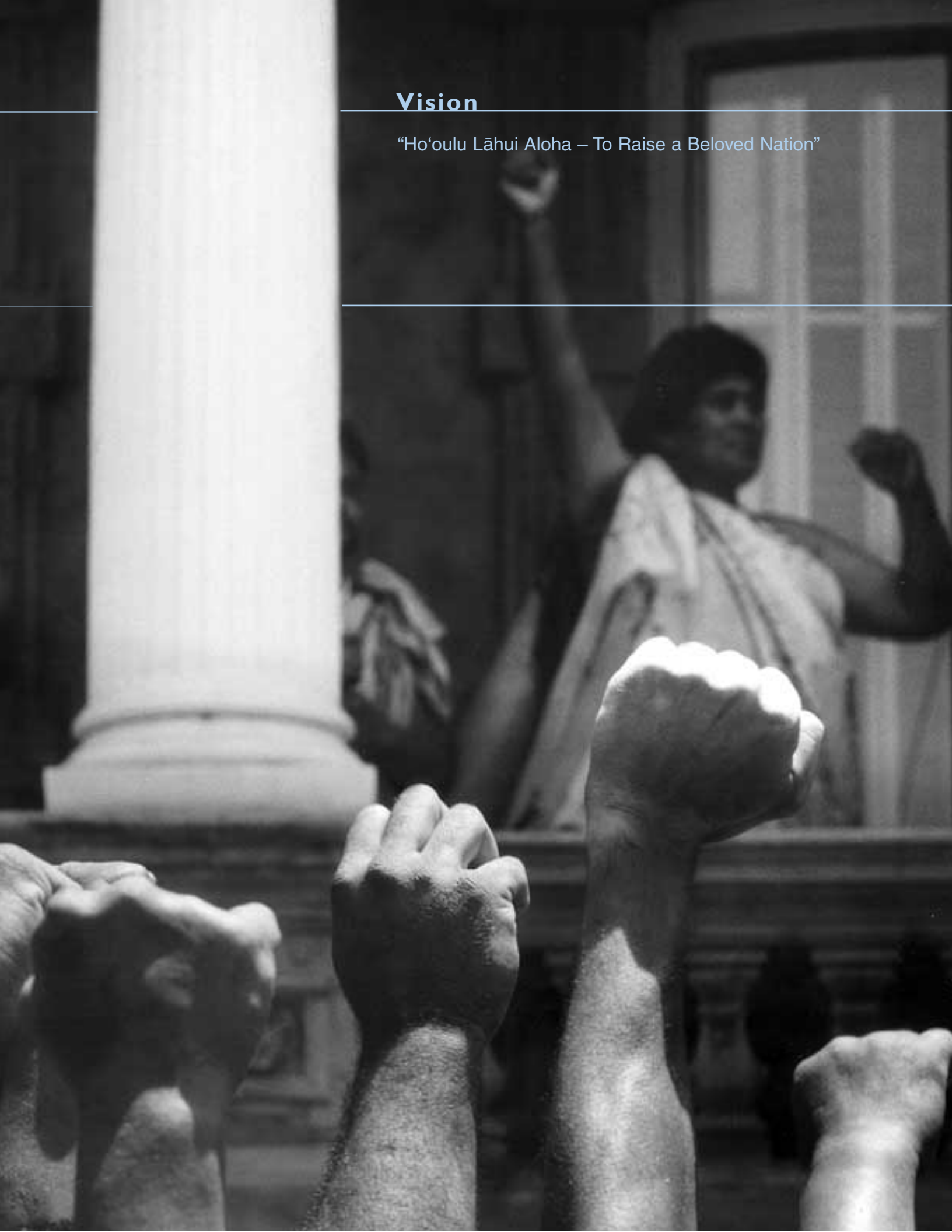
Lōkahi or solidarity was the call to action at the 1998 Hawai‘i Loa Kū Like Kākou commemoration.

## Vision

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“Ho‘oulu Lāhui Aloha – To Raise a Beloved Nation”

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## Planning & Development

### Mission

To prepare Native Hawaiians to participate in determining, facilitating, promoting, and implementing a healthy, self-sustaining, empowered and educated 'ohana, community, nation and 'āina ola, foundation (land).

### Needs Served

The Planning and Development group, formerly Research and Development, serves as the planning, research and development arm of OHA's Administrative Operations. P&D provides trustees and staff with technical assistance, contracting and coordinating research and information to build organizational capacity to make informed and prioritized decisions on new and existing program initiatives, projects and grants to better conditions for Hawaiians.

The Planning and Development group is tasked with monitoring and reporting on the progress of the OHA Strategic Plan.

### FY-02 Highlights

- Staffed the OHA Strategic planning process
- Published the OHA Strategic Plan for fiscal years 2003 - 2007
- Completed working manual of the Native Hawaiian well being model that was presented at a national seminar on social change in Nashville, Tennessee
- Convened Native Hawaiian researchers for collaboration on a social science-related research project
- Began developing model for Native Hawaiian relational database
- Collaborated in the development of the OHA Native Hawaiian Registry and data repository
- Monitored the University of Hawai'i at Hilo College of Hawaiian Language and Literature and the DOE-OHA agreement for Hawaiian Language and Studies
- Participated in the Native Hawaiian Early Education and Childcare Consortium project- Ho'owaiwai Nā Kamali'i, which seeks to

assist Hawaiian communities in developing early education plans for their locales

- Participated in the advisory committee for Kamehameha Schools' planning and research data collection effort
- Collaborated with Financial Management and Information Systems to develop budget according to OHA's Strategic Plan
- Collaborated with Financial Management and Information Services to develop the Performance, Program and Budgeting (PPB) document in accordance with OHA's Strategic Plan
- Visited Dartmouth University to observe its admission program's recruitment and retention of Native American students
- Participated in the Kamehameha Schools' advisory group to assist development of a longitudinal survey of the Hawaiian community

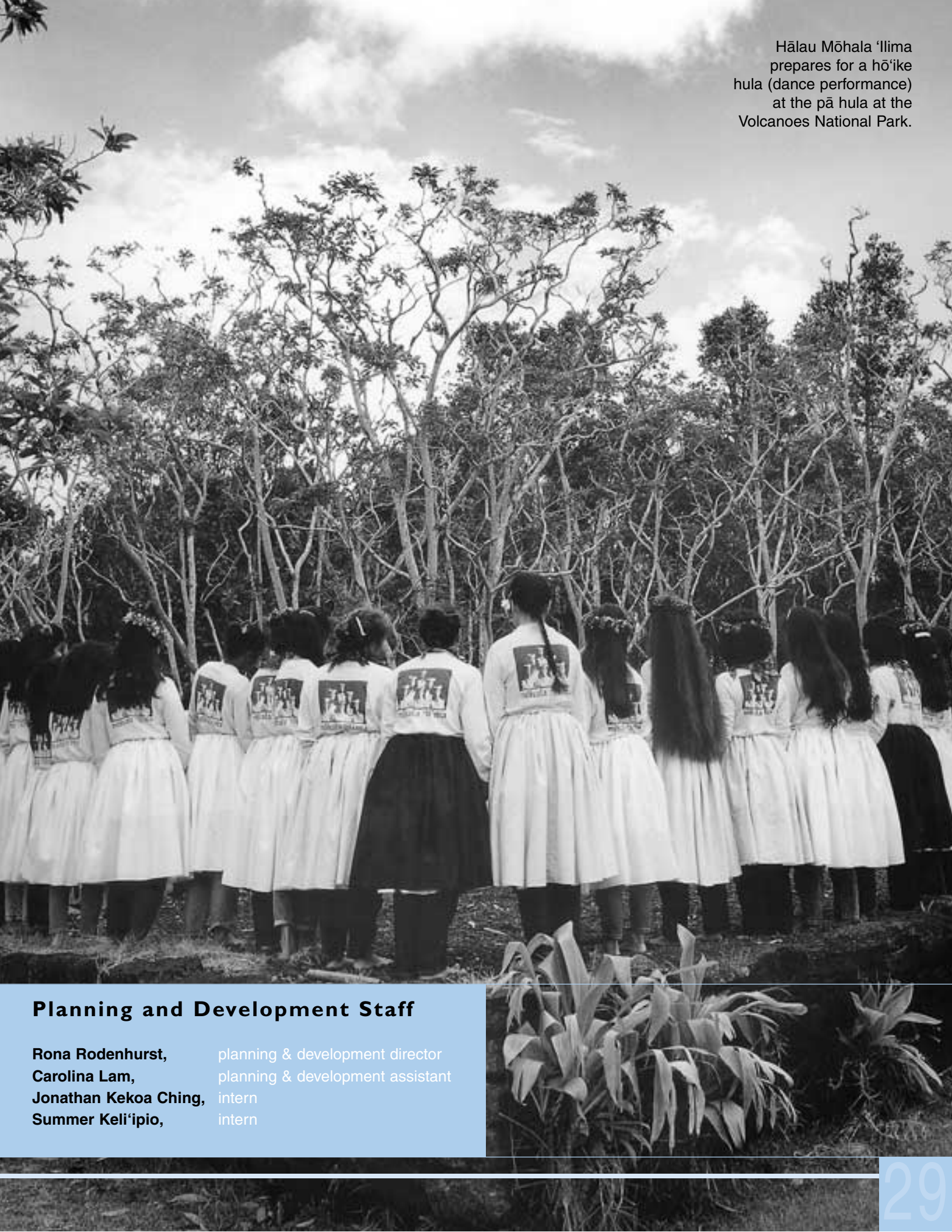
In April 2002, the Board of Trustees approved a five-year strategic plan, completing an 18-month process that ensured broad community participation through 17 statewide community meetings and eight community working groups. Annelie Amaral facilitated the process, and Julian Ako of the Kamehameha Schools and the late Myron Pinky Thompson provided a wealth of advice and insight. Copies of the strategic plan are available at the OHA offices.

The Board also approved an annual reporting of the strategic plan implementation at the same time the OHA budget is presented.

Pre-implementation activities undertaken by P&D staff prior to launching the OHA Strategic Plan included developing a time and labor tracking system to track personnel time according to goals; developing a beneficiary voter registration campaign; developing an intake and referral system to recommend to the board; and evaluating current programs according to the strategic plan.

OHA staff and trustees began implementing the OHA Strategic Plan on July 1, 2002.

Hālau Mōhala 'Ilima  
prepares for a hō'ike  
hula (dance performance)  
at the pā hula at the  
Volcanoes National Park.



## Planning and Development Staff

**Rona Rodenhurst,**  
**Carolina Lam,**  
**Jonathan Kekoa Ching,**  
**Summer Keli'ipio,**

planning & development director  
planning & development assistant  
intern  
intern



# Hawaiian Rights

## Mission

To advocate for the rights of Hawaiians at the federal, state and county levels.

## Needs Served

The Hawaiian Rights Division (HRD) advocates for the protection of Native Hawaiians' traditional and customary rights as guaranteed under the State Constitution. The division also advocates to ensure that public resources are proportionately directed to Hawaiian needs.

HRD reviews, comments and consults on proposed legislation, regulations, and land-altering projects in the state that may potentially affect Hawaiian rights to access, gather or maintain traditional practices, or adversely impact historic, cultural or burial sites.

The division fosters communication between OHA and neighbor island communities through Community Resource Coordinators on the islands of Hawai'i, Kaua'i, Maui and Moloka'i. CRCs are responsible for keeping OHA beneficiaries informed on OHA initiatives, while informing OHA of beneficiaries' concerns.

HRD will be reorganized into Beneficiary Advocacy next year.

### Legislative:

HRD coordinates OHA's advocacy and government liaison activity, working with state and county legislators and Hawai'i's congressional delegation to monitor and promote legislation that will better the conditions of Native Hawaiians.

### Land, Water and other Natural Resources:

Recent areas of focus include large-scale developments in Kohala, streams, coastal resources and ecosystems, marine fishery protection, native water rights, watersheds, and endangered flora, fauna and aquatic resources.

### Legal

HRD participates in National Historic Preservation Act [106] consultations on any project with federal funding or on federal land. These projects are required by law to consult with OHA and other Native Hawaiian organizations to ascertain whether the project will affect a traditional or historic property.

Through grants to the Native Hawaiian Legal Corporation, HRD ensures that native rights to land, water, burials and historic sites are protected. Hundreds of Hawaiian families have been assisted in researching and litigating land claims through NHL attorneys and legal support.

HRD supports the Native Hawaiian Historic Preservation Council (NHHPC), which advises the OHA BOT on historic preservation issues. Council members represent all islands, providing OHA with another avenue to gain input into issues of concern to beneficiaries.

## FY-02 Highlights

### Waiāhole Water Case

OHA continues to track the Waiāhole Ditch Combined Contested Case. The Hawai'i Supreme Court ruled that all water is to be managed in trust for three purposes, one of which is the protection of Hawaiian cultural practices. We are awaiting the Commission on Water Resources Management's Final Decision and Order on setting in-stream flow standards to protect Waiāhole streams. HRD is also working closely with taro growers to ensure that in-stream flow standards accommodate cultivation needs.

### Northwestern Hawaiian Islands Coral Reef Ecosystem Reserve

OHA is working to ensure that management practices in the Northwest Hawaiian Islands Coral Reef Reserve protect the rights of Hawaiians. HRD participated with federal agencies in extensive statewide educational presentations.

### Coastal Cultural Resource Study of Hawai'i Island

OHA has begun a cultural resource and assets study of portions of Hawai'i Island. The study will include an analysis of those areas which need protection, preservation, and restoration of culturally-significant historic and prehistoric resources. The study will also analyze the intangible cultural values and assets associated with physical properties that constitute an area's Hawaiian spiritual and cultural complexion.

### **Ocean Resource Management Programs**

OHA participated in the 2003 Ocean Summit, working on coastal erosion issues, aquaculture, fish farming, fishing regulations, beach restoration and nourishment, and protection of coastal areas associated with Native Hawaiian subsistence gathering and fishing.

### **Pearl Harbor/ Moku 'Ume'ume (Ford Island)**

The OHA Board of Trustees signed the Navy Programmatic Agreement for Navy properties in Hawai'i, which includes the Navy's recognition of Hawaiians' right to access Moku 'Ume'ume, also known as Ford Island.

### **Mauna Kea**

OHA declined to sign the Memorandum of Agreement between NASA, the DLNR-State Historic Preservation Division and the Advisory Council for Historic Preservation. OHA retained the Alston, Hunt, Floyd and Ing law firm to sue NASA and the University of Hawai'i-Institute for Astronomy over their failure to comply with federal environmental and historic preservation laws.

### **Army Transformation – Pōhakuloa Training Center**

OHA is monitoring the Army's transformation of the Second Brigade of the 25th Infantry Division (Light) into an Interim Brigade Combat Team. Projected expansion on the Island of Hawai'i entails the purchase of 15,000 to 23,000 acres for live-fire training at Pōhakuloa and construction of tank roads from Kawaihae to Pōhakuloa.

### **DLNR State Historic Preservation Division-Administrative Rules**

OHA assists Hawaiians in the protection of historic sites by recommending and supporting amendments to the administrative rules, which have not been ratified for the past 14 years, by calling for cultural monitors in development issues.

### **Farm Bill 2003**

OHA assists Hawaiians to become self-sufficient by working with federal and state agencies affiliated with the U.S. Farm Bill in which Hawaiians, through state and local soil and conservation districts, can obtain technical and financial assistance for farming and ranching. The bill also provides resources to help Hawaiians protect essential watershed areas, significant cultural districts, and areas affiliated with native flora and fauna.

### **Hawai'i County General Plan**

Currently in revision, the Hawai'i County General Plan is a long-term (10-year) land use document that guides all land usage for the island. OHA's recommendations for significant amendments — including protecting coastal and conservation lands, historic areas, cultural landscapes, open space and view planes — were accepted by the county's planning commission.

### **Community Outreach – Land Use Process**

Recognizing the need for Hawaiians to become familiar with land issues and challenges, HRD helps beneficiaries to better understand the land use process in permit applications, agency hearings, and testimonies.

## **Hawaiian Rights Division Staff**

**Jalna Keala**, acting director

**Pua Aiu**, acting assistant director

**June Aipopo**, secretary

**Apolei Bargamento**, secretary

**Wayne Kawamura**, policy analyst

**Mark Mararagan**, policy analyst

**Jerry Norris**, policy analyst

## **Community Resource Coordinators**

**LaFrance Kapaka-Arboleda**, CRC, Kaua'i

**Irene Ka'ahanui**, CRC Moloka'i

**Ululani Sherlock**, CRC East Hawai'i

**Ruby McDonald**, CRC, West Hawai'i

**Thelma Shimaoka**, CRC, Maui

**Leimana DaMate**, community resource assistant

**Gladys Brigham**, clerk, East Hawai'i

**Roxanne French**, clerk, Moloka'i

**Roy Newton**, clerk, Maui

**Kaliko Santos**, clerk, Kaua'i.



2002 ANNUAL REPORT

**Financial Report**  
FINANCIAL REPORT STATE OF HAWAII

**Financial statements** for the  
fiscal year beginning July 1, 2001  
and ending June 30, 2002,  
and independent auditor's report.

## Office of Hawaiian Affairs

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# OFFICE OF HAWAIIAN AFFAIRS STATE OF HAWAI'I

## INTRODUCTION YEAR ENDED JUNE 30, 2002

### GENERAL

**Organization** - Office of Hawaiian Affairs ("OHA") was established by the 1979 Hawai'i State Legislature under the provisions of Chapter 10, Hawaii 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.

The purposes of OHA include the following:

- Betterment of conditions of Native Hawaiians;
- Betterment of conditions of Hawaiians;
- Serve as the principal public agency in the State responsible for the performance, development, and coordination of programs and activities relating to Native Hawaiians and Hawaiians, except that the Hawaiian Homes Commission Act shall be administered by its own commission;
- Assess the policies and practices of other agencies impacting on Native Hawaiians and Hawaiians, and conduct advocacy efforts for Native Hawaiians and Hawaiians;
- Apply for, receive, and disburse grants and donations from all sources for Native Hawaiian and Hawaiian programs and services;
- Serve as a receptacle for reparations.

### DIVISIONS

A division 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 four divisions.

The title and objectives of each division are listed below:

Division Title	Division Objectives
1. Board of Trustees	To work for the betterment of all Hawaiians by setting policy 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.

Division Title	Division Objectives
2. Administration	To work for the betterment of conditions of all Hawaiians by providing leadership, guidance, direction, and executive oversight. The office 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.
3. Program Systems Group	To seek the betterment of Hawaiians through improving access to resources, benefits, and services that address their greatest concerns: housing, education, health, and economic development. Toward this goal, the Program Systems Group identifies problems, evaluates agencies and programs that impact upon the Hawaiian community, and selects strategies that best reach for solutions.
4. Hawaiian Rights	To advance the rights and interests of Hawaiians through advocacy, public policy development, dialogue, community outreach, and litigation. Among its objectives are fair treatment for all Hawaiians; protection of their lands, environment, and cultural heritage; progress toward self-determination; and solutions to the devastating problems that threaten the welfare and dignity of the indigenous people of these islands.

## PURPOSE OF THE REPORT AND DEFINITIONS

The purpose of the financial audit was to enable the independent auditors to form an opinion as to the financial position of Office of Hawaiian Affairs at June 30, 2002, and the results of its operations 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.

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

1. *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.
2. *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 State Legislature or OHA Board of Trustees in the ensuing fiscal year.
3. *Encumbrances* - Commitments related to unperformed (executory) contracts for goods or services.
4. *Expenditures* - Decreases in net financial resources. Expenditures include current operating expenses and capital outlays that require the current use of net current assets.
5. *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.

## INDEPENDENT AUDITORS' REPORT

Board of Trustees of Office of Hawaiian Affairs, State of Hawai'i:

We have audited the accompanying basic financial statements of Office of Hawaiian Affairs, State of Hawaii ("OHA") as of and for the year ended June 30, 2002, as listed in the table of contents. These basic financial statements are the responsibility of OHA's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such basic financial statements referred to above present fairly, in all material respects, the statement of financial position of OHA as of June 30, 2002, and the changes in financial position and the respective budgeting comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, OHA adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Government*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosure*, as of July 1, 2001.

As discussed in Note 14 to the basic financial statements, OHA is self-insured for workers' compensation, automobile, and general liabilities. Several claims were filed against OHA during the year ended June 30, 2002. Although OHA has recorded an estimated loss for such claims, as well as from any unasserted claims, the ultimate results may differ from OHA's estimates, due to the subjectivity of the data used by OHA to compute these amounts.

The Management's Discussion and Analysis on pages 6 through 13 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of OHA's management. We have applied certain

limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The introduction, as listed in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of OHA's basic financial statements, and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2002 on our consideration of OHA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Deloitte + Touche LLP*

November 1, 2002

# OFFICE OF HAWAIIAN AFFAIRS STATE OF HAWAI'I

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2002

As management of the Office of Hawaiian Affairs ("OHA"), we offer readers of OHA's financial statements this narrative overview and analysis of the financial activities of OHA for the fiscal year ended June 30, 2002.

The management's discussion and analysis is provided at the beginning of the audit to provide in layman's terms the past and current position of OHA's financial condition. This summary should not be taken as a replacement for the audit that immediately follows this narrative.

In accordance with GASB Statement No. 34, OHA is not required to restate prior periods for the purposes of providing comparative information. However, in future years, when prior year information is available, comparative analysis of government-wide information will be presented.

## FINANCIAL HIGHLIGHTS

### Government-Wide Financial Statements

*Statement of Net Assets* – The assets of OHA exceeded its liabilities at fiscal year ended June 30, 2002 by \$319,117,421 (presented as "total net assets"). Of this amount, \$317,156,315 was reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet OHA's ongoing obligations to beneficiaries and creditors.

*Changes in Net Assets* – OHA's total net assets, all of which were governmental activities, decreased by \$40,734,401 (an 11% decrease) in fiscal year 2002. This decrease was primary due to OHA not receiving its rightful share of Public Land Trust Funds and extreme market volatility on Wall Street.

### Governmental Funds Financial Statements

*Governmental Funds – Fund Balances* – As of the close of fiscal year 2002, OHA's governmental funds reported an ending fund balance of \$317,552,336. Of this total amount, \$298,690,493 represents the "unreserved fund balances" with 94% being in the Public Land Trust fund. Of this \$298,690,493, \$21,276,643 is designated for the Native Hawaiian Revolving Loans; \$4,000,000 is designated for the Fannie Mae Loan Program; \$25,707 is designated for other grant projects, \$144,278 is designated for Hawaiian projects; and \$25,357,705 is designated for subsequent year's expenditures; leaving \$246,406,169 as undesignated. This \$246,406,169 is roughly 78% of the total fund balance at the end of the year.

# 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 the financial statements. These components are described below.

## Basic Financial Statements

The basic financial statements include three kinds of financial statements that present different views of OHA – the ***Government-wide Financial Statements***, the ***Governmental Funds Financial Statements***, and the ***Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund***. These financial statements also include the ***Notes to Financial Statements*** that explain some of the information in the financial statements and provide more detail.

## Government-wide Financial Statements

The *Government-Wide Financial Statements* provide a broad view of OHA's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about OHA's financial position, which assists in assessing OHA's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

1. The *statement of net assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in OHA's net assets may serve as a useful indicator of whether the financial position of OHA is improving or deteriorating.
2. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as earned but unused compensatory and vacation leave).

Both of the above financial statements distinguish functions of OHA that are principally supported by inter-governmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of OHA include program revenues, charges for services and operating grants, and general revenues (dividends and interest income, legislative appropriations, non-imposed fringe benefits, newspaper advertisements, donations, public land trust funds, and other revenues).

The government-wide financial statements can be found on the right hand side of the “adjustments” column, immediately following the governmental funds financial statements.

## Governmental Funds Financial Statements

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).

All of OHA’s operations are financed through governmental funds. 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 spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal 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 assists 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 presented in the Notes to Financial Statements (see Note 10).

OHA has four governmental funds, and all are considered major funds for presentation purposes. That is, each major fund is presented in a separate column in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances. OHA’s four governmental funds are – the General Fund, Public Land Trust Funds, Federal Grants Funds, and Other Funds, the latter three being classified as “Special Revenue Funds.”

The basic governmental funds financial statements can be found to the left of the “adjustment” column, immediately preceding the government-wide financial statements.

## Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis)

The basic financial statements are followed by a budgetary comparison schedule, which includes a reconciliation between the actual general fund revenues and expenditures on the budgetary basis compared to the general fund revenues and expenditures prepared for budgetary purposes.

## Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the governmental funds financial statements. The notes to the financial statements can be found immediately following the Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. OHA's net assets (government activities) totaled \$319,117,421 at the end of 2002, compared to \$359,851,822 at the end of the previous fiscal year.

The largest portion of OHA's net assets (99%) represents resources that may be used to meet OHA's ongoing obligations to beneficiaries and creditors. Internally imposed designations of resources are not presented as restricted net assets.

Summarized financial information of OHA's statement of net assets as of June 30, 2002 is as follows:

Capital assets	\$ 1,961,106
Other assets	<u>320,545,004</u>
Total assets	<u>\$322,506,110</u>
Other liabilities	\$ 2,603,149
Long-term liabilities	<u>785,540</u>
Total liabilities	3,388,689
Invested in capital assets	1,961,106
Unrestricted	<u>317,156,315</u>
Total net assets	<u>319,117,421</u>
Total liabilities and net assets	<u><u>\$322,506,110</u></u>

An additional portion of OHA's net assets (.6%) reflects its investment in capital assets such as equipment and software development, less any related debt used to acquire those assets that is still outstanding. OHA uses these capital assets to provide services to beneficiaries; consequently, these assets are not available for future spending. Although OHA's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

At the end of the current fiscal year, OHA is able to report a positive balance in its category of government-wide net assets.

## Changes in Net Assets

OHA's net assets decreased by \$40,734,401 or 11%. Approximately 74% of OHA's total revenue came from dividend and interest income, while 17% resulted from Legislative appropriations. Charges for various other revenues represented 9% of OHA's total revenue.

Summarized financial information of OHA's statement of changes in net assets for the fiscal year ended June 30, 2002 is as follows:

### REVENUES:

#### Program revenues:

Operating grants and contributions	\$ 1,138,357
Charges for services - Native Hawaiian Rights Fund	34,642

#### General revenues:

Dividend and interest income	11,411,538
Appropriations	2,619,663
Non-imposed fringe benefits	104,429
Newspaper ads	85,362
Donations and other	22,046
Public land trust	<u>6,535</u>

Total revenues	15,422,572
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### EXPENSES:

#### Current divisions:

Board of Trustees	4,038,380
Administration	5,532,063
Program Systems Group	5,953,173
Hawaiian Rights	2,321,840
Depreciation	<u>332,174</u>

Total expenses	18,177,630
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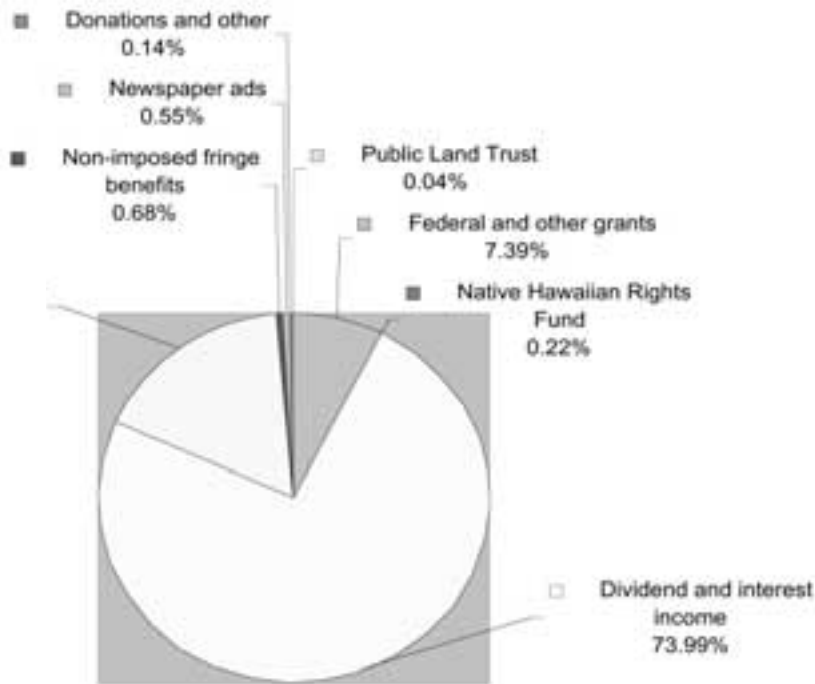
### OTHER FINANCING USES:

Net investment losses	(37,769,970)
Lapse of cash to State General Fund	<u>(209,373)</u>

Total other financing uses	<u>(37,979,343)</u>
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CHANGE IN NET ASSETS	<u>\$ (40,734,401)</u>
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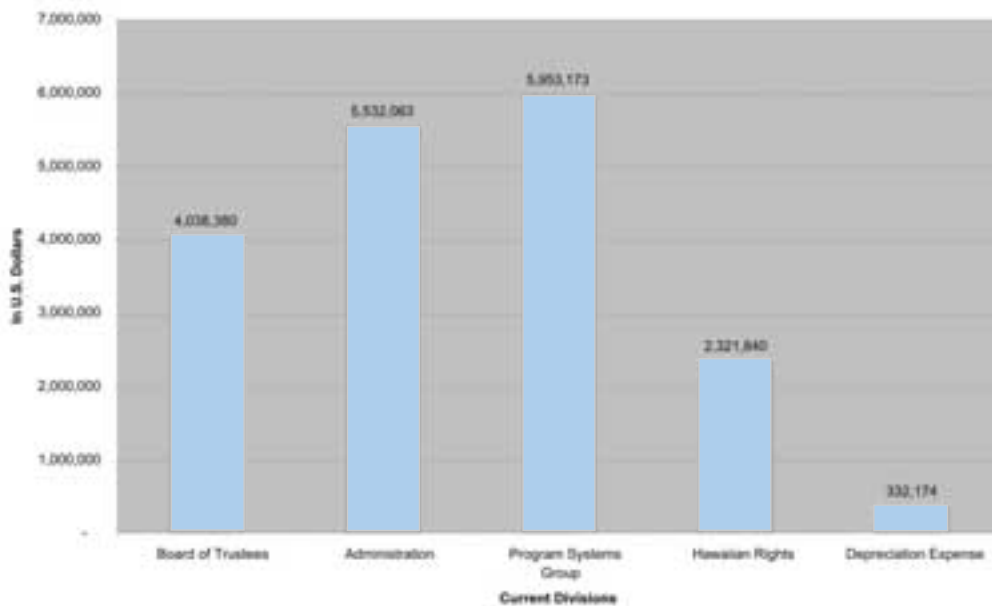
## Revenues - Government-wide Activities Fiscal Year 2002



■ Federal and other grants	■ Native Hawaiian Rights Fund	□ Dividend and interest income
■ Appropriations	■ Non-imposed fringe benefits	■ Newspaper ads
□ Donations and other	□ Public Land Trust	

## EXPENSES – GOVERNMENT-WIDE ACTIVITIES Fiscal Year 2002

Expenses - Governmental Activities; Fiscal Year 2002



Of all government-wide expenses, the following divisions and depreciation expense accounted for the \$18,177,630 total expenses:

• Program Systems Group	32.7%
• Administration	30.4%
• Board of Trustees	22.2%
• Hawaiian Rights	12.8%
• Depreciation Expense	1.9%

## GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

As noted earlier, OHA uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of OHA's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing OHA's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending, restricted by OHA's Spending Policy limitations, at the end of the fiscal year.

As of the close of fiscal year 2002, OHA's governmental funds reported an ending fund balance of \$317,552,336, with 88% of this amount consisting of "unreserved" Public Land Trust Funds that are subject to OHA's annual spending policy limitations and designated for the subsequent year's expenditures (8%); Native Hawaiian revolving loans (6.7%); Fannie Mae Loan Program (1.3%); Hawaiian projects (.05%); and other grant projects (.01%). Reserved fund balances accounted for 5.9% of the ending fund balance, reserved for notes receivables (3.9%); encumbrances (1.9%); and prepaid expenses and security deposits (.1%).

## ECONOMIC FACTORS

In the second quarter of 2002, the State of Hawaii continued to consolidate the recovery gains begun in the previous two quarters. While not all indicators are positive, the overall gains still support cautious optimism for the future. Visitor arrivals continue to climb toward their previous level, jobs growth is progressing, and construction remains strong.

With the assumption that military and domestic security issues will be addressed effectively and no new catastrophic event will retard economic recovery, Hawaii's recovery is expected to be a function of the recovery of its visitor market and of U.S. and international economic performance. The Blue Chip Economic Forecast, which is based on an average of 50 major U.S. forecasts, predicts that the forecast for growth in real U.S. GDP in 2002 will be 2.8% from May through July. It is believed that this forecast will be adjusted downward in the August and September issues. The Blue Chip Forecast for real U.S. GDP in 2003 is also anticipated to be adjusted downward.

Expectations are for Japan's economy to remain weak, therefore, in the absence of any new shocks to the confidence of travelers, Hawaii visitor counts for 2002 are not expected to bring total arrivals back to the 2000 levels.

Total wage and salary jobs in the state are expected to finish 2002 at slightly below the 2001 total. After inflation, real personal income is forecasted to show a 1.9% increase while real GSP is expected to grow by 1.7%. Hawaii's CPI is projected not to increase above 1.5% for the next two years. The GSP deflator, which is estimated based on the Blue Chip U.S. GDP projection, is forecast to reach 2.1% in 2003 and then decline after 2003.

With this information and due to the volatility in marketable securities, OHA's biennium budget preparations for fiscal years 2004 and 2005 will tend to be more conservative with a target spending rate of 4% being employed instead of the historical 5% spending rate. OHA's spending policy currently allows for a total operating budget not to exceed 5% of a 12-quarter rolling average of total portfolio market value.

## **REQUEST FOR INFORMATION**

This financial report is designed to provide a general overview of OHA's finances. This financial report seeks to demonstrate OHA's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Office of Hawaiian Affairs; Financial Management & Information Systems; 711 Kapiolani Boulevard, Suite 500; Honolulu, HI 96813.

**OFFICE OF HAWAIIAN AFFAIRS  
STATE OF HAWAII**

**GOVERNMENTAL FUNDS - BALANCE SHEET / GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
JUNE 30, 2002**

ASSETS	Governmental Funds					Adjustment (Note 10)	Government- wide Statement of Net Assets
	General Fund	Public Land Trust	Federal Grants	Other	Total		
Petty cash	\$ 10,000				\$ 10,000		\$ 10,000
Cash in State Treasury	1,036,994	\$ 6,103,409	\$ 571,545	\$ 180,628	7,892,576		7,892,576
Cash in banks		3,265,315	20,576		3,285,891		3,285,891
Cash held by investment manager		6,146,781			6,146,781		6,146,781
Accounts receivable				6,020	6,020	\$ 27,500	33,520
Interest and dividends receivable		1,452,455	56,425		1,508,880	592,303	2,101,183
Due from other funds	92,862	194,486		440,846	728,194	(728,194)	-
Prepaid and other assets	14,550	388,568	12,161		415,279		415,279
Notes receivable - due within one year		1,402,978	77,013		1,479,991		1,479,991
Notes receivable - due after one year		11,370,880	1,151,971		12,522,851		12,522,851
Security deposits		44,214			44,214		44,214
Investments		269,336,075	17,276,643		286,612,718		286,612,718
Capital assets - net						1,961,106	1,961,106
<b>TOTAL</b>	<b>\$ 1,154,406</b>	<b>\$ 299,705,161</b>	<b>\$ 19,166,334</b>	<b>\$ 627,494</b>	<b>\$ 320,653,395</b>	<b>\$ 1,852,715</b>	<b>\$ 322,506,110</b>

LIABILITIES AND FUND BALANCES / NET ASSETS	Governmental Funds					Adjustment (Note 10)	Government- wide Statement of Net Assets
	General Fund	Public Land Trust	Federal Grants	Other	Total		
<b>LIABILITIES:</b>							
Accounts payable	\$ 205,795	\$ 1,259,714	\$ 13,356		\$ 1,478,865		\$ 1,478,865
Due to State of Hawaii	10,000		100,000		110,000		110,000
Due to other funds		393,980	334,214		728,194	\$ (728,194)	-
Accrued pension costs		784,000			784,000		784,000
Long-term liabilities:							
Due within one year						230,284	230,284
Due after one year						785,540	785,540
Total liabilities	215,795	2,437,694	447,570		3,101,059	287,630	3,388,689
<b>FUND BALANCES / NET ASSETS:</b>							
Fund Balances:							
Reserved for encumbrances	1,021,862	4,734,611	80,555	\$ 42,370	5,879,398	(5,879,398)	-
Reserved for notes receivable		11,370,880	1,151,971		12,522,851	(12,522,851)	-
Reserved for prepaid expenses and security deposits	14,550	432,783	12,261		459,594	(459,594)	-
Unreserved:							
Designated for Native Hawaiian revolving loans		4,000,000	17,276,643		21,276,643	(21,276,643)	-
Designated for Fannie Mae Loan Program		4,000,000			4,000,000	(4,000,000)	-
Designated for notes receivable		1,402,978	77,013		1,479,991	(1,479,991)	-
Designated for other grant projects			25,707		25,707	(25,707)	-
Designated for Hawaiian projects				144,278	144,278	(144,278)	-
Designated for subsequent year's expenditures		25,357,705			25,357,705	(25,357,705)	-
Undesignated	(97,801)	245,968,510	94,614	440,846	246,406,169	(246,406,169)	-
Total fund balances	938,611	297,267,467	18,718,764	627,494	317,552,336	(317,552,336)	-
Total liabilities and fund balances	<b>\$ 1,154,406</b>	<b>\$ 299,705,161</b>	<b>\$ 19,166,334</b>	<b>\$ 627,494</b>	<b>\$ 320,653,395</b>		
<b>Net Assets:</b>							
Invested in capital assets						\$ 1,961,106	\$ 1,961,106
Unrestricted						317,156,315	317,156,315
Total net assets						<b>\$ 319,117,421</b>	<b>\$ 319,117,421</b>

See notes to financial statements.

**OFFICE OF HAWAIIAN AFFAIRS  
STATE OF HAWAII**

**GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES /  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2002**

	Governmental Funds					Adjustments (Note 10)	Government- wide Statement of Activities
	General Fund	Public Land Trust	Federal Grants	Other	Total		
EXPENDITURES / EXPENSES:							
Current divisions:							
Board of Trustees	\$ 29,330	\$ 3,986,909			\$ 4,016,239	\$ 22,141	\$ 4,038,380
Administration	845,198	4,914,311	\$ 207,027		5,966,536	(434,474)	5,532,062
Program Systems Group	891,748	5,025,959	25,843		5,943,550	9,624	5,953,174
Hawaiian Rights	506,391	1,788,840		\$ 17,321	2,312,552	9,288	2,321,840
Depreciation						332,174	332,174
Total expenditures / expenses	2,272,667	15,716,019	232,870	17,321	18,238,877	(61,247)	18,177,630
PROGRAM REVENUES:							
Charges for services - Native Hawaiian Rights Fund				34,642	34,642		34,642
Operating grants and contributions			1,138,357		1,138,357		1,138,357
Total program revenues			1,138,357	34,642	1,172,999		1,172,999
NET PROGRAM REVENUE (EXPENSE)	(2,272,667)	(15,716,019)	905,487	17,321	(17,065,878)	61,247	(17,004,631)
GENERAL REVENUES:							
Appropriations	2,619,663				2,619,663		2,619,663
Public land trust		6,535			6,535		6,535
Dividend and interest income		9,909,545	909,690		10,819,235	592,303	11,411,538
Newspaper ads		57,862			57,862	27,500	85,362
Donations and other			277	21,769	22,046		22,046
Nonimposed fringe benefits	104,429				104,429		104,429
Total general revenues	2,724,092	9,973,942	909,967	21,769	13,629,770	619,803	14,249,573
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (Forward)	451,425	(5,742,077)	1,815,454	39,090	(3,436,108)	681,050	(2,755,058)

	Governmental Funds					Adjustments (Note 10)	Government- wide Statement of Activities
	General Fund	Public Land Trust	Federal Grants	Other	Total		
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (Forward)	\$ 451,425	\$ (5,742,077)	\$ 1,815,454	\$ 39,090	\$ (3,436,108)	\$ 681,050	\$ (2,755,058)
OTHER FINANCING SOURCES (USES):							
Investment gains (losses)		(37,819,611)	49,641		(37,769,970)		(37,769,970)
Lapse of cash to State General Fund	(209,373)				(209,373)		(209,373)
Total other financing sources (uses)	(209,373)	(37,819,611)	49,641		(37,979,343)		(37,979,343)
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	242,052	(43,561,688)	1,865,095	39,090	(41,415,451)	41,415,451	-
CHANGE IN NET ASSETS						(40,734,401)	(40,734,401)
FUND BALANCE / NET ASSETS:							
Beginning of year	696,559	340,829,155	16,853,669	588,404	358,967,787	884,035	359,851,822
End of year	\$ 938,611	\$ 297,267,467	\$ 18,718,764	\$ 627,494	\$ 317,552,336	\$ 1,565,085	\$ 319,117,421

See notes to financial statements.

**OFFICE OF HAWAIIAN AFFAIRS  
STATE OF HAWAII**

**STATEMENT OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (BUDGETARY BASIS), GENERAL FUND  
YEAR ENDED JUNE 30, 2002**

	<b>Actual (Budgetary Basis)</b>	<b>Budget</b>	<b>Variance Favorable (Unfavorable)</b>
REVENUES:			
State appropriations	\$ 2,619,663	\$ 2,619,663	
Total revenues	2,619,663	2,619,663	
EXPENDITURES:			
Board of Trustees	25,691	26,761	\$ 1,070
Administration	1,327,174	1,369,317	42,143
Program Systems Group	729,012	737,118	8,106
Hawaiian Rights	481,208	486,467	5,259
Total expenditures	2,563,085	2,619,663	56,578
EXCESS OF REVENUES OVER EXPENDITURES	\$ 56,578	\$ -	\$ 56,578

See notes to financial statements.

**OFFICE OF HAWAIIAN AFFAIRS  
STATE OF HAWAII**

**NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2002**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Financial Statement Presentation and Basis of Accounting*** - In June 2000, the Government Accounting Standards Board ("GASB") issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This Statement establishes new financial reporting requirements for state and local governments throughout the United States. It requires new information and restructures much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

Office of Hawaiian Affairs ("OHA") is required to implement this standard for the fiscal year ending June 30, 2003. However, OHA has elected to follow GASB's recommendation and early implement these standards. OHA adopted the provisions of GASB Statement 34 for its fiscal year ended June 30, 2002. With the implementation of GASB Statement 34, OHA has prepared required supplementary information titled *Management's Discussion and Analysis*, which precedes the basic financial statements.

In conjunction with the implementation of GASB Statement No. 34, OHA has early implemented the following GASB Statements in the current fiscal year: Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and Statement No. 38, *Certain Financial Statement Note Disclosures*. Implementation of these GASB statements did not result in a change in beginning fund balance as reported in the governmental funds financial statements on the modified accrual basis of accounting. However, it resulted in an \$884,035 increase in beginning net assets for the government-wide financial statements.

GASB has also issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, effective for OHA's fiscal year beginning July 1, 2003. Although OHA has not fully assessed the implications of GASB 39, management does not believe adoption of this Statement will have a material impact on its financial position and changes in financial position.

Resources that are dedicated internally are reported as general revenues rather than as program revenues. Net assets are 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 assets.

OHA's financial statements are prepared in conformity with generally accepted accounting principles as prescribed by the GASB.

*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 provider have been met.

*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 fiscal year end. Principal revenue sources susceptible to accrual include federal grants and interest and dividends on investments.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Employees' vested annual leaves are recorded as expenditures when utilized. The amount of accumulated annual leave unpaid at June 30, 2002 has been reported only in the government-wide financial statements.
- Interest on general long-term obligations is recognized when paid.
- Executory purchase orders and contracts are recorded as a reservation of fund balance.
- Debt service expenditures and claims and judgments are recorded only when payment is due.

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

A description of the funds administered by OHA and included in the governmental funds financial statements follows.

*General Fund* - The General Fund of OHA is part of the State of Hawaii General Fund. However, 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 State Legislature.

*Special Revenue Fund* - This fund includes OHA's proceeds and income 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 Rights Fund and of the Native Hawaiian Revolving Loan Fund and other grants. Expenditures reflect those from the specific grant or designated fund and from other Board appropriations of public land trust funds.

**Investments** - Investments are generally stated at fair value in accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. OHA uses the first-in, first-out ("FIFO") cost method in computing the gain or loss on sale of marketable equity securities.

**Capital Assets** - 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 market value at the time received. Depreciation expense is recorded in the government-wide financial statements. Buildings, equipment, and improvements are depreciated on the straight-line method over their estimated useful lives. There is no depreciation recorded for land and work-in-progress.

**Accrued Vacation** - 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 Government Accounting Standards Board ("GASB") Statement No. 16, Accounting for Compensated Absences. The June 30, 2002 balances include 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 financial statements, but not reported as an expenditure in the governmental funds financial statements, as current financial resources are not used.

**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. OHA participates in a State-sponsored general liability, automotive, and workers' compensation self-insurance program.

**Governmental Funds** - Fund Balance Reserves and Designations - The governmental funds financial statements present fund balance reserves for those portions of fund balance (1) not available for appropriation for expenditure or (2) legally segregated for a specific future use. The reserves for related

assets such as inventories and prepayments are examples of the former. Reserves for encumbrances, contracts, and other specific purposes are examples of the latter. The governmental funds' designation of fund balance reflects tentative plans for future use of financial resources.

**Encumbrances** - Encumbrances against budgeted appropriations are recorded upon the execution of contracts or purchase orders. Such encumbrances are accounted for as a segregation of fund balance. The related expenditure is reported in the period in which the liability is incurred.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Concentrations of Credit Risk** - The financial instruments that potentially expose OHA to concentrations of credit risk consist principally of notes receivable. OHA extends credit to Native Hawaiian and Hawaiian persons and agencies who use OHA's funds for the betterment of Native Hawaiians and Hawaiians. The mix of notes receivable at June 30, 2002 are as follows:

Native Hawaiian and Hawaiian persons	91%
Agencies	8
Other	1
	<hr/> 100%

## 2. BIENNIAL BUDGET

Because it is not a part of the executive branch, OHA's budget is considered by the 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 the Board, the budget is submitted directly to the State Legislature prior to its convening. The budget is generally constructed around OHA's operations (offices) and programs (divisions) and states programmatic objectives, expected outcomes, and financial requirements. The budget also shows the proportion of funding requested from general funds to be appropriated by the Legislature and from trust funds appropriated by OHA's Board of Trustees.
- *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 committee 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, provisos 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 the Board; 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.

The major differences between the budgetary 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 convert the results of operations and fund balances for the year ended June 30, 2002 from the budgetary basis to GAAP basis are as follows:

Excess of revenues over expenditures - actual (budgetary basis)	\$ 56,578
Reserve for encumbrances at June 30	897,488
Accrued payables and payroll at June 30	(143,113)
Prepaid expenditures at June 30 not recognized for budgetary purposes - net of prior year accruals	(2,798)
Expenditures for liquidation of prior year encumbrances	(356,730)
Lapse of cash to State General Fund	<u>(209,373)</u>
Excess of revenues over expenditures - actual (GAAP basis)	<u>\$ 242,052</u>

### 3. APPROPRIATIONS

OHA is authorized to transfer appropriation amounts between programs for operating purposes, provided that a report of all transfers is made to the State Legislature prior to convening of the next legislative session. Act 147 SLH 1999 required OHA to match portions of general fund appropriations on a dollar-for-dollar basis. This required match was satisfied by the expenditure of Special Revenue Fund monies. State of Hawai'i General Fund legislative appropriations for the year ended June 30, 2002 totaled \$2,619,663.

### 4. 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 in State Treasury." The Hawaii Revised Statutes authorize 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'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 Hawai'i Revised Statutes Section 38-3. At June 30, 2002, OHA's deposits with financial institutions totaled \$3,285,891 and had corresponding bank balances of \$3,275,271. The portion of the bank balances covered by FDIC insurance totaled \$110,000 in 2002; the remainder was uninsured and uncollateralized.

## 5. NOTES RECEIVABLE

Notes receivable at June 30, 2002 consists of the following:

First Hawaiian Bank and State of Hawaii - Department of Hawaiian Home	
Lands loan receivable	\$ 13,625,082
Native Hawaiian Revolving Loan Fund	4,019,863
Other	<u>1,736,340</u>
Total	19,381,285
Less allowance for doubtful accounts	<u>(5,378,443)</u>
Net	<u>\$ 14,002,842</u>
Amounts due within one year	<u>\$ 1,479,991</u>
Amounts due after one year	<u>\$ 12,522,851</u>

## 6. INVESTMENTS

OHA's investments are categorized per GASB Statement No. 3, Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements, to give an indication of credit and market risks assumed at June 30, 2002. Category 1 includes investments that are insured, registered, or held by OHA or its agent in OHA's name. Category 2 includes investments that are uninsured and unregistered, and held by the counterparty's trust department or agent in OHA's name. Category 3 includes investments that are uninsured and unregistered, and held by the counterparty, or by its trust department or agent but not in OHA's name.

The investments at June 30, 2002, all of which are classified in Category 1, are as follows:

Marketable equity securities - common stocks	\$ 145,787,167
U.S. Government obligations - Native Hawaiian Revolving Loan Fund	20,016,477
U.S. Government obligations - other	65,987,702
Corporate bonds	51,756,020
Cash management fund	6,146,781
Foreign bonds, notes and debentures	<u>3,065,352</u>
Total	<u>\$ 292,759,499</u>

The calculation of realized gains and losses is independent of the calculation of the net increase or decrease in fair value of investments. Realized gains and losses on investments that had been held more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in

fair value of investments reported in the prior year. Summarized net decrease in fair value of investments information for the year ended June 30, 2002 is as follows:

Realized loss on sale of investments	\$ 14,440,660
Unrealized loss on investments held at June 30	<u>23,329,310</u>
Net decrease in fair value of investments	<u>\$ 37,769,970</u>

## 7. CAPITAL ASSETS

Capital assets activities for the year ended June 30, 2002 are as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	\$ 84,100			\$ 84,100
Work-in-progress - software	<u>          </u>	<u>\$ 124,632</u>		<u>124,632</u>
Total capital assets not being depreciated	84,100	124,632		208,732
Capital assets being depreciated:				
Buildings	1,045,141			1,045,141
Leasehold improvements	373,063	2,273		375,336
Machinery, equipment, furniture and fixtures	<u>2,069,680</u>	<u>326,329</u>	<u>\$ (505,310)</u>	<u>1,890,699</u>
Total capital assets being depreciated	3,487,884	328,602	(505,310)	3,311,176
Less accumulated depreciation	<u>(1,731,938)</u>	<u>(332,174)</u>	<u>505,310</u>	<u>(1,558,802)</u>
Capital assets being depreciated - net	<u>1,755,946</u>	<u>(3,572)</u>	<u>          </u>	<u>1,752,374</u>
Capital assets - net	<u>\$ 1,840,046</u>	<u>\$ 121,060</u>	<u>\$ -</u>	<u>\$ 1,961,106</u>

## 8. LONG-TERM LIABILITIES

Long-term liabilities for the year ended June 30, 2002 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year	Amounts Due After One Year
Accrued vacation	\$ 495,985	\$ 240,097	\$ (180,284)	\$ 555,798	\$ 180,284	\$ 375,514
Accrued workers' compensation	460,026			460,026	50,000	410,026
Capital lease obligations	<u>37,920</u>	<u>          </u>	<u>(37,920)</u>	<u>-</u>	<u>          </u>	<u>-</u>
Long-term liabilities	<u>\$ 993,931</u>	<u>\$ 240,097</u>	<u>\$ (218,204)</u>	<u>\$ 1,015,824</u>	<u>\$ 230,284</u>	<u>\$ 785,540</u>

## 9. LEASES

OHA leases office space and equipment under various noncancelable operating leases expiring through June 2005. Future minimum payments under all leases as of June 30, 2002 are as follows:

Fiscal year ending June 30:	
2003	\$ 646,978
2004	420,238
2005	<u>43,816</u>
Total	<u>\$ 1,111,032</u>

Rent expense (including taxes and common area maintenance) under operating leases totaled \$777,000 for the year ended June 30, 2002.

## 10. RECONCILIATIONS OF GOVERNMENT-WIDE AND GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

The following schedule reconciles the government fund balance to net assets:

Total Fund Balance - Governmental Funds		\$ 317,552,336
Amounts reported for governmental activities in the statement of net assets are different because:		
Revenues in the statement of activities that do not provide current financial resources and therefore the related receivable is not included in the funds:		
Dividend and interest receivable	\$ 592,303	
Other receivables	<u>27,500</u>	619,803
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		1,961,106
Long-term liabilities not due and payable in the current period and therefore not reported in the funds:		
Accrued vacation	\$ (555,798)	
Accrued workers' compensation	<u>(460,026)</u>	<u>(1,015,824)</u>
Total Net Assets - Government-wide		<u>\$ 319,117,421</u>

The following schedule reconciles the change in fund balance to change in net assets:

Net Change in Fund Balances - Total Governmental Funds	\$ (41,415,451)
Amount reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This amount includes the adjustment for capital outlay of \$453,234 offset by depreciation expense of \$332,174 in the current period.	121,060
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount includes Individual Development Account grant revenue of \$27,500 and dividend and interest income of \$592,303.	619,803
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the increase in accrued vacation.	<u>(59,813)</u>
Change in Net Assets - Government-wide	<u>\$ (40,734,401)</u>

## II. RESTATEMENTS OF FUND BALANCES / NET ASSETS

The following schedule reconciles the June 30, 2001 fund balances / net assets, as previously reported, to the fund balances / net assets, as restated, to include the adoption of new pronouncements:

Fund balances / net assets as of June 30, 2001:	
As previously reported	\$ 358,967,787
Prior period adjustments:	
Changes in accounting principle:	
Capitalization of capital assets - net	1,840,046
Expense recognition:	
Accrued vacation	(495,985)
Accrued workers' compensation	<u>(460,026)</u>
As restated	<u>\$ 359,851,822</u>

## **12. EMPLOYEE BENEFITS**

### **Defined Benefit Pension Plans**

All full-time employees of OHA are eligible to participate in the Employees' Retirement System of the State of Hawaii ("ERS"), a cost sharing, multiple-employer public employee retirement system covering eligible employees of the State and counties.

The ERS is composed of a contributory retirement plan and a noncontributory retirement plan. Eligible employees who were in service and a member of the existing contributory plan on June 30, 1984, were given an option to remain in the existing plan or join the noncontributory plan, effective January 1, 1985. All new eligible employees hired after June 30, 1984, automatically become members of the noncontributory plan. Both plans provide death and disability benefits and cost of living increases. Benefits are established by State statute. In the contributory plan, employees may elect normal retirement at age 55 with 5 years of credited service or elect early retirement at any age with 25 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 2% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching five years of service; retirement benefits are actuarially reduced for early retirement. Covered contributory plan employees are required by State statute to contribute 7.8% of their salary to the plan; OHA is required by State statute to contribute the remaining amounts necessary to pay contributory plan benefits when due. In the noncontributory plan, employees may elect normal retirement at age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching ten years of service; retirement benefits are actuarially reduced for early retirement. OHA is required by State statute to contribute all amounts necessary to pay noncontributory plan benefits when due. During fiscal year 2002, OHA was informed by the State of Hawaii that OHA's trustees are allowed to participate in the ERS pursuant to S.B. 2478, H.D.1. The estimate for past service costs is \$600,000, and accordingly, a liability was recorded in Accrued Pension Costs in 2002.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Employees' Retirement System, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813-2929 or by calling (808) 586-1660.

## **Post-Retirement Health Care and Life Insurance Benefits**

In addition, the State of Hawaii Employer-Union Benefits Trust Fund (“EUTF”) provides certain health care (medical, prescription drug, vision and dental) and life insurance benefits for retired employees. OHA’s contributions for retiree health and group life insurance benefits are subject to the State law governing the EUTF. The EUTF pays for some or all of these benefits for eligible employees, in accordance with the guidelines laid out by State law. The EUTF also reimburses Medicare expenses of retirees and qualified spouses who are at least 62 years of age and have at least 10 years of service. Information on OHA’s share of the total EUTF post-retirement health care and life insurance benefits expense is not available.

## **Sick Leave**

Accumulated sick leave as of June 30, 2002 was approximately \$1,010,000. 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. Accordingly, no liability for sick leave is recorded in the accompanying financial statements.

## **13. NON-IMPOSED EMPLOYEE FRINGE BENEFITS**

Payroll fringe benefit costs of 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 \$104,429 for the fiscal year ended June 30, 2002, have been reported as revenues and expenditures of OHA’s General Fund.

## **14. RISK MANAGEMENT AND CONTINGENT LIABILITIES**

### **Workers’ Compensation and Other Self-Insurance Liabilities**

OHA is self-insured for workers’ compensation, automobile, and general liabilities. OHA participates in a State-sponsored general liability, automotive, and workers’ compensation self-insurance program. Claims

under \$10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, policies in force with a \$2,000,000 deductible and annual aggregate of \$23,000,000 per occurrence. Automobile and workers' compensation losses are fully self-insured. In addition, OHA purchases Public Officials and Employment Practices Liability and Bankers' Professional Liability insurance, each with a \$25,000 deductible and \$5,000,000 coverage limit.

Several claims have been filed against OHA during the year ended June 30, 2002. Although OHA has recorded an estimated loss for such claims, as well as from any unasserted claims, the ultimate results may differ from OHA's estimates, due to the subjectivity of the data used by OHA to compute these amounts. The liability for workers' compensation and other self-insurance claims at June 30, 2002 approximated \$460,000.

### **Department of Education Settlement Agreement**

On May 4, 2000, OHA entered into a Compromise and Settlement Agreement ("Agreement") with the Department of Education, State of Hawaii ("DOE"), in which the DOE agreed to form a partnership for the support of the DOE's Hawaiian Language Immersion Program ("HLIP"). OHA is not responsible for the education, operation, management, supervision, or any other aspect of the HLIP. OHA has committed to provide funding between \$400,000 and \$500,000 each year for five years beginning July 1, 2000. At June 30, 2002, the remaining commitment of \$2.2 million is included in the designated fund balance. Clarification on the settlement's reimbursement language as it relates to the formula is currently being reviewed by both parties. Until the formula has been clarified and mutually agreed upon, no requests or reimbursements are being made/processed.

### **Hina-malailena Joint Use Agreement**

In 1995, OHA entered into a Joint Use Agreement ("Agreement") with Hina-malailena, a non-profit corporation, for the purpose of developing a commercial center in Hāna, Maui. Also in 1995, OHA and Hina-malailena received, as co-recipients, \$1,760,000 of Federal funds from the U.S. Department of Commerce, Economic Development Administration ("EDA"). The entire amount was recorded in the accounting records of Hina-malailena.

Terms of the Agreement state that Hina-malailena is to be responsible for substantially all duties required to construct and complete the project, including but not limited to overseeing management of all construction and service contracts, ensuring that all EDA requirements are satisfied, and obtaining all necessary permits and approvals. However, in the event of default by Hina-malailena, OHA may elect to take control of the project.

During fiscal year 2000, OHA became aware that Hina-malailena would not be able to complete the project. In October 2000, the Board of Trustees agreed to assume the responsibilities and status of Hina-malailena, subject to satisfactory due diligence proceedings. As of June 30, 2002, only part of the due diligence was completed and, as a result, OHA is unable to determine any probable exposure to liability.

## **Ceded Lands - Public Land Trust**

On September 12, 2001, the Supreme Court of the State of Hawai'i held in *OHA v. State (Appeal nos. 20281 and 20216)* that the sections in the law defining the means by which ceded land's revenues are to be paid to OHA conflicted with Federal law and therefore were invalid. This resulted in the dismissal of OHA's claim in *OHA v. State* for a pro rata share of ceded land revenues from the State for monies owed from Waikiki Duty Free receipts (in connection with the lease of ceded lands at the Honolulu International Airport), Hilo Medical Center patient services receipts, receipts from the Hawai'i Housing Authority and the Housing and Finance Development Corporation for projects situated on ceded lands, and interest earned on withheld revenues. It also created the expectation that future ceded land's payments from the State to OHA will cease until a new statute can be passed by the State legislature defining how ceded lands revenues will be calculated and paid to OHA on behalf of its beneficiaries. However, management believes nothing in the Court's decision negates the Governor's authority nor diminishes the State's obligation to remit to OHA its pro rata share of revenues derived from public land trust. Section 37-40, Hawaii Revised Statutes, provides that with respect to trust funds, State agencies may make expenditures for trust purposes without an appropriation or allotment. It further provides that no trust funds established by law needs to be reappropriated annually.

As of June 30, 2002, two civil lawsuits (*OHA v. HFDC*, Civil No. 94-4207-11 and *OHA v. HHA*, Civil No. 95-2682-07) currently have a potential financial impact as it relates to ceded land holdings. If the State is permitted to sell ceded lands, the future ceded lands revenue will ultimately diminish. The present value of any land sale proceeds versus the future value of an annuity stream could have a significant long-term financial impact.

## **Civil Complaints**

As of June 30, 2002, four lawsuits (Arakaki v. Cayetano, Civil No. 02-00139 SOM-KSC; Barrett v. State, Civil No. CVOO-00645 DAE-KSC; Carroll v. Nakatani, Civil No. CV00-00641 DAE-KSC; and Arakaki v. State, Civil No. 00-00514HG-BNaC) were filed in the United States District Court for the District of Hawai'i challenging the validity and constitutionality of certain sections of the Hawai'i State Constitution that created OHA and certain other State agencies for the benefit of the Hawaiian race. The lawsuits allege that the providing of governmental benefits and services to a limited number of Hawaiian citizens based solely upon their race violates the Equal Protection Clause to the United States Constitution. The lawsuits seek to have the State laws that created OHA and the other State agencies be declared unconstitutional.

The ultimate results of all lawsuits cannot presently be determined.

## **Litigation**

OHA is party to legal proceedings and claims that arise in the ordinary course of business. Although occasional adverse decisions (or settlements) may occur, other than the matters described above, OHA believes that the final disposition of such matters will not have a material adverse effect on the financial position or changes in financial position of OHA.

Expenditures for claims and lawsuits against OHA approximated \$418,000 in 2002.

He'enalu, the international sport of surfing, has its ancient roots in Hawai'i. Here two Hawaiians look out to the surf at Waimea, O'ahu.

## credits

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