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2003

OFFICE OF  
HAWAIIAN  
AFFAIRS  
ANNUAL REPORT



2003 OHA ANNUAL REPORT



OFFICE OF 2003  
HAWAIIAN AFFAIRS  
HO'ĀLA HOU  
ANNUAL REPORT



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# Board of Trustees during fiscal Year 2003



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



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



**Rowena Akana**  
Trustee, At-large



**Dante Keala Carpenter**  
Trustee, O'ahu



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



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



**Boyd P. Mossman**  
Trustee, Maui



**Oswald Stender**  
Trustee, At-large



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

## BOT Staff as of June 30, 2003

Crayn Akina, *aide, Waihe'e*  
Merlyn Akuna, *aide, Carpenter*  
Mika Arikawa, *secretary, Carpenter*  
Melissa Beimes, *secretary, Mossman*  
Scotty Bowman, *chief of staff, Apoliona*  
Leah Burrows, *aide, Machado*  
Lei-Ann Durant, *secretary, Stender*  
Reynold Freitas, *secretary, Board of Trustees*  
Winona Gaison, *secretary, Cataluna*  
Francine Murray, *secretary, Waihe'e*  
Dayna Nae'ole, *secretary, Machado*  
Kalei Rapoza, *aide, Mossman*  
Ikaika Rawlins, *aide, Stender*  
Bobbi Ray, *aide, Cataluna*  
Gladys Rodenhurst, *secretary, Akana*  
Winona Rubin, *aide, Apoliona*  
Nathan Takeuchi, *aide, Akana*  
Jojo Tanimoto, *aide, Dela Cruz*  
Tiona Wailehua, *secretary, Dela Cruz*  
Louise Yee Hoy, *secretary, Apoliona*

The following individuals served on the Board of Trustees and BOT staff during FY 2003, but left OHA employment or transferred divisions before the end of the fiscal year:

Charles Ota, *trustee, Maui*  
Clayton Hee, *trustee, O'ahu*  
Juliet Begley, *aide, Machado*  
Lilia Kapuniai, *aide, Hee*  
Gaye Miyasaki, *aide, Akana*  
Sesnita Moepono, *aide, Carpenter*  
Kekai Perry, *aide, Machado*  
Martha Ross, *chief of staff, Apoliona*  
(*transferred to D.C. office*)  
Janelle Shinozuka, *secretary, Dela Cruz*  
Lori Viera, *secretary, Hee*









## Chairperson's Message

Aloha mai kākou e nā 'ōiwi 'ōlino:

Fiscal Year 2003 was a monumental year for the Office of Hawaiian Affairs and the Hawaiian community. Critical issues facing Hawaiians such as restoration and resumption of ceded lands revenue payments to OHA, passage of federal recognition laying the foundation for Hawaiian governance, and defending legal and court challenges to Hawaiian programs and cultural sites were magnified over the past year, and have become the subject of broad discussion in our island community, abroad, and in local, national and international media. While these issues present significant challenges to Native Hawaiians, their increased visibility ignited the energy of political activism in our people, that continues to gain momentum.

Now more than ever, the Native Hawaiian community needs to stay informed on issues that will affect us for many generations to come. And we must now be ready to apply this energy of political activism in a positive and productive manner to issues affecting Native Hawaiians and Hawai'i, our homeland. Political activism should not just be saved for elections.

The mana'o behind OHA's Nā 'Ōiwi 'Ōlino campaign, offered by Kupuna Mālia Craver, speaks to the value of knowledge, information, insight and education.

"The name I gave was Nā 'Ōiwi 'Ōlino. Nā 'ōiwi are our Hawaiian people ... My expectation of giving that name to the project was to have the children and the families be people with knowledge and wisdom in everything they do or in every aspect," Aunty Mālia explained.

That theme, launched in September 2002 with the first of two gubernatorial forums and a statewide schools debate, poster and essay contest, set a strong tone for a myriad of activities during FY 2003.

E alu like mai kākou e nā 'ōiwi 'ōlino a loa'a ka lei o ka lanakila. Let us continue to work together in the spirit of righteousness and political activism until the lei of victory is completed.

Aloha pumehana kākou,

Haunani Apoliona  
Chairperson, Board of Trustees





Aloha kākou:

It is a pleasure to present this annual report highlighting programs, activities and a financial summary of the Office of Hawaiian Affairs during FY-03 (July 1, 2002-June 30, 2003).

During FY-03, the OHA Board of Trustees and administrative staff continued to work toward fulfilling our mandate, “to better the conditions of Hawaiians and native Hawaiians.” To do this, we focused on the OHA Strategic Plan 2002-2007, adopted by the Board of Trustees in 2002. Of the 10 goals that guide the plan, two were held as priority in FY-03: Goal 1, Advocacy and Native Rights; and Goal 2, Nationhood.

On Sept. 9, 2002, the Nā ‘Ōiwi ‘Ōlino native rights educational campaign was launched to bring critical issues facing Hawaiians to the forefront. Ceded land revenues was where we began our focus.

As a means to measure where potential key decision-makers stand on Hawaiian issues, two gubernatorial forums were held – one prior to the primary election and the other just days before the general election – where candidates were asked very specific questions on the disposition of ceded lands and revenues generated from those lands. On Jan. 15, 2003, the Nā ‘Ōiwi ‘Ōlino native rights and entitlements rally was held at ‘Iolani Palace and the State Capitol where more than 1,500 gathered to stand in support of the restoration of ceded land revenues to the Native Hawaiian Trust.

In January 2003, Hawai‘i mourned the passing of a beloved kupuna, fearless leader, astute educator and former OHA trustee, Gladys Kamakakūokalani ‘Ainoa Brandt. Our OHA family joined Trustee Brandt’s family, many friends and the community in orchestrating an old-style memorial like those befitting high-born ali‘i. The positive impacts left to us by Trustee Brandt will be felt by our community for years to come.

In February 2003, OHA’s Washington, D.C., Bureau opened its doors, establishing an OHA presence in the nation’s capitol, where Congressional deliberations on federal recognition for Native Hawaiians continued. Three trips to Washington, D.C., were made by small groups of OHA trustees and staff to lobby for federal recognition, as a means to preserve the nation-to-nation status option.

On May 1 OHA, along with Hawaiian organizations and community partners, launched “Ho‘oulu Lāhui Aloha,” a campaign supporting Hawaiian governance and nationhood. As a part of that effort, a 24-part series of hour-long roundtable discussions on issues surrounding Hawaiian governance commenced, aired weekly on ‘Ōlelo Channel 53. On June 16, 2003, “Ho‘okahua” was launched, an electronic newsletter on issues surrounding Hawaiian governance, disseminated through email to more than 7,000 recipients.

On behalf of the Board of Trustees and the staff of the Office of Hawaiian Affairs, the OHA FY 03 Annual Report is presented as a snapshot of a significant and productive year for the Office of Hawaiian Affairs and the Hawaiian community.

Aloha pumehana,



Clyde W. Nāmu‘o  
Administrator



## Clyde W. Nāmu‘o

*Administrator*

### Administration Staff as of June 30

Ron Mun, *deputy administrator, Operations*

Nani Lee, *deputy administrator, Beneficiary  
Advocacy and Empowerment*

Lani Akana, *clerk typist*

Barbara Yuen, *secretary*

### Community Resource Coordinators

Ululani Sherlock, *CRC, East Hawai‘i*

Ruby McDonald, *CRC, West Hawai‘i*

La France Kapaka-Arboleda, *CRC, Kaua‘i*

Thelma Shimaoka, *CRC, Maui*

Irene Ka‘ahanui, *CRC, Moloka‘i*

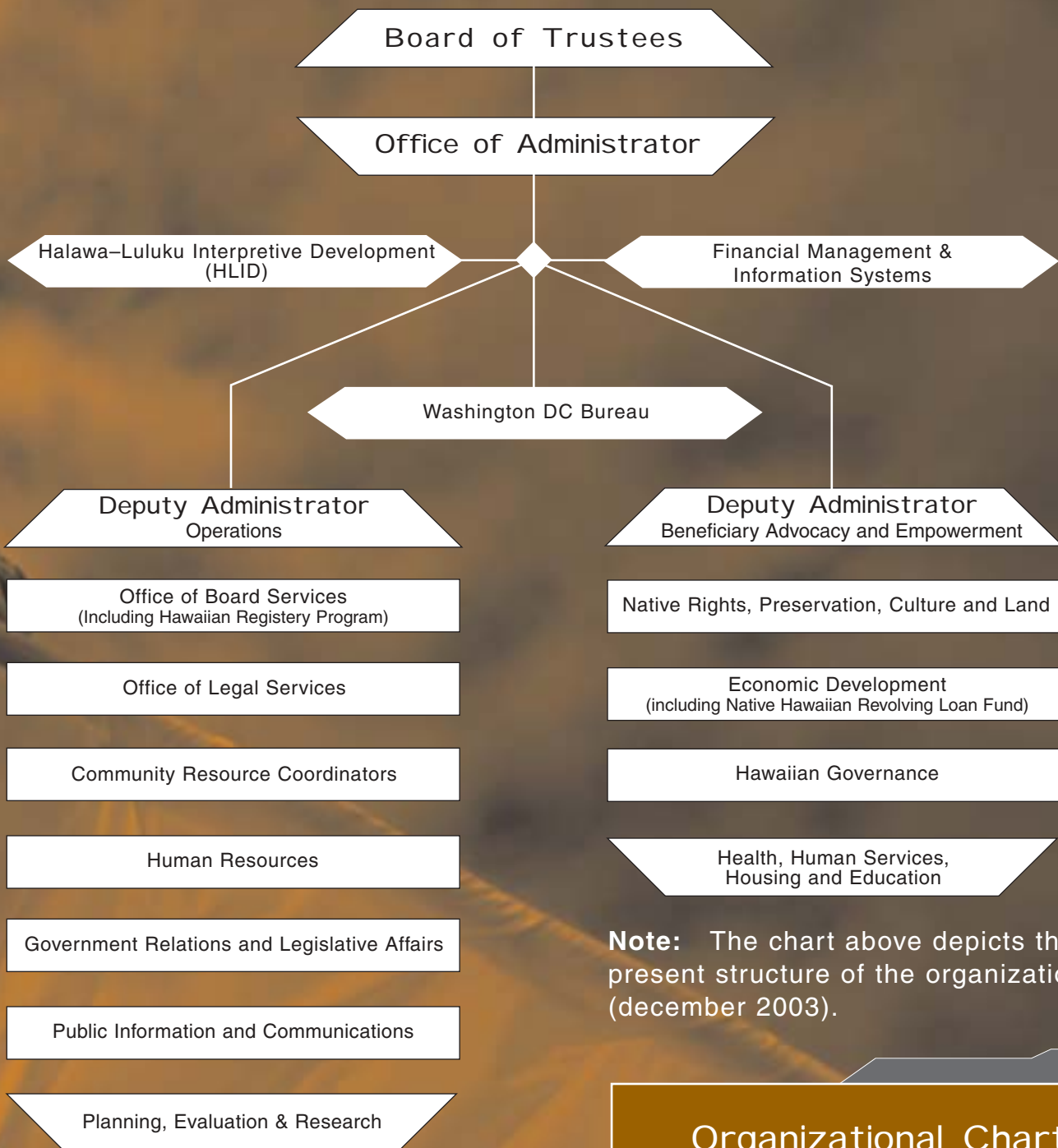
Gladys Brigham, *clerk typist, East Hawai‘i*

Kaliko Santos, *clerk typist, Kaua‘i*

Roy Newton, *clerk typist, Maui*

Roxanne French, *clerk typist, Moloka‘i*

Leimana DaMate, *community resource  
assistant (left OHA employment during FY03)*



**Note:** The chart above depicts the present structure of the organization (december 2003).

## Organizational Chart

### 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.



## **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."

## **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.

## Education

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

## 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.

# Hawaiian Governance and Native Rights



## Mission:

Hawaiian Governance seeks to educate the Hawaiian and non-Hawaiian communities about Hawaiian governance issues, to foster a groundswell in support of self-determination for Hawaiians and to help facilitate the creation of a Hawaiian nation.

## Needs Served:

Hawaiian Governance, as a discrete and separate function of OHA, gained momentum after the “National Legal Think-Tank” held in January 2003, in which national and local legal experts in Native American and Alaska Native nation-building efforts convened in Honolulu to discuss the legal and political challenges that face programs that benefit Hawaiians.

The general consensus of the Think Tank was that, while the lawsuits challenging these programs could be defended, the long-term survival of these programs would be greatly enhanced by achieving both some form of federal recognition of Hawaiians as an indigenous people and the establishment of a Hawaiian governing entity. Panelists strongly agreed that the latter – the creation of a Hawaiian government – would do more in the long run to immunize Hawaiian programs from legal attacks on “equal protection” grounds.

## FY-03 Highlights:

Much of what OHA did during the first half of FY2003 related to OHA’s participation in the Hawaiian self-determination movement. Activities such as the Nā ‘Ōiwi ‘Ōlino campaign were intended to “prime the pump” for what would become OHA’s priority goal for the next 18 months – to support and facilitate the creation of a Hawaiian Nation.

Hawaiian Governance activities began in February 2003 with the appointment of a hale director and a press conference launching the governance campaign that was attended by Hawaiian organizations, supporters, and the press. In June, members of a HG community advisory committee were selected. The last five months of FY03 focused on planning and developing the materials and systems to launch the nationhood campaign, as well as on building staff capacity to implement those plans through the following activities:



### Hālāwai community meetings

This program is designed to help Hawaiians and non-Hawaiians to become better informed on Hawaiian governance issues through community meetings conducted by Hawaiian Governance facilitators. Numerous community meetings have reached a broad spectrum of the Hawaiian and non-Hawaiian communities on O'ahu, Maui and Hawai'i. Presentations were made to Hawaiian civic clubs, neighborhood boards, business organizations, rotary clubs, Kamehameha Schools alumni groups, as well as administrators and staff of Hawaiian-focused social service agencies. Additional hālāwai continue to be scheduled by trustees, staff and partner organizations.

### Community Outreach

The community outreach team is contacting Hawaiians and non-Hawaiians across the continent to urge them to e-mail or write their Congressional representatives to support the Federal Recognition bill. To date the team has confirmed 300 letters sent to Congress as a result of its efforts is in the process of creating a communication broadcast system to update Native Hawaiians and supporters on governance progress. The team also recently conducted a Hawaiian Governance/community empowerment presentation for 160 people from throughout the state. Additional outreach efforts resulted in hālāwai being presented in Washington, D.C, Phoenix, Arizona, and Carson, California.

### Materials

Hawaiian governance information sheets, flyers, and an electronic Akaka Bill brochure were produced for dissemination at hālāwai, community events, or through e-mail. A Hawaiian governance video, for use in hālāwai and other community meetings, was produced by 'Ōlelo and Wai'anae high school students for state broadcast and community screenings.

An electronic newsletter, Ho'okahua, was designed and is being distributed to individuals who want to receive updates on Hawaiian governance issues. To date, the HG team has collected over 6,000 email addresses and Oracle consultants are creating an electronic newsletter database. The first edition was published and distributed to 5,600 subscribers on June 17, 2003.

### Televised roundtable discussions

HG began and continues to produce and air 24 roundtable discussions televised on a weekly basis on 'Ōlelo Channel 53. The programs present diverse perspectives on Hawaiian governance issues and will run over a one-year span. The first four roundtables produced in FY-03 discussed the history of the sovereignty movement and the pros and cons of the Hawaiian Federal Recognition Bill (Akaka Bill)

### NativeHawaiians.com

The NativeHawaiians.com website presents updated information on the issue of federal recognition and includes a link to a copy of S.344 (the Akaka Bill) and a system that enables people anywhere in the United States to send an e-mail to their Senators and Congressional representatives.

### Media Campaign

Proposals from appropriate media service providers were solicited for the design and implementation of a Hawaiian Governance mass media campaign. Proposals were reviewed and a selection was made for the campaign to begin implementation in early FY-04.

### Special Events

It is a goal of Hawaiian Governance for staff to have a presence at any significant event relating to Hawaiians. Toward this end, special events were organized on O'ahu, neighbor islands and the continental U.S. to generate interest and understanding of Hawaiian self-determination issues at key points in time, such as when the Akaka Bill was to be voted on in Congress and during a symposium conducted by the Alaska Federation of Natives in Washington, D.C.

### Hawaiian Governance Staff as of June 30, 2003:

Peter Yee, *director*  
Brian Stokes, *lead advocate*  
Chantelle Belay, *policy advocate*  
Michele Oka, *administrative assistant*  
Lani Ho'omana, *administrative assistant*

On Feb. 14, 2003, OHA's Board of Trustees voted unanimously to support the intent of U.S. Senate Bill 344 (also known as the "Akaka Bill"), which would formalize United States policy regarding the federal government's relationship with Native Hawaiians and provide a process for recognition by the U.S. of a Native Hawaiian governing entity. In accordance with this board policy, OHA undertook a multi-departmental initiative during FY-03 in support of the federal recognition bill. Activities in support of this initiative included the establishment an OHA bureau office in Washington, D.C., a board appropriation of \$450,000 in OHA trust funds to engage the Washington law and lobbying firm Patton & Boggs LLP, and a \$100,000 multimedia (television, radio & cinema screen) advertising campaign in Hawai'i.

## Mission

The goal of the Washington, D.C. Bureau is to educate the U.S. Congress and Executive Branch on issues important to Native Hawaiians and secure favorable passage of legislation at the national level.

## Needs served

The Bureau's four primary objectives are: 1) educate Congress and the Executive Branch on issues important to Native Hawaiians; 2) establish and maintain organizations and individuals at the national level as allies; 3) overcome resistance of non-supporters of issues important to Native Hawaiians; and 4) establish a mechanism to collect and disseminate information on issues important to native peoples.

## FY-03 Highlights

The Office of Hawaiians Affairs Washington, D.C. Bureau officially began operations in February 2003 with a blessing of the Bureau office and a well-attended reception in the Senate Russell Building. A number of trustees and staff represented OHA in establishing an on-going national presence and advocate for Native Hawaiians in D.C.

Also in February, Sens. Akaka and Inouye re-introduced Senate Bill 344, "The Native Hawaiian Recognition Act of 2003." In the House, Reps. Abercrombie and Case introduced a companion bill, HR 665, in the U.S. House. At a Senate Indian Affairs Committee hearing on S.344

held on February 25, prominent supporters offered verbal and written testimony in strong support of the measure, including, Gov. Linda Lingle, DHHL Chairman Micah Kane, Reps. Ed Case and Eni Falemavaega (delegate-American Samoa), and OHA Chairperson Haunani Apoliona, among others. Also present and expressing support for the bill were leaders from the National Congress of American Indians and Alaska Federation of Natives. Later that same day, OHA Trustees, DHHL and State Council of Hawaiian Homestead Associations briefed over 60 Senate staffers on issues important to Native Hawaiians, and both Lingle and various OHA trustees returned to Washington several times afterward to garner support for the recognition bill.

Other bureau-coordinated activities included: establishing a known presence in Washington; coordinating efforts with Hawai'i's congressional delegation; briefing other congressional staff; preparing and delivering materials on history and issues important to Native Hawaiians to members of Congress and the Executive Branch; partnering with other native organizations to produce a forum focusing on how native self-determination strengthens democracy; recruiting, training, supervising and maintaining volunteers and interns; and coordinating and participating in meetings, events and partnerships to establish strong ongoing relationships and support among Hawaiian, native peoples, civil rights and other groups in the D.C. Tri-State area and throughout the East Coast.



Hawaiian Governance Staff as of June 30, 2003:

Martha Ross, *bureau chief*







## MISSION:

To execute the H-3 Memorandum of Agreement (MOA) requiring development of an Interpretive Development Plan, with community consultation, that addresses the mitigation of land areas affected by H-3 and which preserves, interprets, and perpetuates its Native Hawaiian history, traditions and culture.

## NEEDS SERVED:

HLID serves to fulfill requirements of the MOA, which provides resources to mitigate the adverse impact of the H-3.

## FY-03 HIGHLIGHTS:

### Key players

During this fiscal year, the project was successful in selecting several key players to define the process by which the Interpretive Development Plan will be developed. RM Towill Corporation was hired as the planning consultant; Alston, Hunt, Floyd & Ing was retained to provide legal guidance. fourteen members from the community were selected to serve on the HLID working group. The working group serves in an advisory capacity to provide the project with community input, and to assist in making recommendations to guide the project.

## Plan to Plan

In the summer of 2003 the Plan to Plan (P2P), which identifies the process which will be used in developing the interpretive development plan, as well as the roles of key players involved in the process, was completed and approved by the Office of Hawaiian Affairs, Department of Transportation and the Federal Highways Administration. The project is now starting its strategic planning phase that will begin the process of identifying significant sites, the impact caused by H-3 and the possible mitigation solutions.

The community working group members are:

Donna Bullard  
Wali Camvel  
Phyllis "Coochie" Cayan  
Māhealani Cypher  
Steven Helela  
Lela Hubbard  
Marion Kelly



Clara "Sweet " Matthews  
 Robert "Boot" Matthews  
 Havana McLafferty  
 Vienna Nāhinu  
 Ella Paguyo  
 John Talkington  
 Laulani Teale

#### HLID staff as of June 30, 2003:

Kahikina Akana, *project coordinator*  
 Pono Chong, *assistant project coordinator*  
 Pamela Nakagawa, *secretary*

The following personnel served on the HLID staff during FY 2003, but left OHA employment before the end of the fiscal year:

Darryl Nii, *assistant project coordinator*





## Mission

Treasury & Other Services (TOS), formerly known as the Administrative Services Office, Financial Management and Information Systems, works in partnership with OHA divisions, their beneficiaries and partners, and the public by meeting their financial management and information systems needs and interests through delivery of responsive and effective services in accounting, treasury, financial management and information systems.

## Needs Served

Within the Office of Hawaiian Affairs, TOS is integral to OHA's infrastructure, managing resources and using technology to streamline processes, in order to fully integrate all aspects of financial information processing and reporting. TOS's major functional areas are as follows:

- Accounting is responsible for the day-to-day processing and auditing of accounting transactions, systems analysis, maintaining the general ledger and all aspects of producing accurate financial reports.
- Treasury includes reviews of OHA's Native Hawaiian Trust Fund (NHTF), accounts receivable, credit and collections, and the coordination of OHA's annual 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 in the development of 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-03 Highlights

Each year, an independent certified public accounting firm conducts an audit of OHA's financial statements. The financial statements for the fiscal year ending June 30, 2003 are contained in this annual report.

On January 16, 2003, the BOT selected the investment advisory services of Frank Russell Company and Goldman Sachs & Co., which distributed OHA's NHTF assets 50/50 between the two firms. Transition management services were utilized to help facilitate the change from a direct contractual approach to providing the necessary funds/securities to OHA's manager-of-managers investment advisory firms of Frank Russell Company and Goldman Sachs & Co.

On May 29, 2003 the BOT adopted a new Investment Policy Statement for the NHTF, which allows alternative investments within high yield, real estate, absolute return and private equity, and acknowledges the benefits of a diversified multi-strategy investing approach. Over the recent years, multi-strategy funds have done well and are now one of the favorite alternative investment vehicles.

On June 26, 2003, the BOT revisited OHA's Total Operating Budget (TOB) and Performance & Program Budget (PPB) for Fiscal Years 2004 and 2005 to ensure compliance with OHA's Five-Year Strategic Plan. With this revised budget, the BOT also approved the following covenant which states that "any expenditure or encumbrance for FY-04 and FY-05 which changes the budget by +/- 10% within a program division (BOT, Support Services, and Beneficiary Advocacy) or cost center, except cost centers of \$100,000 or less, shall require a simple majority (5) approval by the BOT," providing more accountability to the BOT.

## Treasury & Other Services staff as of June 30, 2003:

Joan Bolte, *chief financial officer*

Tom Kellenberger, *controller*

Cynthia Ota, *accountant*

Karyle Saiki, *secretary*

Gerald Honda, *credit and collections specialist*

Alan Lum, *information systems specialist*

Kauikeaolani Daunie, *information systems assistant*

Beata Kozdras, *financial analyst*

Gwen Valbuena, *accounting assistant*

Mona Yin, *accounting assistant*

Mylene Lacuesta, *accounting assistant*

Jaclyn Aiana, *financial assistant*









## Mission:

The mission of the Health and Human Services section is to address the health care needs of Native Hawaiians and improve their access to resources and services offered by Hawaiian agencies and other direct service providers.

## Needs Served:

To help address health and human service needs, an OHA staff person sits on the Board of Papa Ola Lōkahi and oversees various projects. OHA also convenes the Native Hawaiian Health Task Force as needed. OHA's activities are directed at achieving a long-term goal of focusing on the needs of the aged and elderly and improving the quality of life for 17,500 Native Hawaiians in the areas of food, shelter and safety.

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 of 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 until someone in the 'ohana seeks outside assistance.

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.

## FY-O3 Highlights:

### Multi-Service Project

The Multi-Service Project is a program administered through Alu Like, Inc., which provides statewide information and referral for social services, emergency funding, technical assistance and follow-up case management. OHA contributes \$596,000 per year to this project.

### Individual Development Account Program

The Individual Development Account (IDA) is a program administered through Alu Like, Inc. that provides a dollar match to low-income beneficiaries interested in saving for the purpose of housing, home ownership, post-secondary education and business capitalization or entrepreneurship. Under this program, the beneficiary's savings are matched by other dollars through a partnership with American Savings Bank, Bank of America and Queen Lili'uokalani Children's Center.

### Sage Plus

This year OHA began a new kūpuna health initiative entitled "OHA Sage Plus" to meet OHA's Strategic Plan health goal. In collaboration with the State Executive Office on Aging, OHA will create a group of trained volunteers to assist kūpuna in assessing their eligibility as senior citizens to access Medicare, Medicaid, and other health benefits. OHA Sage Plus recruits volunteers to work with kūpuna and show them how to access medical benefits such as Medicare and Medicaid.

### Traditional Hawaiian Diet

OHA funds two community projects through the Wai'anae Coast Comprehensive Health Center and the State Department of Health. These programs focus on using a traditional Hawaiian diet to improve the health and well-being of the Native Hawaiian community.

Health and Human Services staff as of June 30:

Kathryn Keala, *specialist*





## Mission:

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

## Needs Served:

OHA's objective in education is 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 teaching of Hawaiian culture and language in both public and private schools.

To assist in meeting these goals, OHA staff sit on the Native Hawaiian Education Council, the advisory council for Pihana Nā Mamo, a DOE program for schools with students with disabilities.

## FY-O3 Highlights:

### **Kanu o Ka 'Āina Public Charter School**

OHA provided a \$110,250 grant to Kanu o ka 'Āina Public Charter School in Waimea, Hawai'i, to design and implement a comprehensive, multi-island evaluation project that measures the impact of culturally driven education on Native Hawaiian student performance at the 14 Native Hawaiian charter schools, known as Nā Lei Na'auao.

### **Kula Aupuni Ni'ihau A Kahelelani Aloha**

OHA provided funding to Kula Aupuni Ni'ihau a Kahelelani Aloha, a public charter school that offers a bilingual Hawaiian and English curriculum for Hawaiian students of Ni'ihau families living on the island of Kaua'i.

### **Nā Pua No'eau**

OHA provided the University of Hawai'i at Hilo funding in the amount of \$581,948 for its Nā Pua No'eau program for gifted and talented Native Hawaiian children. This program reaches 600 children on six islands.

### **'Aha 'Ōpio O OHA**

The 16th annual 'Aha 'Ōpio O OHA was held the week of June 22-27 at the State Capitol. Boasting an alumnus pool of more than 700 student legislators, the 2003

class included students from five islands and Texas. Students introduced and worked toward passing bills on topics relevant to Hawaiians, such as protecting Hawai'i's plants from extinction, protecting coral reefs, funding sports in immersion schools, establishing a youth club to educate youth on Hawaiian issues and establishing Hawai'i Pono'i as the national anthem of the new Hawaiian nation.

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

### **Nā 'Ōiwi 'Ōlino**

The first annual OHA essay, poster, and debate contest was held at Ke'elikōlani Auditorium at the Kamehameha Schools on December 7. Students from Hawaiian immersion and charter schools (K-8) and all public high schools were invited to participate. Essays and posters explored the topic "He Hawai'i Au" (I Am Hawaiian), while the debate presented the pros and cons of federal recognition. More than 350 entries were received, and winners came from a wide variety of schools.

### **Kai Makana**

OHA assisted Kai Makana, an environmental nonprofit organization, by providing ho'okupu and makana items for their students' travel to Aotearoa (New Zealand). The purpose of the trip was community service, learning, and cultural exchange. Students collected data, conducted water-quality testing, restored streams, monitored marine debris and participated in other environmental service projects.

### **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 Kula Kaiapuni, the DOE's Hawaiian Language Immersion Program. As part of this lawsuit settlement, OHA assists Kula Kaiapuni in a 2:1 funding ratio. This year was year three of the five-year agreement.

### **Scholarship Information**

The staff provided assistance and information to students and parents seeking financial aid by participating in community and college financial aid fairs. OHA intends to reinstate an OHA-funded scholarship program.

### **University of Hawai'i at Hilo, Ka Haka 'Ula O Ke'elikōlani Master's Degree Program**

OHA continued its support to the University of Hawai'i at Hilo for its master's degree program in Hawaiian Language and Literature. OHA has provided \$61,128 each year to support the development and implementation of this first graduate degree in any native language. This year was the last year of the five-year grant.

### **University of Hawai'i at Mānoa, Kamakakūokalani Center for Hawaiian Studies**

OHA made a five-year funding commitment to the Center for Hawaiian Studies at the University of Hawai'i at Mānoa. OHA provides \$305,000 each year to support the continued development and implementation of Hawaiian studies courses and research and training on ceded lands.

### **Hawai'i Technology Institute**

OHA provided \$150,000 to Hawai'i Technology Institute for 46 scholarships for economically disadvantaged Native Hawaiians to attend their Information Technology Management Program.

### **Merrie Monarch**

Three Miss Aloha Hula contestants received the OHA Hawaiian Language Award at the annual Merrie Monarch Festival in Hilo. Each year, OHA presents the \$1,000 cash prize to the Miss Aloha Hula contestant who scores the highest in the oli category. This year was the first time a three-way tie occurred at the festival, with the prize going to Jennifer Kēhaulani Oyama of Hālau Nā Mamo O Pu'uanahulu, Kara L. Chow of Nā Hula 'O Kaohikukapulani; and Laura L. Mano'i of Ka Pā Hula O Kauano'e 'O Wa'ahila.

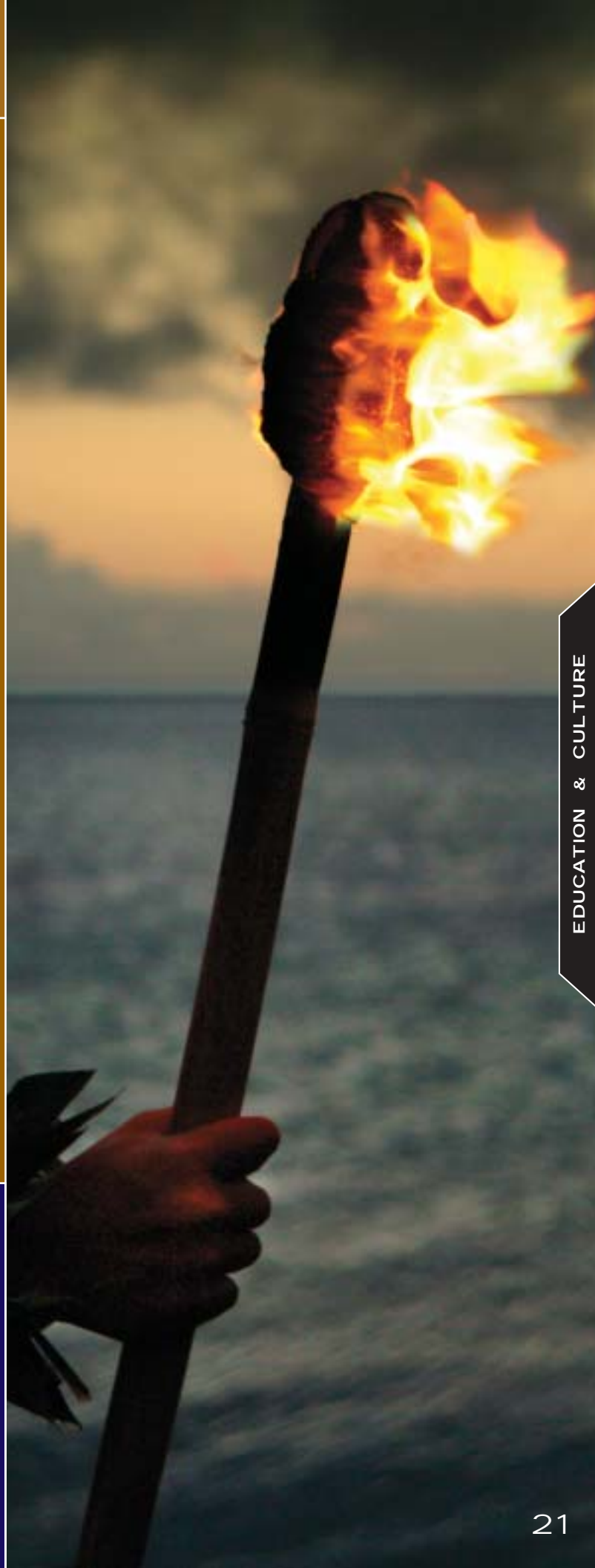
## **Education and Culture staff as of June 03:**

Ka'iulani Vincent, *education specialist*

Winona Matsuzaki, *evaluation assistant*

The following personnel served on the Education and Culture staff during FY 2003, but left OHA employment before the end of the fiscal year:

Healani Sonoda, *education/culture specialist*



# Office of the Staff Attorney

## Mission:

The mission of the Office of the Staff Attorney is to work cooperatively and collaboratively with OHA administrative divisions, beneficiaries and the public and meet OHA's needs and interests through delivery of responsive and effective legal services that ensure that OHA operations are in compliance with applicable laws.

## Needs Served:

The Office of the Staff Attorney is an integral part of OHA's infrastructure and participates in strategic planning, organizational planning, budget development and plan implementation. OSA provides legal services in these primary functional areas:

- Acquisition of properties
- Procurement of goods, services and construction for OHA in compliance with State laws
- Documenting transactions in contracts, grant awards, memoranda of agreement, and leases
- Consultation and advice on applicability of federal and state statutes, rules and regulations
- Consultation and advice on ethics and standards of conduct matters
- Minor litigation where OHA is a party
- Rendering of internal advisory memoranda and legal opinions
- Americans with Disabilities Act coordination
- UIPA requests for information on matters in litigation
- Monitoring legal services contracts where OHA has out-sourced legal work
- Maintaining a filing system of original agency contracts
- Drafting and review of proposed legislation
- Parliamentary procedures and internal regulation and procedures
- Providing education and training to staff on procurement and contracting

## FY-O3 Highlights:

### Major Achievements:

- Completed drafting, review and processing of hundreds of contracts, agreements and other legal documents and instruments, correspondence and procurement documents for purchases of goods, services and construction by agency.
- Organized the new trustee orientation program
- Participated in the change in investment structure of the OHA Native Hawaiian Public Land Trust to the manager-of-managers approach.

## Office of the Staff Attorney staff:

Ernest M. Kimoto, *senior staff attorney*

John James McMahon, *associate staff attorney*

Shirley Okamoto, *legal assistant*



## Mission:

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

## Needs Served:

Human Resources Office serves such agency needs as recruitment, wage and benefit administration, payroll services, employee services, staff development, employment law compliance, leave accounting, personnel record keeping, personnel budgetary support and related staff services in accordance with applicable statutes, standards and guidelines. In addition, timesheet processing, personnel budgetary support, payroll, and Oracle Human Resources Management Systems maintenance are new functions assigned in FY03.

It should be noted, however, that the Volunteer Services Program was transferred to the Beneficiary Advocacy Division in FY03 to support its varied Hawaiian governance activities. Further, with the creation of the new Office of Board Services in FY04, the Facilities Management Unit and its staff of were re-assigned to this office.

## FY-O3 Highlights:

During the past fiscal year, the Human Resources 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
- Oracle Human Resources Management System including Time and Labor, Timekeeper and other modules
- Personnel records review

## Human Resources staff as of June 30, 2003:

Alvin Kushima, *personnel manager*  
Tane Mosher, *personnel specialist*  
Annette Hayashi, *personnel specialist*  
Sally Koba, *personnel specialist*  
Jennifer Chiwa, *secretary*  
JoAnne Medeiros, *clerk typist*

The following personnel served on the Human Resources staff during FY 2003, but left OHA employment before the end of the fiscal year:  
Gail Asuncion, *personnel specialist*  
Martha Carson, *clerk typist*





## 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.”



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

## Vision



# Public Information Office

## Mission:

The Public Information Office serves the communications, public relations, multi-media, graphic design and informational needs of the Office of Hawaiian Affairs, and is situated in the operations arm of the administration. The Public Information Office coordinates the dissemination of information on OHA program, policies, purpose and direction to the general public through publications, electronic media, multi-media and general services.

All functions of OHA's Public Information Office support Goal 7, strategy 1 of the OHA Strategic Plan. Goal 7 covers overall OHA administrative policy. Strategy 1 seeks to "provide an effective and efficient administration of OHA."

## Needs Served:

The Hawaiian community and the community at large are regularly informed of OHA activities through the monthly publication *Ka Wai Ola o OHA*, with a distribution of 64,000 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 media, OHA administration and trustees. PIO maintains OHA's principal website, [www.OHA.org](http://www.OHA.org), as well as [NativeHawaiians.com](http://NativeHawaiians.com) which focuses on federal recognition, and [www.hlid.org](http://www.hlid.org), which highlights the Hālawā-Luluku Interpretive Development project. PIO coordinates and produces such multi-media projects as video and DVD production. All agency-wide graphic design projects are handled internally by PIO staff.

## FY-03 Highlights

PIO staff 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.

- Produced 12 issues of *Ka Wai Ola o OHA*, OHA's monthly newspaper aimed at the Hawaiian community.
- Produced live gubernatorial forums aired on KFVE-TV for the both the primary and general elections.

- Assisted in OHA's Nā 'Ōiwi 'Ōlino Debate, Poster and Essay Contest, a first-time initiative involving haumāna (students) representing statewide schools.
- Designed and produced numerous brochures highlighting OHA programs.
- Designed and produced an array of materials, including DVDs, videos, brochures and more supporting the February 2003 opening of the Office of Hawaiian Affairs Washington, D.C., Bureau.
- Produced advertisements for print and broadcast media highlighting OHA activities and special events sponsored by community groups vital to the Hawaiian community.
- Helped coordinate the January 15, 2003, Nā 'Ōiwi 'Ōlino Rally for Native Rights at 'Iolani Palace at the State Capitol
- Helped launch the Ho'oulu Lāhui Aloha Campaign May 1, 2003, at Bishop Museum.
- PIO staff received studio production certification by 'Ōlelo Community Television enabling them along with other OHA personnel to produce OHA programming.
- Designed the stage set for the 24-part Ho'oulu Lāhui Aloha Roundtable Discussion Forum on 'Ōlelo.
- Produced the OHA FY-02 Annual Report.
- Produced and disseminated OHA internal e-newsletter, "*Ka Hoa Hana*."
- Produced and disseminated OHA external Hawaiian governance e-newsletter, "*Ho'okahua*."

## Public Information Office Staff FY-03

Manu Boyd, *public information director*  
Derek Ferrar, *public information specialist*  
Michael McDonald, *publications specialist/graphic design*  
'Aukai Reynolds, *media production specialist/webmaster*  
Naomi Sodetani, *publications editor*  
Sterling Kini Wong, *staff writer (emergency hire)*  
Leialoha Lono'ae'a, *secretary*  
Charlie Ogata, *volunteer*

The following personnel served on the PIO staff during FY03, but left OHA employment before the end of the fiscal year:

Ryan Mielke, *public information and programs director*  
Keli'iwai Camarillo, *Web support (emergency hire)*  
Caitriona Kearns, *media production specialist*



OFFICE OF 2003  
HAWAIIAN AFFAIRS  
HO'ALA HOU  
ANNUAL REPORT



# Community-Based Economic Development

## Mission:

OHA assists Hawaiians in achieving equality in economic endeavors through community enterprises.

## Needs Served:

The Community Based Economic Development (CBED) Program assists community based membership organizations with grassroots initiatives to develop and sustain economic development projects. These communities are defined by a common geography or by shared interests and disciplines. For the past three years, OHA has provided funding for technical assistance to build capacity within Native Hawaiian organizations to assure each organization's infrastructure capacity, stability and sustainability. To help address these needs, OHA sits on the CBED Statewide Advisory Council.

## FY-O3 Highlights:

### **Hawai'i Alliance for Community Based Economic Development (HACBED)**

OHA provided a grant to the Hawai'i Alliance for Community Based Economic Development to assist Native Hawaiian non-profit organizations previously trained through the Community Connections workshops. These organizations receive technical assistance on a one-to-one basis "to get them to the next level" in implementing their projects, business plans and work plans. HACBED will be assisting with the organizational development of Ke Aupuni Lōkahi on Moloka'i and community planning with the Hāna Village Marketplace in Hāna, Maui.

### **Waipā Foundation**

OHA provided grant funding to the Waipā Foundation on the island of Kaua'i to develop a site feasibility plan for a 20-acre portion of the Waipā ahupua'a. This area located in Hanalei will service community participants with cultural sites conducive to Hawaiian learning methods. Waipā Foundation intends to develop micro-enterprises to encourage financial sustainability and economic development growth throughout the area.

### **Friends of Moku'ula**

OHA provided grant funding to assist this Maui-based community organization in strategic planning, workshops and training for Moku'ula caretakers.

## CBED staff as of June 30:

Leona Kalima, *specialist*









# Housing

## Mission:

The mission of OHA's Housing section is to work 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.

## Needs Served:

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

## FY-O3 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: loans at 103% of the purchase price, which eliminate the need for a down payment and minimize closing costs; and "Pathway to Homeownership" workshops that provide an opportunity to build financial skills, learn about the responsibilities of homeownership and reach financial goals. OHA hired three non-profit organizations to conduct these workshops, and they were attended by more than 500 beneficiaries.

### Self-Help Housing

OHA continued to support on going self-help housing projects in Waiehu Kou, Maui; Keaukaha and Waiākea, Hawai'i Island; and Kalama'ula, Moloka'i. Through OHA's subsidy, self-help housing organizations help families build their homes using the group method, with participating families contributing their own labor or "sweat equity" to reduce the cost of construction.

### OHA Homesteader Loan Program

From 1993–2001, this program provided 536 native Hawaiian families loans for self-help housing, home improvements, interim construction and down payments in several homesteader communities. All funds from the original program were disbursed (In late November 2003, the Board of Trustees agreed to reinstate the program).

### Kawānanakoa Gym

OHA provided \$667,000 in funding for the construction of Kawānanakoa Hall in Keaukaha. A blessing was held on March 22 for the new gymnasium and meeting facility, which will serve the communities of Hilo, Puna, and Hāmākua. This was a joint project with the Department of Hawaiian Home Lands, County of Hawai'i, and Kamehameha Schools.

### Housing Needs Assessment and Housing Plan

OHA contracted the Pa'i Foundation to prepare a housing needs assessment, which is now under review. OHA staff are preparing an overall housing plan to address the housing needs of Native Hawaiians.

## Housing staff as of June 30:

Jose Villa, *lead advocate*  
Ka'imookalani Muhlestein, *specialist*  
Leaona Kalima, *housing counselor*

The following personnel served on the Housing staff during FY 2003, but left OHA employment before the end of the fiscal year:

Patti Tancayo Barbee, *specialist*



## Grants

### 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.

### FY-03 Highlights

The OHA Grants Program underwent a year of transition. Following legislative action in June 2002 that reestablished OHA's granting authority, the OHA Board of Trustees approved policy in December 2002 to formally establish the OHA Grants Program and governing policies. These policies addressed the minimum criteria, levels of funding, matching funds requirements and award authority.

The Board of Trustees approved \$284,875 in grants during this fiscal year. Awards were made in the areas of culture, education, health, social services and economic development to the following organizations:

- Legal Services for Children
- T.J. Mahoney & Associates
- Waipā Foundation and He Mana'o Productions
- Wai'anae Community Re-Development Corporation
- Waikiki Health Center

## Grants staff as of June 03:

Nancy Holt, *grants specialist*

The following personnel served on the Grants staff during FY 2003, but left OHA employment or transferred division before the end of the fiscal year:  
Esben Borsting, *grants specialist*  
Lani Ho'omana, *grants assistant*,  
Michele Oka, *grants assistant*,











# Native Hawaiian Revolving Loan Fund

## Mission

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

## Needs Served

The Native Hawaiian Revolving Loan Fund (NHRLF) 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 361 business loans totaling \$15.8 million and the creation of 1,034 jobs. NHRLF has processed over 17,700 loan inquiries, requesting approximately \$154 million for loans. The borrowers represent a variety of industries that include agriculture, commercial fishing, construction, food service, professional services, manufacturing, wholesale, and retail. Statewide entrepreneurial training and business assistance is provided through contracted consultants that have served over 4,100 Native Hawaiians.

## FY-03 Highlights

During FY-03, the program held its fourth small business conference with its largest attendance at over 250 attendees. Featuring a videotaped message from the Honorable Senator Daniel Inouye. The fund also disbursed loans to struggling Native Hawaiian-owned businesses that were negatively impacted in the wake of the September 11 tragedy and the Iraq war. The volume of loans approved and disbursed was below the previous year's figures, primarily due to the downturn in the economy and "lack of faith" that potential entrepreneurs had. The following activities resulted during the fiscal year:

- Four loans approved for \$123,550
- Five disbursed loans totaling \$208,000
- 19 jobs created
- 17 loans totaling \$851,500 were repaid in full
- 202 Native Hawaiians provided with training and/or business assistance
- Three new directors brought in to replace those whose terms had expired on the NHRLF Advisory Board
- 14 directors continue to serve on the NHRLF Advisory Board on a voluntary basis

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 nurture successful Native Hawaiian-owned small businesses.



## NHRLF staff as of June 30, 2003:

Dean Oshiro, *manager/senior loan officer*  
Dana Hauanio, *business loan officer*  
Susan Maltezo, *finance and operations officer*  
Carolyn Afong, *loan operations assistant*  
Noel Fujimoto, *loan officer*

The following personnel served on the NHRLF staff during FY 2003, but left OHA employment before the end of the fiscal year:

Kaulana Park, *loan fund manager*

# Hawaiian Registry Program



## Mission

The Hawaiian Registry Program's mission is to acknowledge people of Hawaiian ancestry through the issuance of picture ID cards worldwide.

## Needs Served

The Hawaiian Registry Program helps OHA to identify the number of Hawaiians world wide by geographical location. The Hawaiian Registry ID card can be used to verify ancestry when applying for programs and services.

## FY-03 Highlights

During FY-2003 the Hawaiian Registry Program registered 3,070 Hawaiians, with 2,126 ID cards issued once ancestry was verified using birth and genealogical records.

The Hawaiian Registry Program also branched out from the Honolulu office to the neighbor island offices starting in the autumn of 2002. Today, each OHA office has Hawaiian Registry computer, photography and printing equipment and has been trained to register Hawaiians and issue ID cards on location.

During FY-2003, the Hawaiian Registry Program was a featured participant in the following events:

Alu Like Kūpuna-Kaua'i-July 02  
Kalaupapa, Kaunakakai-Moloka'i-Sept. 02  
Hawaiian Civic Club Convention-Las Vegas, NV-Nov 02  
Nā Ōiwi Ōlino Rally-O'ahu-Jan. 03  
Living Nation Rally-O'ahu-Jan. 03  
Nā Pua Noe'au-Hilo-Mar. 03  
Hawaiian Education Convention-O'ahu-Mar. 03  
Hawaiian Civic Club Hō'ike'ike-O'ahu- Mar. 03  
Merrie Monarch-Hilo-Apr. 03  
Hawaiian Civic Club-Waimea, Hawai'i-Apr. 03, Jun. 03  
Sonny Ching Family Affair-O'ahu-May 03  
OHA Native Hawaiian Revolving Loan Fund Convention-O'ahu-Jun. 03  
San Fernando, CA-Jun. 03  
Washington, D.C.-Jun. 03  
Phoenix, AZ- Jun. 03



## Hawaiian Registry Staff as of June 03:

Lucille Meyer, *Hawaiian Registry coordinator*  
Haunani Ching, *Hawaiian Registry support staff*  
Joanie Martinez, *Hawaiian Registry support staff*  
Louis "Buzzy" Agard, *Hawaiian Registry support staff*

# Native Hawaiian Historic Preservation Council

## Mission:

To improve the quality of life and ensure the cultural identity of Native Hawaiians by preserving and perpetuating Native Hawaiian cultural and historic resources, and empowering all Hawaiians to participate in the stewardship of these properties, traditions, practices and values.

## Needs Served:

The Native Hawaiian Historic Preservation Council is an advisory council to the Board of Trustees. They advise the trustees on matters related to repatriation of iwi and items of cultural patrimony, and on matters related to historic preservation.

This year the NHHPC helped to repatriate two iwi po'o from the National Museum of Natural History. The council also continues to work with the island burial councils and burial program staff to ensure proper treatment of burials found within the state.

The council advised the Board of Trustees and staff on issues related to the Army transformation to Stryker units and the Pearl Harbor Programmatic Agreement.

The council convened the second annual Pili I ka Piko, Pili I Ke Kuleana Conference, in Holualoa, Hawai'i. This conference was attended by over 200 people from all islands to discuss land-use issues and activism to ensure the protection of Native Hawaiian traditional and cultural places.

The council meets on the last Tuesday of the month. It is composed of 14 members as listed below.

## Native Hawaiian Historic Preservation Council members as of June 30:

Randy Wichman, *chair, Kaua'i*  
Roberto Hera, *vice chair, Lāna'i*  
Charles Burrows, *council member, O'ahu*  
Jeno Enocencio, *council member, Hawai'i*  
Kalani Flores, *council member, Hawai'i*  
Lanihuli Freidenburg, *council member, Maui*

Paulo Fujishiro, *council member, Maui*  
Hālona Kaōpūiki, *council member, Moloka'i*  
Thomas Lenchanko, *council member, O'ahu*  
Sweet Matthews, *council member, O'ahu*  
Butch Richards, *council member, O'ahu*  
Kawehi Ryder, *council member, O'ahu*



# Office of Hawaiian Affairs

## Office Locations

### **OHA Administration**

711 Kapi'olani Blvd., Ste. 500  
Honolulu, HI 96813  
Phone: 594.1888  
Fax: 594.1865

### **OHA East Hawai'i (Keaukaha)**

162-A Baker Ave.  
Hilo, HI 96720-4869  
Phone: 808.920.6418  
Fax: 808.920.6421

(Note: The new East Hawai'i office  
opened in August 2003.)

### **OHA West Hawai'i (Kona)**

75-5706 Hanama Pl. Ste. 107  
Kailua-Kona, HI 96740  
Phone: 808.329.7368  
Fax: 808.326.7928

### **OHA Kaua'i / Ni'ihau**

3-3100 Kūhiō Hwy. Ste. C4  
Lihu'e, HI 96766-1153  
Phone: 808.241.3390  
Fax: 808.241.3508

### **OHA Maui**

140 Ho'ohana St., Ste. 206  
Kahului, HI 96732  
Phone: 808.243.5219  
Fax: 808.243.5016

### **OHA Moloka'i / Lāna'i**

P.O. Box 1717  
Kaunakakai, HI 96748  
Phone: 808.560.3611  
Fax: 808.560.3968

### **OHA Washington, D.C. Bureau**

1301 Connecticut Ave., NW  
Suite 200, Washington, D.C. 20036  
Phone: 202.721.1388  
Fax: 202.466.7797

## ERRATA SHEET

### FY-2003 Native Rights Division

#### Mission

The Native Rights Division advocates on behalf of Hawaiians for access rights, native land use and native rights regarding water and the protection of cultural practices and cultural sites.

#### FY-03 Highlights

##### **Mauna Kea Environmental Impact Assessment Lawsuit**

The Office of Hawaiian Affairs sued the National Aeronautics and Space Administration (NASA), asserting that the Environmental Assessment done by the federal agency for the Keck Outrigger Telescopes was inadequate because the telescope expansion would have a significant adverse impact on the environmental and cultural resources of Mauna Kea. Federal Judge Susan Oki Mollway agreed in part with OHA and ordered that NASA redo the cumulative impact portion of the Environmental Assessment. Subsequently, NASA agreed to do a full Environmental Impact Statement.

##### **Mākua Fire**

In July 2003, the Army conducted a controlled burn in Mākua that raged out of control and burned over 2,000 acres of the valley. OHA trustees and staff attended a healing ceremony and Army briefing at Mākua. OHA has requested that the Programmatic Agreement for Mākua be amended to ensure, among other things, that community access continues, that alternatives to fire are explored for unexploded ordnance clearance, and that water resources in Mākua are restored and maintained.

##### **Stryker Brigade EIS and Programmatic Agreement**

The Army's plan to implement a Stryker Brigade at Schofield will require additional training grounds, additional roads and runways, and new live fire ranges. OHA commented on the Environmental Impact Statement and helped to have the deadline extended. OHA is also working with the Army and other Native Hawaiian groups to develop a Programmatic Agreement to ensure Native Hawaiian sites and practices are protected.

##### **State Actions**

Throughout the year, staff from the Native Rights Division commented on state permits, environmental assessments and other state actions. OHA provided testimony before the Land Use Commission to ensure that water rights in Honokōhau Valley, Maui, are protected. Staff provided testimony at the Board of Land and Natural Resources on the state's attempts to exchange land at Waikōloa and at Kapalua Mauka. OHA staff also provided testimony at county planning commission meetings.

#### Native Rights Division staff as of June 30, 2003

Pua Aiu, Ph.D., *policy analyst*  
Heidi Guth, *policy analyst*  
Jerry Norris, *policy analyst*  
Apolei Bargamento, *secretary*

The following personnel served on the Native Rights team during FY-03 but left OHA employment before the end of the fiscal year:

Jalna Keala, *policy analyst*  
Mark Mararagan, *policy analyst*  
Wayne Kawamura, *policy analyst*  
Leimana DaMate, *policy analyst*  
Sharla Manley, *policy analyst*  
June Aipopo, *secretary*

#### Additional OHA personnel during FY-03:

Aulani Apoliona, *legislative aide, Beneficiary Advocacy and Empowerment*  
Pōmaialoha Cox, *secretary, Beneficiary Advocacy and Empowerment*  
Ainoa Naniolo, *community specialist, Beneficiary Advocacy and Empowerment*  
David Rodriguez, *policy analyst, Beneficiary Advocacy and Empowerment*  
Dominique Silva, *clerk typist, Facilities Management*

#### Additional Native Hawaiian Historic Preservation Council members during FY-03:

Clarence Medeiros, *council member, Hawai'i*

John D. Waihe'e IV, *OHA board representative*

# Planning, Research and Evaluation

OFFICE OF HAWAIIAN AFFAIRS

2003 ANNUAL REPORT

ERRATA SHEET FY - 2003

## Mission

To systematically create an organization-wide planning, research, evaluation and reporting system that provides updated and meaningful information on all OHA activities, programs and projects, to gauge their integrity, impact and significance to the Hawaiian community.

## Needs Served

The Planning, Research and Evaluation (PRE) division seeks to enhance the internal operations of the Office of Hawaiian Affairs and its provision of services to those who serve the Native Hawaiian community. PRE works to reinforce the partnership formed between the Board of Trustees and the community, which is a central component of the OHA Strategic Plan. Responsibilities include maintaining knowledge and demographic information on various Hawaiian communities in Hawai'i and beyond, and maximizing the efficacy and reach of OHA's programs and services.

## FY-O3 Highlights

The PRE division was formed in April 2003, in the early stages of OHA's structural reorganization. The individual units have been involved in strategic planning, OHA legislative activities, the design of an internal reporting system to systematically assist in gathering, maintaining and communicating information to the Hawaiian community, and the evaluation of programs, activities and projects to ensure the most effective use of trust resources.

Vigilance at the legislature assured the reauthorization of the Hui 'Imi Advisory Council. Hui 'Imi, a forum for public and private entities to plan, develop and work collaboratively to serve the Hawaiian community-at-large, is comprised of selected state divisions, Kamehameha Schools, Lunalilo Trust, Queen Lili'uokalani Children's Center, Queen Emma Foundation, OHA and several other private Hawaiian agencies.

Papa Ola Lōkahi, Kamehameha Schools and OHA also collaborated on surveys, data collection and research topics such as Hawaiian well-being and Hawaiian health disparities.

Other projects included the development of the Community Access Intake and Response System (CAIRs), which is intended to formalize the intake and handling of issues affecting the Hawaiian community and the collection of demographic information on Hawaiians, by county and island.

The following projects were evaluated during FY-03:

- Alu Like Inc. (Multi-Services Program and Individual Development Accounts)
- Community Based Economic Development
- Nā Pua No'eau
- Native Hawaiian Historical Preservation Council
- Native Hawaiian Revolving Loan Fund
- Waimānalo Kūpuna Housing Project

## Planning, Research and Evaluation staff as of June 30, 2003

Richard Pezzulo, *director*

Rona Rodenhurst, *planning specialist*

Noella Kong, *research specialist*

Paulette Hedemark, *evaluation specialist*

Carolina Lam, *planning and research assistant*

Myrna Junk, *evaluation assistant*



## FINANCIAL REPORT



FINANCIAL  
REPORT  
STATE OF  
HAWAII

Financial statements  
for the fiscal year  
beginning July 1, 2002  
and ending June 30,  
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# Office of Hawaiian Affairs

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# OFFICE OF HAWAIIAN AFFAIRS STATE OF HAWAII

## INTRODUCTION YEARS ENDED JUNE 30, 2003 AND 2002

### GENERAL

**Organization** - Office of Hawaiian Affairs (“OHA”) was established by the 1979 Hawaii State Legislature under the provisions of Chapter 10, Hawaii Revised Statutes (“Act 196”). In 1980, the Hawaii 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 divisions. Fiscal year 2003 saw the consolidation of OHA’s division structure from four divisions to three. While the same functions are largely still maintained, the former Program Systems Group division and the Hawaiian Rights division have been consolidated into one division titled Beneficiary Advocacy. In addition, the former Administration division has been retitled Support Services.

At the same time this consolidation was taking place, some organizational functions moved from one division to another in order to more closely fit the nature of each division with the work performed. For example, costs incurred in relation to Native Hawaiian Trust Fund investments moved from the Board of Trustees division to the Support Services division. Additional smaller moves also took place between the Support Services and Beneficiary Advocacy divisions. For the purposes of this report, all fiscal 2002 divisional references are shown in the fiscal 2003 format, excluding the Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund.

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.
2. Support Services (formerly 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 Hawaii’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.



## Division Title

## Division Objectives

3. Beneficiary Advocacy  
(formerly Program Systems  
Group and Hawaiian Rights)

To seek the betterment of Hawaiians through improving access to resources, benefits, and services, particularly in the areas of housing, education, health, and economic development. To advance the rights and interests of Hawaiians through advocacy, public policy development, dialogue, community outreach, and litigation.

## 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, 2003 and 2002, and the results of its operations for the years 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 Hawaii:

We have audited the accompanying basic financial statements of Office of Hawaiian Affairs, State of Hawaii ("OHA") as of and for the years ended June 30, 2003 and 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

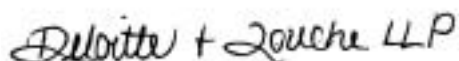
In our opinion, such basic financial statements referred to above present fairly, in all material respects, the statements of financial position of OHA as of June 30, 2003 and 2002, and the changes in financial position and the respective budgeting comparison for the general fund for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 13 to the basic financial statements, OHA is self-insured for workers' compensation, automobile, and general liabilities. Several claims were filed against OHA during the years ended June 30, 2003 and 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 12 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 audits 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 18, 2003, 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.



November 18, 2003 (except for Note 13 as to which the date is December 3, 2003)

# OFFICE OF HAWAIIAN AFFAIRS STATE OF HAWAII

## MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED JUNE 30, 2003 AND 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 years ended June 30, 2003 and 2002.

The management's discussion and analysis is provided at the beginning of the audit report 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 report that immediately follows this narrative.

Due to OHA's early adoption of Governmental Accounting Standards Board Statement No. 34 reporting requirements in fiscal year 2002, comparative statements for fiscal years 2003 and 2002 can be provided. As referenced in the introduction section of this report, some changes have been adopted with regards to OHA's divisions. Any presentation of fiscal 2002 division financial data will be in the format adopted for fiscal 2003.

## FINANCIAL HIGHLIGHTS

### Government-wide Financial Statements Highlights

*Statements of Net Assets* – The assets of OHA exceeded its liabilities at fiscal year ended June 30, 2003 by \$345,033,209 (presented as "total net assets"). Of this amount, \$342,475,600 was reported as "unrestricted 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, increased by \$25,915,788 (an 8.1% increase) in fiscal year 2003. This was primarily due to gains experienced on the fair value of OHA's Native Hawaiian Trust Fund as well as the reestablishment of Ceded Land Revenue disbursements to OHA by the State. OHA's total net assets, all of which were governmental activities, decreased by \$40,734,401 (an 11.3% 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 Highlights

*Governmental Funds – Fund Balances* – As of the close of fiscal year 2003, OHA's governmental funds reported an ending fund balance of \$343,480,698. Of this total amount, \$327,477,516 represents the "unreserved fund balances" with 92.7% being in the Public Land Trust Fund. Of this \$327,477,516, \$22,459,489 is designated for the Native Hawaiian Revolving Loans; \$4,000,000 is designated for the Fannie Mae Loan Program; \$1,047,475 is designated for notes receivable; \$29,419 is designated for other grant projects; \$216,880 is designated for Hawaiian projects; and \$32,236,052 is designated for subsequent year's expenditures, leaving \$267,488,201 as undesignated. This \$267,488,201 is roughly 77.9% of the total fund balance at the end of the year.

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, \$298,613,480 represents the "unreserved fund balances" with 94.0% being in the Public Land Trust fund. Of this \$298,613,480, \$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; \$1,402,978 is designated for notes receivable; and \$25,357,705 is designated for subsequent year's expenditures; leaving \$246,406,169 as undesignated. This \$246,406,169 is roughly 77.6% 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) Statements of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund, and 4) notes to the financial statements. The first three of these are intended to present different financial views of OHA. The fourth is intended to further explain some of the information in the financial statements and provide more detail. These components are described below.

### Government-wide Financial 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 (Federal and other grants that break out charges for services, operating grants, capital grants, and the Native Hawaiian Rights Fund) 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 are reflected on the right hand side of the "Adjustments" column of each of 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 accounted for as 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 Fund, Federal Grants Fund, and Other Fund, the latter three being classified as "Special Revenue Funds."

The basic governmental funds financial statements can be found to the left of the "Adjustments" column, preceding the government-wide financial statements.

### **Statements 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 Statements of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Statements 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 \$345,033,209 at the end of 2003, compared to \$319,117,421 at the end of the 2002 fiscal year.

The largest portion of OHA's net assets (99.3% and 99.4% at June 30, 2003 and 2002, respectively) 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, 2003 and 2002 is as follows:

	<b>2003</b>	<b>2002</b>
Capital assets	\$ 2,557,609	\$ 1,961,106
Other assets	<u>345,493,891</u>	<u>320,545,004</u>
Total assets	<u>\$348,051,500</u>	<u>\$322,506,110</u>
Other liabilities	\$ 2,172,359	\$ 2,603,149
Long-term liabilities	<u>845,932</u>	<u>785,540</u>
Total liabilities	3,018,291	3,388,689
Invested in capital assets	2,557,609	1,961,106
Unrestricted	<u>342,475,600</u>	<u>317,156,315</u>
Total net assets	<u>345,033,209</u>	<u>319,117,421</u>
Total liabilities and net assets	<u>\$348,051,500</u>	<u>\$322,506,110</u>

A portion of OHA's net assets (0.7% and 0.6% at June 30, 2003 and 2002, respectively) 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 fiscal years 2003 and 2002, OHA is able to report a positive balance in its category of government-wide net assets.

### Changes in Net Assets

OHA's net assets increased by \$25,915,788 or 8.1% from fiscal year 2002. Approximately 60.2% of OHA's total revenue came from the Public Land Trust, while 28.7% came from dividend and interest income, and 8.7% resulted from Legislative appropriations. This is in direct contrast to the amounts from 2002, which were 0.04%, 74.0%, and 17.0% for the same categories, respectively. This significant change was largely due to the restoration of Ceded Land Revenue payments to OHA for fiscal year 2003 as well as payment for past due amounts from prior fiscal years.

Summarized financial information of OHA's statement of changes in net assets for the fiscal years ended June 30, 2003 and 2002 is as follows:

#### REVENUES:

##### Program revenues:

Operating grants and contributions	\$ 333,688	\$ 1,138,357
Charges for services - Native Hawaiian Rights Fund	28,985	34,642

##### General revenues:

Appropriations	2,532,663	2,619,663
Public land trust	17,543,804	6,535
Dividend and interest income	8,352,150	11,411,538
Newspaper ads	44,696	85,362
Donations and other	158,557	22,046
Non-imposed fringe benefits	150,815	104,429

Total revenues	29,145,358	15,422,572
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#### EXPENSES:

##### Current divisions:

Board of Trustees	909,946	2,546,269
Support Services	6,788,640	7,108,480
Beneficiary Advocacy	5,626,573	8,190,707
Depreciation	536,556	332,174

Total expenses	13,861,715	18,177,630
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#### OTHER FINANCING SOURCES (USES):

Net investment gains (losses)	10,698,434	(37,769,970)
Lapse of cash to State General Fund	(66,289)	(209,373)

Total other financing sources (uses)	10,632,145	(37,979,343)
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CHANGES IN NET ASSETS	\$ 25,915,788	\$ (40,734,401)
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## 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 2003, OHA's governmental funds reported an ending fund balance of \$343,480,698. Of this amount, approximately \$327,477,516, or 95.3%, are "unreserved" funds, broken down as follows: 6.5% for Native Hawaiian Revolving Loans, 1.2% for Fannie Mae Loan Program, 0.3% for Notes Receivable, 0.009% for Other Grants, 0.06% for Hawaiian projects, 9.4% for subsequent years expenditures, and 77.9% undesignated. Reserved fund balances accounted for \$16,003,182, or 4.7% of the total fund balance, broken down as follows: 1.0% for encumbrances, 3.5% for notes receivable, and 0.2% for prepaid expenses and security deposits.

As of the close of fiscal year 2002, OHA's governmental funds reported an ending fund balance of \$317,552,336, with 88.4% 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 (.008%). Reserved fund balances accounted for 6.0% of the ending fund balance, reserved for notes receivables (4.0%); encumbrances (1.9%); and prepaid expenses and security deposits (.1%).

## ECONOMIC FACTORS

The current state of Hawaii's economy can be described as relatively good even though the travel industry has suffered setbacks worldwide. Much of the strength in Hawaii's economy continues to come from investments in construction and real estate. Hawaii is currently among the leading states in terms of personal income growth and is below the national average in unemployment.

The second quarter of calendar year 2003 saw the continuance of an employment growth pattern that had also been experienced in the first quarter of the calendar year. Hawaii's unemployment rate in the second quarter of calendar year 2003 was 4%, down 0.4% from the same period in 2002. The number of wage and salary jobs grew by 2.1% as compared to the same time in 2002. Nominal personal income had also increased by 5.5% over the prior year.

Hawaii's construction activity also maintained the growth shown in the first quarter of calendar year 2003 into the second quarter. At the same time, bankruptcy filings in the state of Hawaii decreased by 6.4%, while the U.S. filing rate continued to rise to a record high of 9.9%.

Hawaii's Consumer Price Index is projected to remain low. The Bureau of Labor Statistics estimated Honolulu's CPI to be at 1.7% during the first half of 2003.

Tax revenues distributed to the State general fund increased by 7.4% for the second quarter of calendar year 2003 in comparison to the same time in 2002.

Despite these statewide improvements, Hawaii's future growth is still expected to be primarily related to several external factors. These include the rate of expansion in the mainland U.S. and Japan economies, the demand for Hawaii's tourism industry, and the economic status of the main export markets for Hawaii's goods and services.

Both the Blue Chip Economic Forecast and the Consensus Forecast are projecting U.S. GDP growth in the range of 2.3% in 2003, and 3.6% and 3.7% in 2004 and 2005, respectively. Slow growth is still projected for Japan's economy. The Blue Chip Forecast expects Japan's GDP to grow by 0.8% in 2003 and 1.1% in 2004.

In 2003, the total visitor arrivals to Hawaii are expected to grow by only 0.2% but the visitor expenditures are forecasted to increase by 5.6%. The discrepancy between arrivals and expenditures projections are related increasing length of stay and average daily expenditure. Total visitor arrivals are projected to increase another

6.3% in 2004, a growth rate that would almost return Hawaii visitors to the record 2000 visitor level.

Many of the markets in which OHA invests saw dramatic improvements in the first and second quarters of calendar year 2003. Particularly in the second quarter, after a long-term decline in the stock market, equities recorded their best quarterly gain in over four years. The rally that began late in the first quarter has lifted every major stock index. S&P 500 increased more than 15% in the second quarter while Russell 2000 increased by 25%. Although the U.S. equities achieved the highest growth in the first part of calendar year 2003, fixed income returns were also positive and solid. The international equity market re-bounded in April after March losses and maintained positive returns throughout the entire second quarter.

OHA's Native Hawaiian Trust Fund market value growth followed the market trends developed in the first and second quarters of calendar year 2003. The overall fund value increased by 14% between the end of February and the end of June. The majority of the increase resulted from the strong equity market conditions although the fixed income allocation also delivered positive returns.

Tempering the positive market information with the extreme volatility that was experienced in the 2002 market place, OHA's biennium budget for fiscal years 2004 and 2005 was prepared with a target spending rate of 5%.

## **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; Treasury and Other Services; 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, 2003**

ASSETS	Governmental Funds					Adjustments (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	716,788	\$ 17,828,005	\$ 843,772	\$ 259,249	19,647,814		19,647,814
Cash in banks		969,373			969,373		969,373
Cash held by investment manager		10,445,663	55,742		10,501,405		10,501,405
Accounts receivable		25,124		1,453	26,577		26,577
Interest and dividends receivable		916,601	124,975		1,041,576	\$ 39,658	1,081,234
Due from other funds				393,979	393,979	(393,979)	-
Prepaid and other assets	4,474	363,584	22,182		390,240		390,240
Notes receivable - due within one year		1,047,475	375,635		1,423,110		1,423,110
Notes receivable - due after one year		11,210,678	446,682		11,657,360		11,657,360
Security deposits	585	44,800	1,803		47,188		47,188
Investments		277,280,101	22,459,489		299,739,590		299,739,590
Capital assets - net						2,557,609	2,557,609
<b>TOTAL</b>	<b>\$731,847</b>	<b>\$320,131,404</b>	<b>\$24,330,280</b>	<b>\$654,681</b>	<b>\$345,848,212</b>	<b>\$2,203,288</b>	<b>\$348,051,500</b>

**OFFICE OF HAWAIIAN AFFAIRS  
STATE OF HAWAII**

**GOVERNMENTAL FUNDS - BALANCE SHEET / GOVERNMENT-WIDE STATEMENT OF NET ASSETS (Continued)  
JUNE 30, 2003**

LIABILITIES AND FUND BALANCES / NET ASSETS	Governmental Funds					Adjustments (Note 10)	Government- wide Statement of Net Assets
	General Fund	Public Land Trust	Federal Grants	Other	Total		
<b>LIABILITIES:</b>							
Accounts payable	\$245,490	\$ 1,646,616	\$ 31,262		\$ 1,923,368		\$ 1,923,368
Due to State of Hawaii	10,000		40,167		50,167		50,167
Due to other funds	29,221	364,758			393,979	\$ (393,979)	-
Long-term liabilities:							
Due within one year						198,824	198,824
Due after one year						845,932	845,932
<b>Total liabilities</b>	<b>284,711</b>	<b>2,011,374</b>	<b>71,429</b>		<b>2,367,514</b>	<b>650,777</b>	<b>3,018,291</b>
<b>FUND BALANCES / NET ASSETS:</b>							
Fund Balances:							
Reserved for encumbrances	468,777	2,956,796	64,816	\$ 42,370	3,532,759	(3,532,759)	-
Reserved for notes receivable		11,210,678	822,317		12,032,995	(12,032,995)	-
Reserved for prepaid expenses and security deposits	5,059	408,384	23,985		437,428	(437,428)	-
Unreserved:							
Designated for Native Hawaiian revolving loans			22,459,489		22,459,489	(22,459,489)	-
Designated for Fannie Mae Loan Program		4,000,000			4,000,000	(4,000,000)	-
Designated for notes receivable		1,047,475			1,047,475	(1,047,475)	-
Designated for other grants			29,419		29,419	(29,419)	-
Designated for Hawaiian projects				216,880	216,880	(216,880)	-
Designated for subsequent year's expenditures		32,236,052			32,236,052	(32,236,052)	-
Undesignated	(26,700)	266,260,645	858,825	395,431	267,488,201	(267,488,201)	-
<b>Total fund balances</b>	<b>447,136</b>	<b>318,120,030</b>	<b>24,258,851</b>	<b>654,681</b>	<b>343,480,698</b>	<b>(343,480,698)</b>	<b>-</b>
<b>Total liabilities and fund balances</b>	<b>\$731,847</b>	<b>\$320,131,404</b>	<b>\$24,330,280</b>	<b>\$654,681</b>	<b>\$345,848,212</b>		
<b>Net Assets:</b>							
Invested in capital assets						\$ 2,557,609	\$ 2,557,609
Unrestricted						342,475,600	342,475,600
<b>Total net assets</b>						<b>\$ 345,033,209</b>	<b>\$345,033,209</b>

See notes to financial statements.



# OFFICE OF HAWAIIAN AFFAIRS STATE OF HAWAII

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

ASSETS	Governmental Funds					Adjustments (Note 10)	Government- wide Statement of Net Assets
	General Fund	Special Revenue Funds			Total		
		Public Land Trust	Federal Grants	Other			
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		3,285,891			3,285,891		3,285,891
Cash held by investment manager		6,126,205	20,576		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>

# OFFICE OF HAWAIIAN AFFAIRS STATE OF HAWAII

## GOVERNMENTAL FUNDS - BALANCE SHEET / GOVERNMENT-WIDE STATEMENT OF NET ASSETS (Continued) JUNE 30, 2002

LIABILITIES AND FUND BALANCES / NET ASSETS	Governmental Funds					Adjustments (Note 10)	Government- wide Statement of Net Assets
	General Fund	Special Revenue Funds			Total		
		Public Land Trust	Federal Grants	Other			
<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
<b>Total liabilities</b>	<b>215,795</b>	<b>2,437,694</b>	<b>447,570</b>		<b>3,101,059</b>	<b>287,630</b>	<b>3,388,689</b>
<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	1,228,984		12,599,864	(12,599,864)	-
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			1,402,978	(1,402,978)	-
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)	-
<b>Total fund balances</b>	<b>938,611</b>	<b>297,267,467</b>	<b>18,718,764</b>	<b>627,494</b>	<b>317,552,336</b>	<b>(317,552,336)</b>	<b>-</b>
<b>Total liabilities and fund balances</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>Net Assets:</b>							
Invested in capital assets						\$ 1,961,106	\$ 1,961,106
Unrestricted						317,156,315	317,156,315
<b>Total net assets</b>						<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, 2003**

	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	\$ 32,508	\$ 870,630			\$ 903,138	\$ 6,808	\$ 909,946
Support Services	1,487,982	6,379,853	\$ 37,599		7,905,434	(1,116,794)	6,788,640
Beneficiary Advocacy	1,526,357	3,928,561	165,796		5,620,714	5,859	5,626,573
Depreciation						536,556	536,556
Total expenditures / expenses	3,046,847	11,179,044	203,395		14,429,286	(567,571)	13,861,715
PROGRAM REVENUES:							
Charges for services - Native Hawaiian Rights Fund				\$ 28,985	28,985		28,985
Operating grants and contributions		27,500	333,688		361,188	(27,500)	333,688
Total program revenues		27,500	333,688	28,985	390,173	(27,500)	362,673
NET PROGRAM REVENUE (EXPENSE)	(3,046,847)	(11,151,544)	130,293	28,985	(14,039,113)	540,071	(13,499,042)
GENERAL REVENUES:							
Appropriations	2,532,663				2,532,663		2,532,663
Public land trust		17,543,804			17,543,804		17,543,804
Dividend and interest income		8,005,712	899,083		8,904,795	(552,645)	8,352,150
Newspaper advertisements				44,696	44,696		44,696
Donations and other		157,860	323	374	158,557		158,557
Non-imposed fringe benefits	150,815				150,815		150,815
Total general revenues	2,683,478	25,707,376	899,406	45,070	29,335,330	(552,645)	28,782,685
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES (Forward)	(363,369)	14,555,832	1,029,699	74,055	15,296,217	(12,574)	15,283,643

**OFFICE OF HAWAIIAN AFFAIRS  
STATE OF HAWAII**

**GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES /  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES (Continued)  
YEAR ENDED JUNE 30, 2003**

	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)	\$ (363,369)	\$ 14,555,832	\$ 1,029,699	\$ 74,055	\$ 15,296,217	\$ (12,574)	\$ 15,283,643
OTHER FINANCING SOURCES (USES):							
Investment gains		10,522,261	176,173		10,698,434		10,698,434
Operating transfers	(61,817)	(4,225,530)	4,334,215	(46,868)	-		-
Lapse of cash to State General Fund	(66,289)				(66,289)		(66,289)
Total other financing sources (uses)	(128,106)	6,296,731	4,510,388	(46,868)	10,632,145		10,632,145
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(491,475)	20,852,563	5,540,087	27,187	25,928,362	(25,928,362)	-
CHANGE IN NET ASSETS						25,915,788	25,915,788
FUND BALANCE / NET ASSETS:							
Beginning of year	938,611	297,267,467	18,718,764	627,494	317,552,336	1,565,085	319,117,421
End of year	\$ 447,136	\$318,120,030	\$24,258,851	\$ 654,681	\$343,480,698	\$ 1,552,511	\$345,033,209

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	\$ 2,494,798			\$ 2,524,128	\$ 22,141	\$ 2,546,269
Support Services	897,290	6,603,400	\$ 32,640		7,533,330	(424,850)	7,108,480
Beneficiary Advocacy	1,346,047	6,617,821	200,230	\$ 17,321	8,181,419	9,288	8,190,707
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 advertisements		57,862			57,862	27,500	85,362
Donations and other			277	21,769	22,046		22,046
Non-imposed 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)

**OFFICE OF HAWAIIAN AFFAIRS  
STATE OF HAWAII**

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

	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, 2003**

	<b>Actual (Budgetary Basis)</b>	<b>Budget</b>	<b>Variance</b>
REVENUES:			
State appropriations	<u>\$2,532,663</u>	<u>\$2,532,663</u>	
Total revenues	2,532,663	2,532,663	
EXPENDITURES:			
Board of Trustees	23,632	25,985	\$ 2,353
Support Services	897,747	907,747	10,000
Beneficiary Advocacy	<u>1,569,371</u>	<u>1,598,931</u>	<u>29,560</u>
Total expenditures	<u>2,490,750</u>	<u>2,532,663</u>	<u>41,913</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 41,913</u>	<u>\$ -</u>	<u>\$41,913</u>

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</b>
REVENUES:			
State appropriations	<u>\$2,619,663</u>	<u>\$2,619,663</u>	
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	<u>481,208</u>	<u>486,467</u>	<u>5,259</u>
Total expenditures	<u>2,563,085</u>	<u>2,619,663</u>	<u>56,578</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 56,578</u>	<u>\$ -</u>	<u>\$56,578</u>

See notes to financial statements.

# OFFICE OF HAWAIIAN AFFAIRS STATE OF HAWAII

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2003 AND 2002

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Financial Statement Presentation and Basis of Accounting** - The financial statements of Office of Hawaiian Affairs ("OHA") are prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB").

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.

**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, 2003 and 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 balance, revenues and expenditures of the fund. The funds are intended to conform to the State of Hawaii 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 Funds** - These funds include OHA's proceeds and income from the Public Land Trust as defined in Chapter 10, Hawaii 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 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 GASB Statement No. 16, *Accounting for Compensated Absences*. The June 30, 2003 and 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, 2003 and 2002 are as follows:

	2003	2002
Native Hawaiian and Hawaiian persons	89%	91%
Agencies	9	8
Other	<u>2</u>	<u>1</u>
	<u>100%</u>	<u>100%</u>

**Recently Issued Accounting Pronouncement** - GASB 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 No. 39, management does not believe adoption of this statement will have a material impact on its financial position and changes in financial position.



**Reclassifications** - Certain reclassifications have been made to the 2002 financial statements to conform to the 2003 presentation. The June 30, 2002 Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund has not been reclassified to conform to the expenditure divisions of June 30, 2003 because the budget presented herein is what was submitted and approved by the Legislature.

## 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 statements 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 basis and GAAP basis are that: (1) encumbrances are recorded as the equivalent of expenditures under the budgetary basis; and (2) revenue is recognized when received under the budgetary basis.

Adjustments necessary to convert the results of operations and fund balances for the years ended June 30, 2003 and 2002 from the budgetary basis to GAAP basis are as follows:

	2003	2002
Excess of revenues over expenditures - actual (budgetary basis)	\$ 41,913	\$ 56,578
Reserve for encumbrances at June 30	422,956	897,488
Accrued payables and payroll at June 30	(208,428)	(143,113)
Prepaid expenditures at June 30 not recognized for budgetary purposes - net of prior year accruals	(10,076)	(2,798)
Expenditures for liquidation of prior year encumbrances	(671,551)	(356,730)
Lapse of cash to State General Fund	<u>(66,289)</u>	<u>(209,373)</u>
Excess (deficiency) of revenues over expenditures - actual (GAAP basis)	<u>\$ (491,475)</u>	<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 Hawaii General Fund legislative appropriations for the years ended June 30, 2003 and 2002 totaled \$2,532,663 and \$2,619,663, respectively.

### 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 Hawaii Revised Statutes Section 38-3. At June 30, 2003 and 2002, OHA's deposits with financial institutions totaled \$969,373 and \$3,285,891, respectively, and had corresponding bank balances of \$941,430 and \$3,275,271, respectively. The portion of the bank balances covered by FDIC insurance totaled \$210,000 and \$110,000 in 2003 and 2002, respectively; the remainder was uninsured and uncollateralized.

### 5. NOTES RECEIVABLE

Notes receivable at June 30, 2003 and 2002 consists of the following:

	2003	2002
First Hawaiian Bank and State of Hawaii - Department of		
Hawaiian Home Lands loan receivable	\$ 12,462,571	\$ 13,625,082
Native Hawaiian Revolving Loan Fund	3,446,820	4,019,863
Other	<u>1,834,874</u>	<u>1,736,340</u>
Total	17,744,265	19,381,285
Less allowance for doubtful accounts	<u>(4,663,795)</u>	<u>(5,378,443)</u>
Net	<u>\$ 13,080,470</u>	<u>\$ 14,002,842</u>
Amounts due within one year	<u>\$ 1,423,110</u>	<u>\$ 1,479,991</u>
Amounts due after one year	<u>\$ 11,657,360</u>	<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, 2003 and 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, including cash held by investment manager, at June 30, 2003 and 2002, all of which are classified in Category 1, are as follows:

	2003	2002
Mutual funds	\$241,503,412	
Marketable equity securities - common stocks	11	\$145,787,167
U.S. Government obligations - Native Hawaiian Revolving Loan Fund	22,459,487	20,016,477
U.S. Government obligations - other	16,661,272	65,987,702
Corporate bonds	18,832,119	51,756,020
Cash management fund	10,501,405	6,146,781
Foreign bonds, notes and debentures	283,289	3,065,352
Total	<u>\$310,240,995</u>	<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 have been recognized as an increase or decrease in fair value of investments reported in the prior year. Summarized changes in fair value of investments information for the years ended June 30, 2003 and 2002 is as follows:

	2003	2002
Realized loss on sale of investments	\$(20,931,685)	\$(14,440,660)
Unrealized gain (loss) on investments held at June 30	<u>31,630,119</u>	<u>(23,329,310)</u>
Net increase (decrease) in fair value of investments	<u>\$10,698,434</u>	<u>\$(37,769,970)</u>

## 7. CAPITAL ASSETS

Capital assets activities for the years ended June 30, 2003 and 2002 are as follows:

	July 1, 2002	Additions	Retirements/ Transfer	June 30, 2003
Capital assets not being depreciated:				
Land	\$84,100			\$84,100
Work-in-progress - software	<u>124,632</u>	<u>\$167,185</u>	<u>\$(124,632)</u>	<u>167,185</u>
Total capital assets not being depreciated	208,732	167,185	(124,632)	251,285
Capital assets being depreciated:				
Buildings	1,045,141			1,045,141
Leasehold improvements	375,336	14,001		389,337
Machinery, equipment, furniture and fixtures	<u>1,890,699</u>	<u>1,081,735</u>	<u>(77,825)</u>	<u>2,894,609</u>
Total capital assets being depreciated	3,311,176	1,095,736	(77,825)	4,329,087
Less accumulated depreciation	<u>(1,558,802)</u>	<u>(536,556)</u>	<u>72,595</u>	<u>(2,022,763)</u>
Capital assets being depreciated - net	<u>1,752,374</u>	<u>559,180</u>	<u>(5,230)</u>	<u>2,306,324</u>
Capital assets - net	<u>\$1,961,106</u>	<u>\$726,365</u>	<u>\$(129,862)</u>	<u>\$2,557,609</u>

	July 1, 2001	Additions	Retirements	June 30, 2002
Capital assets not being depreciated:				
Land	\$ 84,100			\$ 84,100
Work-in-progress - software		\$ 124,632		124,632
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	2,069,680	326,329	\$ (505,310)	1,890,699
Total capital assets being depreciated	3,487,884	328,602	(505,310)	3,311,176
Less accumulated depreciation	(1,731,938)	(332,174)	505,310	(1,558,802)
Capital assets being depreciated - net	1,755,946	(3,572)		1,752,374
Capital assets - net	\$ 1,840,046	\$ 121,060	\$ -	\$ 1,961,106

## 8. LONG-TERM LIABILITIES

Long-term liabilities for the years ended June 30, 2003 and 2002 are as follows:

	July 1, 2002	Increases	Decreases	June 30, 2003	Amounts Due Within One Year	Amounts Due After One Year
Accrued vacation	\$ 555,798	\$ 227,756	\$ (198,824)	\$ 584,730	\$ 198,824	\$ 385,906
Accrued workers' compensation	460,026			460,026		460,026
Long-term liabilities	<u>\$1,015,824</u>	<u>\$ 227,756</u>	<u>\$ (198,824)</u>	<u>\$1,044,756</u>	<u>\$ 198,824</u>	<u>\$ 845,932</u>

	July 1, 2001	Increases	Decreases	June 30, 2002	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	37,920		(37,920)	-		-
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 2009. Future minimum payments under all leases as of June 30, 2003 are as follows:

Fiscal year ending June 30:	
2004	\$ 74,000
2005	59,500
2006	7,400
2007	5,800
2008	2,900
Thereafter	<u>400</u>
Total	<u>\$ 150,000</u>

Rent expense (including taxes and common area maintenance) under operating leases totaled \$805,000 and \$777,000, respectively, for the years ended June 30, 2003 and 2002.

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

The following schedule reconciles the governmental funds balance to net assets:

	2003	2002
Total Fund Balance - Governmental Funds	\$ 343,480,698	\$ 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	39,658	592,303
Other receivables	<u>                    </u>	<u>27,500</u>
Subtotal	39,658	619,803
Net capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	2,557,609	1,961,106
Long-term liabilities not due and payable in the current period and therefore not reported in the funds:		
Accrued vacation	(584,730)	(555,798)
Accrued workers' compensation	<u>(460,026)</u>	<u>(460,026)</u>
Subtotal	<u>(1,044,756)</u>	<u>(1,015,824)</u>
Total Net Assets - Government-wide	<u>\$ 345,033,209</u>	<u>\$ 319,117,421</u>

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

Net Changes in Fund Balances - Total Governmental Funds	\$25,928,362	\$ (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 net additions for capital outlay of \$1,138,289 in 2003 and \$453,234 in 2002, offset by depreciation expense of \$536,556 in 2003 and \$332,174 in 2002, and loss on disposal of capital assets of \$5,230 in 2003.	596,503	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 dividend and interest income of \$39,658 in 2003 and \$592,303 in 2002, and IDA grant revenue of \$27,500 in 2002.	39,658	619,803
Revenues that were recorded in 2002 government-wide financial statements but recorded in 2003 governmental funds	(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:		
Accrued vacation	(28,932)	(59,813)
Changes in Net Assets - Government-wide	<u>\$25,915,788</u>	<u>\$ (40,734,401)</u>

## 11. 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. OHA recorded \$600,000 for past service costs (recorded in Accrued Pension Costs in 2002), assuming that all trustees would participate in the ERS. In 2003, only certain trustees elected to participate in the ERS. Accordingly, the accrued pension liability was reduced to \$236,000 and was paid in fiscal year 2003.

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, 2003 and 2002 was approximately \$1,072,000 and \$1,010,000, respectively. 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.

## **12. 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 \$150,815 and \$104,429 for the fiscal years ended June 30, 2003 and 2002, respectively, have been reported as revenues and expenditures of OHA's General Fund.

## **13. 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. In addition, OHA purchases Public Officials and Employment Practices Liability insurance with a \$250,000 deductible and \$1,000,000 coverage limit, and Bankers' Professional Liability insurance with a \$25,000 deductible and \$5,000,000 coverage limit.

Several claims have been filed against OHA during the years ended June 30, 2003 and 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. OHA has accrued a liability for workers' compensation and other self-insurance claims at June 30, 2003 and 2002 that 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"). Although OHA is not responsible for the education, operation, management, supervision, or any other aspect of the HLIP, OHA has agreed to provide matching funding up to \$500,000 each year for five years beginning July 1, 2000. As of June 30, 2003, OHA is awaiting documentation of DOE expenditures in order to provide matching funds.

## **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 Hana, 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. As of June 30, 2003, OHA had assembled a working group whose function is to develop a plan to move the project forward and exit the project at the appropriate time and to advise the OHA Board of Trustees accordingly.

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

On September 12, 2001, the Supreme Court of the State of Hawaii 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 Hawaii Housing Authority and the Housing and Finance Development Corporation for projects situated on ceded lands, and interest earned on withheld revenues. In addition, the State Administration suspended all ceded land revenue payments to OHA pending clarification of the calculation methodology. The OHA Board of Trustees, upon negotiating with the new Governor, obtained her agreement in 2003 to the partial resumption of ceded lands revenue payments from the State of Hawaii to OHA.

The Governor's action did not extinguish many significant unresolved issues with respect to the State's obligations to OHA. On July 21, 2003, OHA once again filed suit against the State of Hawaii (*OHA v. State II*). In this action, OHA relied upon the fact of contract theory whereby based on past practices the State had been making ceded land payments to OHA, therefore the State should continue to make such payments to OHA.

On November 25, 2003, the State Circuit Court dismissed *OHA v. State II* on the grounds that there were no justifiable standards by which money damages in the case could be determined, i.e., there is no State law that defines revenue as it pertains to income derived from ceded lands. OHA is awaiting the final decision by the Court.

As of June 30, 2003, 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 land 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-BMK) were filed in the United States District Court for the District of Hawaii challenging the validity



and constitutionality of certain sections of the Hawaii 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.

In 2002, the United States Circuit Court denied the plaintiff's claim that questioned the constitutionality of certain sections of the Hawaii State Constitution that allowed only Native Hawaiians to be Trustees of OHA in the *Arakaki v. State* case. In 2003, an amendment to the order was filed by the Ninth Circuit Court to also deny plaintiff's claim under the 14th Amendment. As a result of failure to appeal by the plaintiff, the case is now considered inactive.

On July 12, 2003, the *Barrett v. State* and *Carroll v. Nakatani* lawsuits were dismissed by the United States District Court.

On December 3, 2003, a motion has been filed to dismiss *Arakaki v. Lingle* lawsuit, Civil No. 02-00139 SOM-KSC. In the event that OHA's motion is not granted, the suit may proceed to trial. The ultimate results of this lawsuit 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 \$276,000 and \$418,000 in 2003 and 2002, respectively.

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

### **Board of Trustees of Office of Hawaiian Affairs, State of Hawaii:**

We have audited the combined financial statements of Office of Hawaiian Affairs, State of Hawaii ("OHA") as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated November 18, 2003 (except for Note 13 as to which the date is December 3, 2003), which included an emphasis paragraph for the uncertainty related to self-insurance claims. 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.

### **Compliance**

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

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered OHA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the trustees, management, federal awarding agencies, state fund agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Deloitte + Touche LLP*

November 18, 2003

Deloitte  
Touche  
Tohmatsu





### OHA Public Information Office staff

Manu Boyd	public information director
Derek Ferrar	public information specialist
Michael McDonald	publications specialist, graphic design
‘Aukai Reynolds	media production specialist, webmaster
Naomi Sodetani	publications editor
Sterling Kini Wong	staff writer (emergency hire)
Leialoha Lono‘ae‘a	secretary
Charlie Ogata	volunteer



