

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

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

Year Ended June 30, 2019



**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

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Office of Hawaiian Affairs, State of Hawai'i
LETTER FROM THE CHIEF EXECUTIVE OFFICER - UNAUDITED
June 30, 2019

LETTER FROM THE CHIEF EXECUTIVE OFFICER - UNAUDITED

To the Board of Trustees of the Office of Hawaiian Affairs

It is my pleasure to present to you, the Financial Statements and Report of Independent Certified Public Accountants of the Office of Hawaiian Affairs (OHA) for the fiscal year ended June 30, 2019. This report has been prepared by the Resource Management Line of Business. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with OHA. I believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of OHA as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of OHA's financial affairs has been included.

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

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

THE REPORTING ENTITY

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

GASB Statement No. 14, *The Financial Reporting Entity*, establishes standards for defining and reporting on the financial reporting entity. The financial reporting entity consists of OHA as the primary government, as well as other organizations for which the primary government is financially responsible as component units. Based on the common governance and the financial obligations that OHA has made to fund Ho'okele Pono LLC and Hi'ilei Aloha LLC and its subsidiaries, they have been classified as blended component units under proprietary funds. As a result, the financial results of Ho'okele Pono LLC and Hi'ilei Aloha LLC and its subsidiaries through December 31, 2018 have been included as business-type activities in the government-wide financial statements of OHA for the year ended June 30, 2019.

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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.

The title and objective 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	To work for the betterment of all Hawaiians by providing leadership, guidance, direction, and executive oversight. OHA seeks to excel among Hawai'i's organizations in managing resources, as well as applying technology to streamline processes, and fully integrate all aspects of information sharing and program support, and to coordinate data gathering, planning, research, and development efforts with other Hawaiian agencies.
3.	Beneficiary Advocacy	To work for the betterment of all Hawaiians by improving access to resources, benefits, and services, particularly in the areas of housing, education, health, and economic development. To advance the rights and interests of Hawaiians through advocacy, public policy development, dialogue, community outreach, and litigation.

PURPOSE OF THE REPORT AND DEFINITIONS

The purpose of the financial audit was to enable the independent auditors to form opinions on the financial statements of the Office of Hawaiian Affairs as of June 30, 2019, and for the year then ended. The auditors' report represents the conclusion of the independent auditors regarding the fairness of the presentations, in conformity with accounting principles generally accepted in the United States of America, set forth in the financial statements and is used to communicate such conclusion to interested parties.

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

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 authorizing entity 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.

EMPOWERING HAWAIIANS

With the conclusion of the 2010-2018 Strategic Plan period, in 2019, OHA assessed the outcomes of its roles as Advocate, Researcher, and Asset Manager and related effected systemic change in improving the conditions of all Hawaiians in the following six priority areas:

HO'OKAHUA WAIWAI

Economic Self-Sufficiency

To have choices and a sustainable future, Native Hawaiians will progress toward greater economic self-sufficiency.

'ĀINA

Land & Water

To maintain the connection to the past and a viable land base, Native Hawaiians will participate in and benefit from responsible stewardship of Ka Pae 'Āina 'O Hawai'i.

MO'OMEHEU

Culture

To strengthen identity, Native Hawaiians will preserve, practice and perpetuate their culture.

MAULI OLA

Health

To improve the quality and longevity of life, Native Hawaiians will enjoy healthy lifestyles and experience reduced onset of chronic diseases.

EA

Governance

To restore pono and ea, Native Hawaiians will achieve self-governance, after which the assets of OHA will be transferred to the new governing entity.

HO'ONA'AUAO

Education

To maximize choices of life and work, Native Hawaiians will gain knowledge and excel in educational opportunities at all levels.

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In addition, we continued to fulfill our promise to the State Department of Hawaiian Home Lands, providing \$3 million annually over 23 years to pay the debt service on its infrastructure improvements - an example of how Hawaiian-focused agencies can, and must, work hand-in-hand to leverage assets toward a common goal. This is just part of the approximately \$9 million in grants OHA disbursed in fiscal year 2019 to improve, among other things, the health, education, housing, and economic conditions of Native Hawaiians.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the basic financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which OHA operates.

Sources of Funding

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

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

State of the Local Economy

Data from the Hawai'i Department of Business, Economic Development & Tourism (DBEDT) reported Hawai'i's total annualized real Gross Domestic Product (GDP) increased \$1.058 billion or 1.3% in the first half of 2019. DBEDT forecasted the economic growth rates for the next three years to be virtually unchanged, between 1.2-1.3%. Tourism is expected to remain strong with visitors surpassing the 10 million air passenger mark this year. However, visitor expenditures should continue to be relatively unchanged. The local unemployment rate remains at historical lows at 2.4%, well below the national rate of 3.6%, while inflation continues to be subdued at under 2.0%. The Economic Research Organization at the University of Hawaii (UHERO) cited the slowing global economy, ongoing trade disputes, and political uncertainty having a negative impact on the local economy but also noted the construction industry, strong employment demand, and low interest rates as tailwinds for the continuation of the local economic expansion.

In June 2019, the Governor of the State of Hawaii signed into law the following bill: HB172 HD1 SD2 CD1 Relating to the Budget of the Office of Hawaiian Affairs (OHA), also known as the OHA Appropriations Act of 2019, and identified as Act 037. Act 037 provided that of the trust funds appropriated, the sum of \$500,000 for fiscal year 2019-2020 shall be expended for the cost for the [State] auditor to conduct or contract for a financial and management audit of the OHA; to be

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submitted to the legislature, governor, and the chairperson of the Board of Trustees no later than twenty days prior to the convening of the regular session of 2020. The Act further provided that the general funds appropriated for fiscal year 2020-2021, approximately \$3 million, shall not be released to the OHA until after the audit report is received by the legislature.

Shortly thereafter, in July 2019, Hawai'i State Auditor Les Kondo began work, requesting 26 categories of information primarily focused on OHA limited liability companies (LLC). OHA fully cooperated with the state auditor, providing him with 937 documents, totaling many thousands of pages, within weeks of receiving his requests. OHA submitted all documents requested, including the minutes of 21 executive session Board meetings that were redacted to shield attorney-client privileged information, which are protected by state law.

Near the end of December 2019, Mr. Kondo informed the OHA that the audit objectives would be focused on the LLCs, and a week later, he announced that he was suspending the audit until OHA provided him with the unredacted executive session meeting minutes.

In February 2020, OHA filed a motion asking the First Circuit Court for a declaratory ruling on whether trustees must provide the State Auditor with attorney-client privileged information, with the hope that a court ruling will compel the auditor to complete his audit of OHA, clearing the way for OHA to receive its general funds appropriation for FY21. As of this writing, OHA awaits action by the First Circuit Court, the Act 037 audit is suspended and the Hawaii State Legislature has recessed because of COVID-19. While the outcome of the FY21 general funds appropriation of approximately \$3 million is unknown at this time, Administration has recommended to the Board strategies to address the non-receipt of FY21 general funds.

State of the National Economy

The U.S. economy continued to expand in 2019 as second quarter real GDP rose 2.0% according to data from the Bureau of Economic Analysis (BEA); marking 10 years of consecutive growth without a recession. However, a slight blip to momentum occurred as the stock market posted a significant negative reaction in the fourth quarter (ending 12/31/18) to the Federal Reserve Bank's (Fed) three interest rate hikes- to a target rate of 2.5% by December. This caused the Fed to publicly state that it would delay further rate increases until the economic outlook becomes clearer, with many economists expecting a reversal. The capital markets were able to recover and posted strong gains in the first half of 2019. With historical low unemployment (3.7%) and inflation (~2.0%), and global yields in the low single-digits or negative territory, it was difficult for the Fed to justify higher interest rates. Concerns over the ongoing drama of Brexit and the battle over trade with China caused analysts to lower their outlook for corporate earnings and slower economic growth; however, steady consumer spending and demand for housing continued to move the economy along despite the growing uncertainty of the 2020 presidential election.

OHA's Investments

OHA's Native Hawaiian Trust Fund (NHTF) reported a net 5.95% gain for the year ending June 30, 2019. Portfolio assets rose to \$383,890,461 from \$376,779,511 in fiscal year 2019. As mentioned previously, returns were hurt by the worst quarterly decline in the stock

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market (the S&P 500 posted a negative 13.5% return) ending December 31, 2018 since the 3rd quarter of 2011. For the fiscal year, except for global equities which rebounded from the market lows, most sectors in the portfolio lagged behind their benchmarks. However, for the longer historical three- and seven-year periods, total returns were 8.86% and 7.29%, respectively, comfortably above the annual 5% target rate. OHA's commercial property investment account, which is separately invested in a short-maturity U.S. Treasury fund, returned 3.90% for the fiscal year; with a market value of \$7,289,950.

LIMITED LIABILITY COMPANIES

In May 2019, the Board of Trustees, via Resolution, authorized and approved: Amended and restated Operating Agreements of Hi'ilei Aloha LLC and Hi'ipaka LLC; Proposed Articles of Termination and Plan of Dissolution of Ho'okele Pono LLC, Ho'okipaipai LLC and Hi'ikualono LLC; Implementation actions of Managers to complete all operating and dissolution activities in accordance with state and federal requirements and/or to effect the intents of the Resolution; and A position description for Manager of Hi'ilei Aloha and Hi'ipaka, including commencement of recruitment activities for these positions.

CLOSING COMMENTS

We are living in unprecedented times as our families, communities, state, nation and the world struggles with the impacts of COVID-19. No aspect of our society has been spared and the impacts have been age, gender, race, ethnicity, geographically and economically agnostic. Government, health, education, economic, social services and faith based systems and resources are strained and working diligently to respond to this pandemic and its impact on humanity. The OHA has implemented responses to and is daily assessing impacts of COVID-19 at all levels (e.g., strategic, tactical, operational, community) and in multiple dimensions---health, education, economic, housing and social services.

On behalf of the Office of Hawaiian Affairs, I would like to acknowledge the leadership of the Board of Trustees; and thank the Administration and Legislature of the State of Hawaii for continuing awareness of the vital mission and purposes of OHA. We look forward to the implementation of our new Strategic Plan for the benefit of our families and communities. Our 'ohana, mo'omeheu (culture) and 'āina, coupled with our cultural values of kūlia, kākou, pono, ho'omau and aloha, are our commitments to Ho'oulu Lāhui Aloha---to raise a beloved lāhui.

Respectfully submitted,

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Office of Hawaiian Affairs (OHA), State of Hawai'i, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise OHA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Hi'ilei Aloha LLC, which is both a major fund and 99.6 percent, 99.9 percent, and 98 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Hi'ilei Aloha LLC, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OHA, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 12 through 20 and the schedules of OHA's proportionate share of the net pension liability, contributions (pension), changes in the net OPEB liability and related ratios, and contributions (OPEB) on pages 65 to 70 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise OHA's basic financial statements. The Letter from the Chief Executive Officer is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Letter from the Chief Executive Officer has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2020 on our consideration of OHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OHA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the OHA's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
March 27, 2020

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

INTRODUCTION

As management of OHA, we offer the following narrative overview and analysis to readers of our financial statements. While the financial statements and notes present only the financial activities for the year ended June 30, 2019, management discussion and analysis will address both this year and the year ended June 30, 2018.

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

FINANCIAL HIGHLIGHTS

Government-wide Financial Statements Highlights

Statement of Net Position - The assets and deferred outflows of resources of OHA exceeded its liabilities and deferred inflows of resources as of June 30, 2019, by \$596,948,162 (presented as "total net position"). Of this amount, \$350,127,628 is reported as "unrestricted", while \$25,320,226 is reported as "restricted" and \$221,500,308 is reported as "invested in capital assets, net of related debt."

The assets of OHA exceeded its liabilities as of June 30, 2018 by \$586,459,833 (presented as "total net position"). Of this amount, \$340,321,269 is reported as "unrestricted", while \$25,326,992 is reported as "restricted" and \$220,811,572 is reported as "invested in capital assets, net of related debt."

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

Statement of Activities - OHA's total net position, increased by increased by \$10,488,329 (a 1.79% increase) in 2019. This was primarily due to revenue from interest and investment earnings in the amount of approximately \$24.60 million.

Additional information regarding OHA's investments can be found in Note H to the financial statements.

Governmental Funds Financial Statements Highlights

Governmental Funds - Fund Balances - In 2019, OHA's governmental funds reported an ending fund balance of \$432,151,814. Of this total amount, \$529,405, or 0.12% is classified as nonspendable for inventory, prepaid items and security deposits. Restricted fund balance totaled \$25,316,281 or 5.86%, broken down as follows: 95.68% for Native Hawaiian Revolving Loan Fund program of which \$4,834,747 relates to the long-term portion of outstanding loans, and 4.32% restricted for other federal programs administered by OHA. \$28,020,247 or 6.48% is classified as committed, based on the Board of Trustees' resolution to commit these funds towards the debt service of DHHL-issued revenue bonds. Assigned fund balance comprises 87.48% or \$378,058,506 of fund balance, broken down as follows: \$11,663,304 or 3.09% has been encumbered, \$143,001 or 0.04% represents the non-current portion of outstanding loans and \$366,252,201 or 96.88% is available for future expenditures.

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Overview of the Financial Statements

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

Government-wide Financial Statements

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

1. The *Statement of Net Position* presents all of OHA's assets, deferred outflows of resources, liabilities and deferred inflows of resources with the residual reported as "net position." Over time, increases or decreases in OHA's net position may serve as a useful indicator of whether the financial position of OHA is improving or deteriorating.
2. The *Statement of Activities* presents information showing how the government's net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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).

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

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It also includes the results of Business-Type Activities, Ho'okele Pono LLC and Hi'ilei Aloha LLC and its wholly-owned subsidiaries, through its separate year end, December 31, 2018. Ho'okele Pono LLC and Hi'ilei Aloha LLC have been included as blended component units due to the fact that OHA is the sole corporate member of each entity.

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).

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are included on pages 25 and 27.

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

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The business type activities of blended component units, Ho'okele Pono LLC and Hi'ilei Aloha LLC and its wholly-owned subsidiaries, have been classified as proprietary funds. Like the government-wide financial statements, the proprietary fund statements report long-term (noncurrent) and short-term (current) financial information. The Statement of Cash Flows for the proprietary funds presents changes in cash and cash equivalents, resulting from operating, noncapital financing, capital and related financing, and investing activities. OHA's proprietary funds are classified as business-type activities in the government-wide financial statements on pages 21 and 22.

Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund

The governmental funds financial statements are followed by a budgetary comparison statement, which compares the general fund's original budget, final budget, and actual amounts prepared on a budgetary basis. A reconciliation between the actual general fund revenues and expenditures compared to the general fund revenues and expenditures prepared for budgetary purposes is included in Note C to the financial statements. The *Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund* can be found on page 28.

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 fund financial statements. The notes to the financial statements can be found immediately following the *Proprietary Funds - Statement of Cash Flows*.

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

Statement of Net Position

Summarized financial information of OHA's *Statement of Net Position* as of June 30, 2019 and 2018 is as follows:

	2019	2018
ASSETS		
Capital assets	\$ 247,480,101	\$ 249,052,159
Other assets	<u>443,017,084</u>	<u>431,502,434</u>
Total assets	<u>690,497,185</u>	<u>680,554,593</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	5,801,500	7,089,131
Deferred outflows of resources related to OPEB	<u>2,418,015</u>	<u>1,881,695</u>
Total deferred outflows of resources	<u>8,219,515</u>	<u>8,970,826</u>
LIABILITIES		
Other liabilities	7,030,596	7,557,810
Long-term liabilities	<u>93,688,259</u>	<u>95,048,640</u>
Total liabilities	<u>100,718,855</u>	<u>102,606,450</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	528,581	420,848
Deferred inflows of resources related to OPEB	<u>521,102</u>	<u>38,288</u>
Total deferred inflows of resources	<u>1,049,683</u>	<u>459,136</u>
NET POSITION		
Invested in capital assets, net of related debt	221,500,308	220,811,572
Restricted	25,335,251	25,326,992
Unrestricted	<u>350,112,603</u>	<u>340,321,269</u>
Total net position	<u>\$ 596,948,162</u>	<u>\$ 586,459,833</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. OHA's net position totaled \$596,948,162 as of June 30, 2019, compared to \$586,459,833 as of June 30, 2018, representing an increase of 1.79% or \$10,488,329.

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

Unrestricted funds represent the largest portion of OHA's net position (58.65% and 58.03% at June 30, 2019 and 2018, respectively) and are comprised of resources that may be used to meet OHA's ongoing obligations to beneficiaries and creditors; this also includes internally imposed assignments of resources (e.g. Board designations).

Statement of Activities

Summarized financial information of OHA's *Statement of Activities* for the years ended June 30, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
REVENUES		
Program revenues:		
Charges for services	\$ 14,501,281	\$ 13,301,050
Operating grants	1,281,115	769,960
General revenues:		
State allotments, net of lapsed appropriations	3,018,899	3,037,879
Public land trust revenue	15,100,000	15,100,000
Unrestricted contributions	468,624	375,294
Interest and investment earnings	24,595,989	33,085,232
Non-imposed employee fringe benefits	<u>594,067</u>	<u>554,408</u>
Total revenues	<u>59,559,975</u>	<u>66,223,823</u>
EXPENSES		
Current divisions:		
Board of trustees	3,111,437	2,888,608
Support services	20,292,212	18,903,267
Beneficiary advocacy	17,892,353	19,130,071
Unallocated depreciation	1,985,592	2,227,170
Hi'ilei Aloha LLC	6,248,529	5,495,298
Ho'okele Pono LLC	<u>478,849</u>	<u>235,097</u>
Total expenses	<u>50,008,972</u>	<u>48,879,511</u>
NET TRANSFERS (TO) / FROM OTHER FUNDS	<u>937,326</u>	<u>(180,600)</u>
Change in net position	\$ <u>10,488,329</u>	\$ <u>17,163,712</u>

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

OHA's change in net position decreased by \$6,675,383 during the year. Key elements of this decrease compared to the prior are as follows:

General revenues interest and investment earnings decreased by \$8,489,423 from the prior year primarily due to weaker market conditions and falling interest rate environment in 2019. Decreased revenues were offset by increase in charges for services by \$1,200,231 which comprised of activities from commercial property operations and OHA's proprietary funds Hi'ilei Aloha LLC and subsidiaries.

Change in net position were further attributed to increase in expenses in 2019 by \$1,129,461. This change was primarily due to increase in OHA's proprietary funds Hi'ilei Aloha LLC and Ho'okele Pono LLC expenses by \$996,983.

Additional information regarding OHA's capital assets can be found in Note I to the financial statements.

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 year.

At the close of 2019, OHA's governmental funds reported an ending fund balance of \$432,151,814. Fund balance was segregated into the following categories: Nonspendable, Restricted, Committed, Assigned and Unassigned.

Nonspendable fund balance totaled \$529,405 or 0.12% due to amounts related to inventory, prepaid expenses and security deposits.

Restricted fund balance totaled \$25,316,281 or 5.86%, and is comprised of the following: \$24,223,521 or 95.68% for the Native Hawaiian Revolving Loan Fund program of which \$4,834,747 relates to the long-term portion of outstanding loans, and \$1,092,760 or 4.32% restricted for other federal programs administered by OHA.

Committed fund balance totaled \$28,020,247 or 6.48% based on the Board of Trustees' resolution to commit these funds towards the debt service of DHHL-issued revenue bonds.

Assigned fund balance totaled \$378,058,506 or 87.48% of fund balance and is comprised of the following: \$11,663,304 or 3.09% has been encumbered, \$143,001 or 0.04% represents the non-current portion of outstanding loans and \$366,252,201 or 96.88% is available for future expenditures, including Board designations.

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

At the close of 2018, OHA's governmental funds reported an ending fund balance of \$420,483,602. Fund balance was segregated into the following categories: Nonspendable, Restricted, Committed, Assigned and Unassigned.

Nonspendable fund balance totaled \$465,589 or 0.11% due to amounts related to inventory, prepaid expenses and security deposits.

Restricted fund balance totaled \$25,227,434 or 6.00%, and is comprised of the following: \$23,976,076 or 95.04% for the Native Hawaiian Revolving Loan Fund program of which \$3,402,511 relates to the long-term portion of outstanding loans, and \$1,251,358 or 4.96% restricted for other federal programs administered by OHA.

Committed fund balance totaled \$29,516,390 or 7.02% based on the Board of Trustees' resolution to commit these funds towards the debt service of DHHL-issued revenue bonds.

Assigned fund balance totaled \$365,274,189 or 86.87% of fund balance and is comprised of the following: \$13,396,369 or 3.67% has been encumbered, \$144,190 or 0.04% represents the non-current portion of outstanding loans and \$351,733,630 or 96.29% is available for future expenditures.

OHA's governmental funds experienced an increase of \$11,668,212 or 2.77% in fund balance during 2019. This is a decrease of \$7,334,793 in comparison to the \$19,003,005 or 4.73% increase in fund balance during 2018. The primary reason for the decrease is interest and investment revenues decreased by \$7,962,967 from prior fiscal year.

PROPRIETARY FUNDS FINANCIAL ANALYSIS

Proprietary funds' net position totaled \$18,693,354 at the end of 2019, compared to \$18,106,167 at the end of 2018, representing an increase of 3.24% or \$587,187.

Invested in capital assets, net of related debt represents the largest portion of proprietary funds' net position at \$15,179,345 or 81.20% and is primarily comprised of capital assets of Hi'ilei Aloha LLC and its wholly-owned subsidiaries.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

OHA's investment in capital assets, net of depreciation, amounted to \$247,480,101 and \$249,052,159, as of June 30, 2019 and 2018, respectively. Capital assets include land, building, leasehold improvements, equipment and software development.

	2019	2018
Land and construction in progress	\$ 227,055,733	\$ 226,965,802
Buildings and improvements	33,369,561	33,000,571
Furniture, fixtures, equipment, and vehicles	7,384,703	7,146,867
Accumulated depreciation	(20,329,896)	(18,061,081)
Totals	\$ <u>247,480,101</u>	\$ <u>249,052,159</u>

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2019

The decrease in capital assets is primarily due to the combined effect of no significant additions in the current year and an increase in accumulated depreciation from prior year acquisitions. Additional information regarding OHA's capital assets can be found in Note I to the financial statements.

OHA's long-term liabilities include notes payable, lines of credit, accrued vacation, and capital lease obligation. Additional information about OHA's long-term liabilities can be found in Notes L and M to the financial statements.

SUBSEQUENT EVENT – CORONAVIRUS (COVID-19) PANDEMIC

A novel strain of the coronavirus (COVID-19) was reported in December 2019 and by early March 2020, the World Health Organization (WHO) declared COVID-19 a pandemic. The outbreak in the United States gave rise to economic uncertainties as evidenced by a dramatic drop in the stock market. The degree to which the COVID-19 pandemic may impact on our financial performance will depend on certain financial market developments, including the duration and spread of the infection. The disruption is expected to be temporary and we continue to closely monitor the widespread economic impact from the outbreak. At this time, the extent of the impact of COVID-19 pandemic on our financial performance is uncertain.

REQUEST FOR INFORMATION

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

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

Office of Hawaiian Affairs, State of Hawai'i
STATEMENT OF NET POSITION
June 30, 2019

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Petty cash	\$ 700	\$ --	\$ 700
Cash:			
Held in bank	14,275,974	3,252,920	17,528,894
Held by investment managers	3,925,659	--	3,925,659
Held in State Treasury	5,118,284	--	5,118,284
Restricted cash	269,765	15,025	284,790
Accounts receivable, net	1,619,354	634,353	2,253,707
Interest and dividends receivable	172,599	--	172,599
Inventory, prepaid items and other assets	850,070	331,676	1,181,746
Notes receivable, net:			
Due within one year	1,477,076	--	1,477,076
Due after one year	4,977,748	--	4,977,748
Investments	406,095,881	--	406,095,881
Capital assets			
Non-depreciable assets	213,983,022	13,072,711	227,055,733
Depreciable assets, net	<u>18,317,734</u>	<u>2,106,634</u>	<u>20,424,368</u>
Total assets	<u>671,083,866</u>	<u>19,413,319</u>	<u>690,497,185</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pensions	5,801,500	--	5,801,500
Deferred outflows of resources related to OPEB	<u>2,418,015</u>	<u>--</u>	<u>2,418,015</u>
Total deferred outflows of resources	<u>8,219,515</u>	<u>--</u>	<u>8,219,515</u>
LIABILITIES			
Accounts payable and accrued liabilities	6,010,631	719,965	6,730,596
Due to State of Hawaii	300,000	--	300,000
Long-term liabilities:			
Due within one year	3,288,859	--	3,288,859
Due after one year	24,114,062	--	24,114,062
Other liabilities due in more than one year:			
Net pension liability	32,698,545	--	32,698,545
Net OPEB liability	<u>33,586,793</u>	<u>--</u>	<u>33,586,793</u>
Total liabilities	<u>99,998,890</u>	<u>719,965</u>	<u>100,718,855</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pensions	528,581	--	528,581
Deferred inflows of resources related to OPEB	<u>521,102</u>	<u>--</u>	<u>521,102</u>
Total deferred inflows of resources	<u>1,049,683</u>	<u>--</u>	<u>1,049,683</u>
NET POSITION			
Invested in capital assets, net of related debt	206,320,963	15,179,345	221,500,308
Restricted	25,320,226	15,025	25,335,251
Unrestricted	<u>346,613,619</u>	<u>3,498,984</u>	<u>350,112,603</u>
Total net position	<u>\$ 578,254,808</u>	<u>\$ 18,693,354</u>	<u>\$ 596,948,162</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
STATEMENT OF ACTIVITIES
Year Ended June 30, 2019

Functions / Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
Beneficiary advocacy	\$ 17,892,353	\$ --	\$ 1,281,115	\$ (16,611,238)	\$ --	\$ (16,611,238)
Board of trustees	3,111,437	--	--	(3,111,437)	--	(3,111,437)
Support services	20,292,212	8,124,042	--	(12,168,170)	--	(12,168,170)
Unallocated depreciation	1,985,592	--	--	(1,985,592)	--	(1,985,592)
Total governmental activities	<u>43,281,594</u>	<u>8,124,042</u>	<u>1,281,115</u>	<u>(33,876,437)</u>	<u>--</u>	<u>(33,876,437)</u>
Business-Type Activities:						
Hi'ilei Aloha LLC	6,248,529	6,086,203	--	--	(162,326)	(162,326)
Ho'okele Pono LLC	478,849	291,036	--	--	(187,813)	(187,813)
Total business-type activities	<u>6,727,378</u>	<u>6,377,239</u>	<u>--</u>	<u>--</u>	<u>(350,139)</u>	<u>(350,139)</u>
Total government-wide	\$ <u>50,008,972</u>	\$ <u>14,501,281</u>	\$ <u>1,281,115</u>	\$ <u>(33,876,437)</u>	\$ <u>(350,139)</u>	\$ <u>(34,226,576)</u>
General Revenues:						
Interest and investment earnings				\$ 24,595,989	\$ --	\$ 24,595,989
Non-imposed employee fringe benefits				594,067	--	594,067
Public land trust revenue				15,100,000	--	15,100,000
State allotments, net of lapsed appropriations				3,018,899	--	3,018,899
Unrestricted contributions				<u>468,624</u>	<u>--</u>	<u>468,624</u>
Total general revenues				43,777,579	--	43,777,579
Transfers				--	937,326	937,326
Total general revenues and transfers				<u>43,777,579</u>	<u>937,326</u>	<u>44,714,905</u>
Change in net position				9,901,142	587,187	10,488,329
Net Position at beginning of year				<u>568,353,666</u>	<u>18,106,167</u>	<u>586,459,833</u>
Net Position at end of year				\$ <u>578,254,808</u>	\$ <u>18,693,354</u>	\$ <u>596,948,162</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
GOVERNMENTAL FUNDS - BALANCE SHEET
June 30, 2019

	<u>General Fund</u>	<u>Public Land Trust</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
ASSETS					
Petty cash	\$ --	\$ 700	\$ --	\$ --	\$ 700
Cash:					
Held in bank	--	11,016,124	3,107,270	152,580	14,275,974
Held by investment managers	--	1,765,924	2,159,735	--	3,925,659
Held in State Treasury	894,157	4,224,127	--	--	5,118,284
Restricted cash	--	--	269,765	--	269,765
Accounts receivable, net	--	1,560,484	54,426	4,444	1,619,354
Interest and dividends receivable	--	3,763	168,836	--	172,599
Inventory, prepaid items and other assets	--	525,460	3,945	--	529,405
Notes receivable:					
Due within one year	--	155,866	1,321,210	--	1,477,076
Due after one year	--	143,001	4,834,747	--	4,977,748
Investments	<u>--</u>	<u>392,212,604</u>	<u>13,883,277</u>	<u>--</u>	<u>406,095,881</u>
Total assets	\$ <u>894,157</u>	\$ <u>411,608,053</u>	\$ <u>25,803,211</u>	\$ <u>157,024</u>	\$ <u>438,462,445</u>

Office of Hawaiian Affairs, State of Hawai'i
GOVERNMENTAL FUNDS - BALANCE SHEET (Continued)
June 30, 2019

	<u>General Fund</u>	<u>Public Land Trust</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts payable and accrued liabilities	\$ 168,447	\$ 5,639,336	\$ 182,985	\$ 19,863	\$ 6,010,631
Due to State of Hawaii	<u>--</u>	<u>--</u>	<u>300,000</u>	<u>--</u>	<u>300,000</u>
Total liabilities	<u>168,447</u>	<u>5,639,336</u>	<u>482,985</u>	<u>19,863</u>	<u>6,310,631</u>
Fund balances					
Nonspendable -					
Inventory, prepaid items and other assets	--	525,460	3,945	--	529,405
Restricted for:					
Beneficiary advocacy	--	--	1,092,760	--	1,092,760
Long-term portion of notes receivable	--	--	4,834,747	--	4,834,747
Native Hawaiian loan programs	--	--	19,388,774	--	19,388,774
Committed to:					
DHHL-issued revenue bonds	--	28,020,247	--	--	28,020,247
Assigned to:					
Beneficiary advocacy	498,335	3,866,610	--	137,161	4,502,106
Board of trustees	--	209,163	--	--	209,163
Support services	--	6,952,035	--	--	6,952,035
Long-term portion of notes receivable	--	143,001	--	--	143,001
Public land trust	--	366,252,201	--	--	366,252,201
Unassigned	<u>227,375</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>227,375</u>
Total fund balances	<u>725,710</u>	<u>405,968,717</u>	<u>25,320,226</u>	<u>137,161</u>	<u>432,151,814</u>
Total liabilities and fund balances	\$ <u>894,157</u>	\$ <u>411,608,053</u>	\$ <u>25,803,211</u>	\$ <u>157,024</u>	\$ <u>438,462,445</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
RECONCILIATION OF FUND BALANCES OF GOVERNMENTAL FUNDS TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
June 30, 2019

Total fund balances - governmental funds		\$ 432,151,814
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental funds are not financial resources, and therefore, are not reported in the funds.		232,300,756
Other assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		320,665
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,423,128)	
Capital lease obligations	(132,269)	
Net pension liability	(32,698,545)	
Net OPEB liability	(33,586,793)	
Deferred outflows of resources related to the net pension liability	5,801,500	
Deferred inflows of resources related to the net pension liability	(528,581)	
Deferred outflows of resources related to the net OPEB liability	2,418,015	
Deferred inflows of resources related to the net OPEB liability	(521,102)	
Note payable	(19,136,485)	
Lines of credit	<u>(6,711,039)</u>	<u>(86,518,427)</u>
Net position of governmental activities		\$ <u>578,254,808</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2019

	<u>General Fund</u>	<u>Public Land Trust</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
REVENUES					
Appropriations, net of lapses	\$ 3,018,899	\$ --	\$ --	\$ --	\$ 3,018,899
Charges for services	--	9,805,669	--	58,580	9,864,249
Donations and other	--	321,363	74,886	72,375	468,624
Interest and investment earnings	--	24,595,084	902,128	905	25,498,117
Intergovernmental revenue	--	--	378,987	--	378,987
Non-imposed fringe benefits	594,067	--	--	--	594,067
Public land trust revenue	<u>--</u>	<u>15,100,000</u>	<u>--</u>	<u>--</u>	<u>15,100,000</u>
Total revenues	<u>3,612,966</u>	<u>49,822,116</u>	<u>1,356,001</u>	<u>131,860</u>	<u>54,922,943</u>
EXPENDITURES					
Beneficiary advocacy	1,161,092	15,260,532	1,265,721	250,000	17,937,345
Board of trustees	96,112	3,015,325	--	--	3,111,437
Support services	<u>2,028,876</u>	<u>17,020,649</u>	<u>--</u>	<u>40,552</u>	<u>19,090,077</u>
Total expenditures	<u>3,286,080</u>	<u>35,296,506</u>	<u>1,265,721</u>	<u>290,552</u>	<u>40,138,859</u>
OTHER FINANCING (USES) SOURCES					
Payment on debt	--	(3,115,872)	--	--	(3,115,872)
Net transfers to other funds	<u>--</u>	<u>(250,012)</u>	<u>--</u>	<u>250,012</u>	<u>--</u>
Net change in fund balances	<u>326,886</u>	<u>11,159,726</u>	<u>90,280</u>	<u>91,320</u>	<u>11,668,212</u>
FUND BALANCES					
Beginning of year	<u>398,824</u>	<u>394,808,991</u>	<u>25,229,946</u>	<u>45,841</u>	<u>420,483,602</u>
End of year	\$ <u>725,710</u>	\$ <u>405,968,717</u>	\$ <u>25,320,226</u>	\$ <u>137,161</u>	\$ <u>432,151,814</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
RECONCILIATION OF NET CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES
Year Ended June 30, 2019

Net change in fund balances - total governmental funds		\$ 11,668,212
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Expenditures for capital assets	316,439	
Current year depreciation, amortization and other changes	<u>(1,985,592)</u>	(1,669,153)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net position. In the current year this is the principal payments on capital leases, note payable, and lines of credit.		
		2,260,794
Some items reported in the statement of activities do not involve current financial resources and therefore are not reported as revenues or expenditures in governmental funds. These activities are as follows:		
Decrease in other assets	(116,440)	
Decrease in compensated absences	167,235	
Increase in net pension liability	(806,154)	
Decrease in deferred outflows of resources related to pensions	(1,287,631)	
Increase in deferred inflows of resources related to pensions	(107,733)	
Increase in net OPEB liability	(261,494)	
Increase in deferred outflows of resources related to net OPEB	536,320	
Increase in deferred inflows of resources related to net OPEB	<u>(482,814)</u>	<u>(2,358,711)</u>
Change in net position of governmental activities		\$ <u>9,901,142</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(BUDGETARY BASIS), GENERAL FUND
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	Favorable (Unfavorable)
REVENUES				
State appropriations, net of lapses	\$ <u>3,037,879</u>	\$ <u>3,037,879</u>	\$ <u>3,018,899</u>	\$ <u>(18,980)</u>
EXPENDITURES				
Beneficiary advocacy	1,336,762	1,336,762	1,306,459	(30,303)
Board of trustees	93,855	93,855	62,156	(31,699)
Support services	<u>1,607,262</u>	<u>1,607,262</u>	<u>1,575,201</u>	<u>(32,061)</u>
	<u>3,037,879</u>	<u>3,037,879</u>	<u>2,943,816</u>	<u>(94,063)</u>
EXCESS OF REVENUES OVER EXPENDITURES	\$ <u> --</u>	\$ <u> --</u>	\$ <u> 75,083</u>	\$ <u> 75,083</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
PROPRIETARY FUNDS - STATEMENT OF NET POSITION
June 30, 2019

	December 31, 2018		
	<u>Hi'ilei Aloha LLC</u>	<u>Ho'okele Pono LLC</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 3,228,745	\$ 24,175	\$ 3,252,920
Restricted cash	15,025	--	15,025
Accounts receivable, net	445,483	188,870	634,353
Inventory, prepaid items and other assets	329,879	1,797	331,676
Capital assets - net	<u>15,179,345</u>	<u>--</u>	<u>15,179,345</u>
Total assets	\$ <u>19,198,477</u>	\$ <u>214,842</u>	\$ <u>19,413,319</u>
LIABILITIES AND NET POSITION			
Liabilities			
Accounts payable and accrued liabilities	\$ <u>547,313</u>	\$ <u>172,652</u>	\$ <u>719,965</u>
Net position			
Invested in capital assets	15,179,345	--	15,179,345
Restricted - property acquisition	15,025	--	15,025
Unrestricted	<u>3,456,794</u>	<u>42,190</u>	<u>3,498,984</u>
Total net position	<u>18,651,164</u>	<u>42,190</u>	<u>18,693,354</u>
Total liabilities and net position	\$ <u>19,198,477</u>	\$ <u>214,842</u>	\$ <u>19,413,319</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
PROPRIETARY FUNDS - STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
Year Ended June 30, 2019

	December 31, 2018		
	<u>Hi'ilei Aloha LLC</u>	<u>Ho'okele Pono LLC</u>	<u>Total</u>
OPERATING REVENUES			
Sales - gift store and other	\$ 2,324,790	\$ --	\$ 2,324,790
Cost of sales	<u>(2,450,832)</u>	<u>--</u>	<u>(2,450,832)</u>
Gross margin	(126,042)	--	(126,042)
Admission and tours	4,671,269	--	4,671,269
Other revenue	1,562,960	--	1,562,960
Cooperative agreement - Federal government	<u>--</u>	<u>291,036</u>	<u>291,036</u>
Total operating revenues	6,108,187	291,036	6,399,223
EXPENSES			
Program services	4,363,884	433,497	4,797,381
Management and general	1,866,143	67,336	1,933,479
Fundraising	<u>18,502</u>	<u>--</u>	<u>18,502</u>
Total operating expenses	<u>6,248,529</u>	<u>500,833</u>	<u>6,749,362</u>
Operating loss	(140,342)	(209,797)	(350,139)
NONOPERATING REVENUES AND EXPENSES			
Net transfers from other funds	<u>707,800</u>	<u>229,526</u>	<u>937,326</u>
	<u>707,800</u>	<u>229,526</u>	<u>937,326</u>
Change in net position	<u>567,458</u>	<u>19,729</u>	<u>587,187</u>
NET POSITION			
Beginning of year	<u>18,083,706</u>	<u>22,461</u>	<u>18,106,167</u>
End of year	\$ <u>18,651,164</u>	\$ <u>42,190</u>	\$ <u>18,693,354</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS
Year Ended June 30, 2019

	December 31, 2018		
	<u>Hi'ilei Aloha LLC</u>	<u>Ho'okele Pono LLC</u>	<u>Total</u>
Cash flows from operating activities			
Receipts from customers, grantors and funders	\$ 8,361,233	\$ 168,300	\$ 8,529,533
Payments to suppliers, vendors and service providers	(4,423,828)	(110,146)	(4,533,974)
Payments to employees for salaries and benefits	(4,006,460)	(246,203)	(4,252,663)
Insurance recoveries - flood damage	<u>34,286</u>	<u>--</u>	<u>34,286</u>
Net cash used in operating activities	<u>(34,769)</u>	<u>(188,049)</u>	<u>(222,818)</u>
Cash flows from noncapital financing activities			
Cash grants from OHA	700,000	222,926	922,926
Advances from Hi'ilei Aloha LLC	--	55,000	55,000
Repayments of advances from Hi'ilei Aloha LLC	<u>--</u>	<u>(69,942)</u>	<u>(69,942)</u>
Net cash provided by noncapital financing activities	<u>700,000</u>	<u>207,984</u>	<u>907,984</u>
Cash flows from capital and related financing activities			
Acquisition of property and equipment	<u>(465,258)</u>	<u>--</u>	<u>(465,258)</u>
Net cash used in capital and related financing activities	<u>(465,258)</u>	<u>--</u>	<u>(465,258)</u>
Cash flows from investing activities			
Advances to Ho'okipaipai LLC	(55,000)	--	(55,000)
Repayments of advances to Ho'okipaipai LLC	<u>69,942</u>	<u>--</u>	<u>69,942</u>
Net cash provided by investing activities	<u>14,942</u>	<u>--</u>	<u>14,942</u>
Net increase in cash and cash equivalents	214,915	19,935	234,850
Cash and cash equivalents - January 1, 2018	<u>3,028,855</u>	<u>4,240</u>	<u>3,033,095</u>
Cash and cash equivalents - December 31, 2018	\$ <u><u>3,243,770</u></u>	\$ <u><u>24,175</u></u>	\$ <u><u>3,267,945</u></u>
Reconciliation of cash and cash equivalents to the statement of net position:			
Cash	\$ 3,228,745	\$ 24,175	\$ 3,252,920
Restricted cash	<u>15,025</u>	<u>--</u>	<u>15,025</u>
	\$ <u><u>3,243,770</u></u>	\$ <u><u>24,175</u></u>	\$ <u><u>3,267,945</u></u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
PROPRIETARY FUNDS - STATEMENT OF CASH FLOWS (Continued)
Year Ended June 30, 2019

	December 31, 2018		
	Hi'iilei Aloha LLC	Ho'okele Pono LLC	Total
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$ (140,342)	\$ (209,797)	\$ (350,139)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Expenses paid by Hi'iilei Aloha LLC and OHA	--	6,600	6,600
Depreciation	369,209	--	369,209
Gain on disposal of equipment	(1,046)	--	(1,046)
Donated advertising services	7,800	--	7,800
Change in:			
Accounts receivable, net	(213,101)	(122,736)	(335,837)
Inventory, prepaid items and other assets	(66,713)	(941)	(67,654)
Accounts payable and accrued liabilities	9,424	138,825	148,249
Net cash used in operating activities	\$ <u>(34,769)</u>	\$ <u>(188,049)</u>	\$ <u>(222,818)</u>
Schedule of noncash financing activities			
Grants from Hi'iilei Aloha LLC and OHA - payment of expenses	\$ 7,800	\$ 6,600	\$ 14,400

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE A - FINANCIAL REPORTING ENTITY

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

As of June 30, 2019, OHA's blended components units are comprised of Hi'ilei Aloha LLC and Ho'okele Pono LLC, Hawai'i limited liability companies (collectively, the Companies). OHA is the sole corporate member of the Companies. The results of the Companies as of and for the year ended December 31, 2018, their year ends, have been included in OHA's basic financial statements. In May 2019, the Board of Trustees, via Resolution, authorized and approved: Amended and restated Operating Agreements of Hi'ilei Aloha LLC and Hi'ipaka LLC; Proposed Articles of Termination and Plan of Dissolution of Ho'okele Pono LLC, Ho'okipaipai LLC and Hi'ikualono LLC; Implementation actions of Managers to complete all operating and dissolution activities in accordance with state and federal requirements and/or to effect the intents of the Resolution; and A position description for Manager of Hi'ilei Aloha and Hi'ipaka, including commencement of recruitment activities for these positions.

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

- (1) ***Basis of Presentation*** - OHA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).
- (2) ***Governmental Funds Financial Statements*** - The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, OHA considers revenues to be available if they are collected within 60 days of the end of the current year. Principal revenue sources susceptible to accrual include Federal grants, public land trust revenue, and interest and dividends on investments.

Expenditures are generally recorded when a liability is incurred as under accrual accounting. Modifications to the accrual basis of accounting include the employees' accumulated annual leave, workers' compensation, net pension liability, net other postemployment benefits (OPEB) liability and capital lease obligations which are recorded as expenditures when utilized or paid. The amount of accumulated annual leave unpaid, accrued workers' compensation, net pension liability, net OPEB liability and capital lease obligations as of June 30, 2019 have been reported only in the government-wide financial statements.

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

OHA reports the following funds as major:

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

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

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

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

OHA reports the following funds as major:

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

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

- (4) ***Government-wide Financial Statements*** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (8) ***Deferred Outflows of Resources and Deferred Inflows of Resources*** - Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The deferred outflow of resources related to pensions and other postemployment benefits (OPEB) resulted from differences between expected and actual experiences, changes in assumptions, the net difference between projected and actual earnings on pension plan investments, changes in proportion which will be amortized over five years, and OHA's contributions to the pension and OPEB plans subsequent to the measurement date of the actuarial valuations for the plans which will be recognized as reductions of the net pension and net OPEB liabilities in the subsequent year. The deferred inflow of resources related to pensions and OPEB resulted from differences between expected and actual experiences and changes in proportion of the pension plan which will be amortized over five years.
- (9) ***Compensated Absences and Compensatory Pay*** - OHA accrues all vacation and compensatory pay at current salary rates; including additional amounts for certain salary-related expenses associated with the payment of compensated absences, in accordance with GASB Codification Section C60, Compensated Absences. The balance at June 30, 2019 includes fringe benefits computed at the rate of 7.65% of accrued vacation and compensatory pay. Accrued vacation is reported as an expense when earned in the government-wide and proprietary fund financial statements, but not reported as an expenditure in the governmental funds financial statements, as current financial resources are not used.
- (10) ***Risk Management*** - OHA is exposed to various risks of loss from torts, theft of or damage to assets, errors and omissions, and employee injuries and illnesses.
- (11) ***Governmental Funds - Fund Balance*** - GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) provides guidance on the reporting of stabilization arrangements and changes the classifications and definitions to the following:

Nonspendable Fund Balance

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

Restricted Fund Balance

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

Office of Hawaiian Affairs, State of Hawai‘i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

Stabilization Arrangements

Includes funds formally set aside for use in emergency situations or to cover revenue shortages or budgetary imbalances. These arrangements require specific circumstances on the availability of funds and restrictions as to use. OHA's Fiscal Reserve policy, as approved by the Board of Trustees, does not meet the criteria to warrant classification of "committed" funding under GASB 54.

OHA's Fiscal Reserve is comprised of lapsed fiscal year funding for its Public Land Trust budget. The Public Land Trust fiscal year budget is subject to Trustee approval prior to the start of each fiscal year. Use of Fiscal Reserve funding is subject to Board of Trustee approval and may be used to cover any current year funding shortfalls. As of June 30, 2019, OHA had approximately \$10.4 million in its Fiscal Reserve and is reported as Assigned Public Land Trust fund balance.

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances as of June 30, 2019 consist of the following:

General Fund	\$ 498,335
Public Land Trust Fund	11,027,808
Federal Grants Fund	1,092,760
Other Funds	<u>137,161</u>
	<u>\$ 12,756,064</u>

- (13) **Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.
- (14) **Notes Receivable** - Notes receivable consist of notes made to Native Hawaiian-owned businesses and individuals. Management provides an allowance for doubtful accounts equal to the estimated amounts deemed uncollectible by management which it considers outstanding for more than 90 days. Management also provides a general allowance for its notes receivable. The composition of notes receivable as of June 30, 2019 are as follows:

Native Hawaiian and Hawaiian persons	98.6%
Agencies	<u>1.4%</u>
	<u>100.0%</u>

- (15) **Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.
- (16) **Postemployment Benefits Other Than Pensions** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from EUTF's fiduciary net position have been determined on the same basis as they are reported by EUTF. For this purpose, EUTF recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for investments in commingled and money market funds, which are reported at net asset value (NAV). The NAV is based on the fair value of the underlying assets held by the respective fund less its liabilities.

Office of Hawaiian Affairs, State of Hawai‘i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (17) ***Recent Accounting Pronouncements*** - The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (“AROs”). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Management has determined that this Statement did not have a material impact on OHA’s financial statements.

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

The GASB issued Statement No. 87, *Leases*. This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management has not yet determined the effect this Statement will have on OHA’s financial statements.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings (for example, a government entering into a loan agreement with a lender) and direct placements (for example, a government issuing a debt security directly to an investor). Direct borrowings and direct placements have terms negotiated directly with the investor or lender and are not offered for public sale. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Management has adopted the applicable requirements of this new standard as presented in OHA’s financial statements.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

effective for reporting periods beginning after December 15, 2019. Changes adopted to conform to the provisions of this Statement should be applied prospectively. Management has determined that this Statement will not have a material impact on OHA's financial statements.

The GASB issued Statement No. 90, *Majority Equity Interest - an amendment of GASB Statement No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Management has not yet determined the effect this Statement will have on OHA's financial statements.

The GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Management has not yet determined the effect this Statement will have on OHA's financial statements.

NOTE C - BIENNIAL BUDGET

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

The Budget - In the fall of each odd-numbered fiscal year, OHA's Administration drafts the program and budget recommendations that will be the basis for OHA's biennium budget request. Once approved by OHA's Board of Trustees, the general funds budget is submitted directly to the State Legislature prior to its convening. The Budget is generally constructed around OHA's operations (offices) and programs (divisions) and state 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 committees in the House and Senate. The State Legislature may request provisos and may require financial analysis and evaluation of those programs funded with general funds, but has no discretion over trust fund allocations.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE C - BIENNIAL BUDGET (Continued)

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

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

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

Adjustments necessary to reconcile the results of operations for the year ended June 30, 2019 from the budgetary basis to GAAP basis are as follows:

	<u>Amount</u>
Deficiency of revenues under expenditures - actual (budgetary basis)	\$ 75,083
Reserve for encumbrances at June 30, 2018	498,335
Prior year reserve for encumbrances	49,438
Accrued payables and payroll	395,806
Expenditures for liquidation of prior-year encumbrances	<u>(691,776)</u>
Revenues over expenditures - actual (GAAP basis)	\$ <u>326,886</u>

NOTE D - APPROPRIATIONS

OHA is authorized to transfer appropriation amounts and staffing positions between programs for operating purposes, provided that a report of all transfers are made to the State Legislature prior to convening of the next legislative session. Act 131, Sessions Laws of Hawai'i (SLH) 2017 authorized a total of \$3,037,879 in general funds. During the year ended June 30, 2019, \$18,980 in appropriations lapsed.

NOTE E - CASH

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE E - CASH (Continued)

OHA's cash included in State pooled funds is fully collateralized with securities held by third-party agents in the State's name, as required by the HRS, Section 38-8. As of June 30, 2019, OHA's cash held in the State Treasury totaled \$5,118,284. OHA holds cash in banking institutions held outside of the State Treasury to maximize investment returns in accordance with HRS Section 10-5.

As of December 31, 2018, Hi'ilei Aloha LLC had a cash and restricted cash balance of \$3,243,770. Hi'ilei Aloha LLC and its wholly-owned subsidiary, Hi'ipaka LLC maintain separate legal entity cash accounts with a financial institution in the State of Hawai'i. Balances are insured up to \$250,000 per account holder by the FDIC. Balances may at times, however, exceed the FDIC's insurance limits. As of December 31, 2018, Ho'okele Pono LLC did not have bank balances that exceed FDIC insurance limits. Balances may at times, however, exceed the FDIC's insurance limits.

NOTE F - INVENTORY, PREPAID ITEMS AND OTHER ASSETS

As of June 30, 2019, OHA's governmental funds had prepaid items totaling \$529,405. As of December 31, 2018, Hi'ilei Aloha LLC and Ho'okele Pono LLC, had inventory of \$132,425, and \$-0-, respectively, and prepaid items and other assets totaling \$197,454 and \$1,797, respectively.

NOTE G - NOTES RECEIVABLE

At June 30, 2019, notes receivable bear interest from 2% to 6.25%, mature on various dates through June 2026, and consists of the following:

	Amount
Notes receivable (of which \$74,025 is guaranteed by the Department of Hawaiian Home Lands (DHHL))	\$ 87,370
Native Hawaiian Revolving Loan Fund	7,525,414
Other	<u>1,257,960</u>
Total	8,870,744
Less allowance for doubtful accounts	<u>(2,415,920)</u>
Notes receivable, net	6,454,824
Amounts due within one year	<u>(1,477,076)</u>
Amounts due after one year	\$ <u><u>4,977,748</u></u>

NOTE H - INVESTMENTS

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE H - INVESTMENTS (Continued)

OHA's investment policy allows for investments in U.S. large cap, U.S. small cap equities, international equities, core fixed income, high yield, real estate, absolute return, private equity, and private debt securities. Investments as of June 30, 2019 and their maturities were as follows:

Investment type	Fund	Reported Value	Investment maturities (in years)	
			Less than one	One through five
U.S. treasuries	NHRLF	\$ 13,091,017	\$ 3,997,271	\$ 9,093,746
U.S. agencies	NHRLF	792,260	792,260	--
Subtotal - NHRLF		\$ 13,883,277	\$ 4,789,531	\$ 9,093,746
Mutual funds	NHTF	\$ 200,421,798		
Commingled funds	NHTF	61,042,978		
Alternative investments				
Private equity	NHTF	75,472,196		
Hedge funds	NHTF	48,479,482		
Private debt	NHTF	6,796,150		
Subtotal - NHTF		392,212,604		
Total investments		\$ 406,095,881		

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

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

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

- (1) **Foreign Currency Risk** - To diversify the NHTF portfolio against market fluctuations, OHA's investment policy allows for investments in foreign countries. As of June 30, 2019, OHA's foreign currency risks are as follows:

Investment Type	Currency	Value (US Dollar)
Private equity funds	Euro	\$ 2,916,792

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE H - INVESTMENTS (Continued)

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

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

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

- (3) **Credit Risk** - Pursuant to 45 C.F.R. 1336.72(a), "any portion of the revolving loan fund that is not required for expenditure must be invested in obligations of the United States or in obligations guaranteed or insured by the United States." At June 30, 2019, credit rates for all securities of government agencies were rated at least Aa (Moody's) or AA (Standard & Poor's).
- (4) **Concentration of Credit Risk** - The NHRLF investment policy states that except for U.S. treasury securities and U.S. government sponsored agency obligations, fixed income securities will be limited to not more than 5% of the total portfolio, at the time of purchase, in any one issue. OHA is in compliance with this policy.
- (5) **Fair Value Measurements** - The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

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

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

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

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE H - INVESTMENTS (Continued)

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

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

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

The following table sets forth by level, within the fair value hierarchy, assets measured at fair value on a recurring basis as of June 30, 2019.

	Fund	Level 1	Level 2	Level 3	Total
Mutual funds					
Blended	NHTF	\$ 93,485,879	\$ --	\$ --	\$ 93,485,879
Bond funds	NHTF	60,510,989	--	--	60,510,989
Value	NHTF	17,741,173	--	--	17,741,173
Diversified emerging markets	NHTF	11,930,920	--	--	11,930,920
Real estate	NHTF	7,489,510	--	--	7,489,510
Growth	NHTF	9,263,327	--	--	9,263,327
Total mutual funds		200,421,798	--	--	200,421,798
U.S. treasuries	NHRLF	--	13,091,017	--	13,091,017
U.S. agencies	NHRLF	--	792,260	--	792,260
Total investments at fair value		200,421,798	13,883,277	--	214,305,075
Investments held at NAV					
Commingled funds					61,042,978
Alternative investments					
Private equity					75,472,196
Hedge funds					48,479,482
Private debt					6,796,150
Total investments at NAV					191,790,806
Total investments					\$ 406,095,881

The preceding measurements described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. The market volatility of equity-based investments is expected to substantially impact the value of such investments at any given time. It is likely that OHA's investments have fluctuated since June 30, 2019.

	Fair Value	Unfunded Commitments	Redemption Frequency	Required Redemption Notice
Investments measured at NAV				
Commingled funds				
Domestic equity	\$ 25,375,974	None	Monthly/Quarterly	Various up to trade date
International equity	14,582,461	None	Monthly/Quarterly	Various up to trade date
Domestic core fixed income	21,084,543	None	Monthly/Quarterly	Various up to trade date
Alternative investments	130,747,828	31,130,592	Monthly/Quarterly	Various up to trade date
Total investments measured at NAV	\$ 191,790,806			
Invested securities lending collateral				
Money market fund	\$ 1,766,046			Same as trade date

Office of Hawaiian Affairs, State of Hawai‘i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE H - INVESTMENTS (Continued)

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE I - CAPITAL ASSETS

OHA's capital assets of governmental activities during the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Capital assets not depreciated:				
Land	\$ 213,961,981	\$ --	\$ --	\$ 213,961,981
Construction in progress	<u>--</u>	<u>21,041</u>	<u>--</u>	<u>21,041</u>
	213,961,981	21,041	--	213,983,022
Capital assets being depreciated:				
Buildings	23,708,949	--	--	23,708,949
Leasehold improvements	6,187,360	27,892	--	6,215,252
Furniture, fixtures and equipment	<u>5,975,391</u>	<u>267,506</u>	<u>(9,402)</u>	<u>6,233,495</u>
Total capital assets being depreciated	35,871,700	295,398	(9,402)	36,157,696
Less accumulated depreciation	<u>(15,863,772)</u>	<u>(1,985,592)</u>	<u>9,402</u>	<u>(17,839,962)</u>
Capital assets being depreciated, net	<u>20,007,928</u>	<u>(1,690,194)</u>	<u>--</u>	<u>18,317,734</u>
Governmental activities capital assets, net	\$ <u>233,969,909</u>	\$ <u>(1,669,153)</u>	\$ <u>--</u>	\$ <u>232,300,756</u>

Hi'ilei Aloha LLC's capital assets activities during the year ended December 31, 2018 are as follows:

	Balance January 1, 2018	Additions	Deductions	Balance December 31, 2018
Capital assets not depreciated:				
Land	\$ <u>13,003,821</u>	\$ <u>68,890</u>	\$ <u>--</u>	\$ <u>13,072,711</u>
Capital assets being depreciated:				
Buildings and improvements	3,104,262	341,098	--	3,445,360
Furniture, fixtures and equipment	926,734	38,385	(41,313)	923,806
Vehicles	<u>244,742</u>	<u>48,257</u>	<u>(65,597)</u>	<u>227,402</u>
Total capital assets being depreciated	4,275,738	427,740	(106,910)	4,596,568
Less accumulated depreciation	<u>(2,197,309)</u>	<u>(369,209)</u>	<u>76,584</u>	<u>(2,489,934)</u>
Total capital assets being depreciated	<u>2,078,429</u>	<u>58,531</u>	<u>(30,326)</u>	<u>2,106,634</u>
Capital assets, net	\$ <u>15,082,250</u>	\$ <u>127,421</u>	\$ <u>(30,326)</u>	\$ <u>15,179,345</u>

NOTE J - CAPITAL LEASES

OHA leases photocopiers and mail postage meter machines for all offices. Capital leases are recorded as assets and liabilities and amortized over the term of the lease agreement by use of the straight line method. The amortization of assets recorded under capital leases is included with depreciation expenses. As of June 30, 2019, assets recorded under capital lease included in furniture, fixtures and equipment is \$443,274 and related amortization is \$341,614.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE J - CAPITAL LEASES (Continued)

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

<u>Fiscal Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 50,461	\$ 2,778
2021	51,537	1,702
2022	27,439	626
2023	<u>2,832</u>	<u>59</u>
	\$ <u><u>132,269</u></u>	\$ <u><u>5,165</u></u>

NOTE K - OPERATING LEASES

OHA leases office space and equipment under various noncancelable operating leases through November 2024. Future minimum payments under these operating leases as of June 30, 2019 are approximately as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 151,100
2021	136,300
2022	133,400
2023	118,000
2024	79,500
Thereafter	<u>10,800</u>
	\$ <u><u>629,100</u></u>

In August 1998, OHA entered into a 35-year lease with the Department of Land and Natural Resources (DLNR) for the use of the premises known as the Old Waialua Court House in Waialua, Oahu. Lease rent is gratis, however, OHA pays for all operating and repair costs associated with maintaining the property. OHA sublets a portion of the property to a not-for-profit organization which reimburses OHA for their portion of the costs associated with maintaining the property as set forth in the lease agreement between OHA and DLNR. Rent expense (including taxes and common area maintenance) under this operating lease totaled approximately \$250,300 for the year ended June 30, 2019.

Hi'ilei Aloha LLC leases office space for its office located in Honolulu, Hawai'i, under a lease that expired in October 2019. The lease includes base rent, plus a proportionate share of building operating expenses and general excise tax. Future minimum payment obligations under this operating lease as of December 31, 2018 are approximately \$54,400 in 2019.

Rent expense (including taxes and common area maintenance) under operating leases totaled approximately \$108,700 for the year ended December 31, 2017. Hi'ilei Aloha LLC sub-leases a portion of its office space to Ho'okele Pono LLC under an agreement that renews annually. Rent revenue and related expenses of \$21,984 for the year ended December 31, 2018, are eliminated in the government-wide adjustments.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE K - OPERATING LEASES (Continued)

Portions of Kaka'ako Makai, land included in capital assets, and Na Lama Kukui, building included in capital assets, are currently leased under operating lease arrangements that expire through December 2042 and October 2028, respectively. For the year ended June 30, 2019, rental revenue from Kaka'ako Makai and Na Lama Kukui amounted to approximately \$4,683,000 and \$5,004,000 respectively, and are recorded in the PLTF as charges for services.

As of June 30, 2019, approximate minimum future lease rentals under non-cancellable operating leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 4,658,500
2021	3,818,300
2022	2,881,000
2023	1,388,300
2024	724,100
2025 - 2029	2,502,900
2030 - 2034	2,304,200
2035 - 2039	1,763,400
2040 - 2042	<u>1,234,400</u>
	<u>\$ 21,275,100</u>

NOTE L - LONG-TERM LIABILITIES

On August 14, 2012, OHA entered into a \$21,370,000 long term note payable with a bank, to finance the purchase of Na Lama Kukui. The interest rate is fixed at 3.35%. The note is due in full on September 1, 2022 and is collateralized by a mortgage lien on the property, assignment of OHA's right, title and interest as landlord in and to any rents under tenant leases and rental agreements on Na Lama Kukui and security interest in all furniture, fixtures, and equipment. On July 26, 2013 the agreement was modified to increase the interest rate to 3.6% and include certain financial covenants. At June 30, 2019, OHA was in compliance with those covenants. In the event of default, OHA is liable for the immediate repayment of 53.2% of the outstanding principal balance of the loan, together with accrued interest and reimbursement of the fees and costs incurred by the bank in connection with the loan. The remaining 46.8% of the principal balance of the loan and all other obligations under the loan shall be enforced solely against the collateral.

As of June 30, 2019, future principal and interest payments from direct borrowings for the note payable are as follows:

<u>Fiscal Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 618,274	\$ 679,319	\$ 1,297,593
2021	640,903	656,691	1,297,594
2022	664,360	633,234	1,297,594
2023	<u>17,212,948</u>	<u>154,543</u>	<u>17,367,491</u>
	<u>\$ 19,136,485</u>	<u>\$ 2,123,787</u>	<u>\$ 21,260,272</u>

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
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NOTE L - LONG-TERM LIABILITIES (Continued)

On June 28, 2013 OHA entered into a \$6,758,000 line of credit to finance the renovation of Na Lama Kukui, which is due in full on June 28, 2023. On January 28, 2015, OHA entered into a \$5,000,000 line of credit to finance OHA's governance planning initiative and other projects, which is due in full on February 3, 2024. OHA had drawn a total of \$6,711,040 between the lines of credit as of June 30, 2019. The interest rates are contingent upon certain elections by OHA. The lines of credit are collateralized by all investment property and financial assets held in certain investment accounts. The lines of credit are also subject to certain financial covenants. At June 30, 2019, OHA was in compliance with those covenants. Future principal and interest payments for direct borrowings on the lines of credit are as follows:

Fiscal Year ending June 30,	Principal	Interest	Total
2020	\$ 1,614,666	\$ 221,100	\$ 1,835,766
2021	1,614,666	172,443	1,787,109
2022	1,614,666	123,771	1,738,437
2023	1,614,666	55,227	1,669,893
2024	252,375	4,151	256,526
	<u>\$ 6,711,039</u>	<u>\$ 576,692</u>	<u>\$ 7,287,731</u>

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

Changes in long-term liabilities for the year ended June 30, 2019 were as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019	Amount due within one year	Amount due after one year
Compensated absences	\$ 1,590,363	\$ 766,192	\$ (933,427)	\$ 1,423,128	\$ 1,005,458	\$ 417,670
Capital lease obligation	180,515	--	(48,246)	132,269	50,461	81,808
Note payable	19,734,367	--	(597,882)	19,136,485	618,274	18,518,211
Lines of credit	8,325,705	--	(1,614,666)	6,711,039	1,614,666	5,096,373
Total	<u>\$ 29,830,950</u>	<u>\$ 766,192</u>	<u>\$ (3,194,221)</u>	<u>\$ 27,402,921</u>	<u>\$ 3,288,859</u>	<u>\$ 24,114,062</u>

NOTE M - EMPLOYEE BENEFITS

(1) Defined Benefit Pension Plan

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

Benefits Provided - The ERS Pension Trust is comprised of three pension classes for membership purposes and is considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

The following summarizes the provisions relevant to the largest employee groups of the respective membership class. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

Noncontributory Class

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

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

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

Ordinary death benefits are available to employees who were active at time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and dependent children (up to age 18) receive a benefit equal to a percentage of the member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Employees Hired prior to July 1, 2012

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

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

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

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

Contributory Class for Employees Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.

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

Disability and Death Benefits - Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

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

Hybrid Class for Employees Hired Prior to July 1, 2012

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

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

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

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

Hybrid Class for Employees Hired After June 30, 2012

Retirement Benefits - General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with 30 years of credited service are eligible to retire at age 60.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

Disability and Death Benefits - Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributions - Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rates for fiscal year 2019 was 19.00% for general employees. Contributions to the pension plan from OHA were approximately \$1,663,700 for the year ended June 30, 2019.

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

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012, are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012, are required to contribute 9.8% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2019, OHA reported a liability of \$32,698,545 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. OHA's proportion of the net pension liability was based on a projection of OHA's long-term share of contributions to the pension plan relative to projected contributions of all participants, actuarially determined. At June 30, 2018, OHA's proportion was 0.41% which the same as its proportion measured as of June 30, 2017.

There were no changes between the measurement date, June 30, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on the proportionate share of the net pension liability.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

For the year ended June 30, 2019, OHA recognized pension expense of \$2,201,518. At June 30, 2019, OHA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 578,624	\$ 215,157
Changes in assumptions	3,461,951	--
Net difference between projected and actual earnings on pension plan investments	--	74,865
Changes in proportion and differences between OHA contributions and proportionate share of contributions	97,191	238,559
OHA's contributions subsequent to the measurement date	<u>1,663,734</u>	<u>--</u>
	<u>\$ 5,801,500</u>	<u>\$ 528,581</u>

The \$1,663,734 reported as deferred outflows of resources related to pensions resulting from OHA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

Fiscal Year Ending June 30,	Amount
2020	\$ 1,703,822
2021	1,423,864
2022	523,159
2023	(45,280)
2024	<u>3,620</u>
	<u>\$ 3,609,185</u>

Actuarial Assumptions - The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS's Board of Trustees on December 12, 2016, based on the 2015 Experience Study for the five year period from July 1, 2010 through June 30, 2015:

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

Office of Hawaiian Affairs, State of Hawai‘i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

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

Post-retirement mortality rates are based on the 2016 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2016 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of the RP-2014 mortality table based on the occupation of the member.

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

<u>Strategic Allocation (Risk-Based Classes)</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>	<u>Long-Term Expected Real Rate of Return*</u>
Broad growth	63.0%	7.10%	4.85%
Principal protection	7.0%	2.50%	0.25%
Real return	10.0%	4.10%	1.85%
Crisis risk offset	<u>20.0%</u>	4.60%	2.35%
Total investments	<u>100.0%</u>		

* Uses an expected inflation rate of 2.25%

Discount Rate - The discount rate used to measure the net pension liability at June 30, 2018 was 7.00%, consistent with the rate used at the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from the State will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the total pension liability.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
OHA's proportionate share of the net pension liability	\$ 42,484,711	\$ 32,698,545	\$ 24,563,894

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

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

Payables to the Pension Plan - At June 30, 2019, the amount payable to the ERS was \$150,541.

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

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

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten years or more of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

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

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

Employees Covered by Benefit Terms - At July 1, 2018, the following number of plan members were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	36,340
Inactive plan members entitled to but not yet receiving benefits	7,588
Active plan members	<u>50,519</u>
Total plan members	<u><u>94,447</u></u>

Contributions - Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF from OHA were \$2,125,952 for the year ended June 30, 2019. OHA is required to make all contributions for members.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2019, OHA reported a net OPEB liability of \$33,586,793. The net OPEB liability was measured as of July 1, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

At June 30, 2018, OHA's proportionate share of the State's net OPEB liability was 0.28%.

There were no changes between the measurement date, July 1, 2018, and the reporting date, June 30, 2019, that are expected to have a significant effect on OHA's proportionate share of the State's net OPEB liability.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

For the year ended June 30, 2019, OHA recognized OPEB expense of \$207,988. At June 30, 2019, OHA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ --	\$ 482,564
Changes in assumptions	292,063	--
Net difference between projected and actual earnings on OPEB plan investments	--	38,538
OHA's contributions subsequent to the measurement date	<u>2,125,952</u>	<u>--</u>
	\$ <u>2,418,015</u>	\$ <u>521,102</u>

The \$2,125,952 reported as deferred outflows of resources related to OPEB resulting from OHA's contribution subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2020.

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

Fiscal Year Ending June 30,	Amount
2020	\$ 50,520
2021	50,520
2022	50,520
2023	39,457
2024	36,631
Thereafter	<u>1,391</u>
	\$ <u>229,039</u>

Actuarial Assumptions - The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF's Board of Trustees on January 8, 2018, based on the experience study covering the five-year period ended June 30, 2015 as conducted for the ERS:

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

Healthcare cost trend rates:

PPO*	Initial rates of 10.00%; declining to a rate of 4.86% after 13 years
HMO*	Initial rate of 10.00%; declining to a rate of 4.86% after 13 years
Contribution	Initial rates of 4.00% and 5.00%; declining to a rate of 4.70% after 12 years
Dental	Initial rates of 5.00% for the first three years; followed by 4.00%
Vision	Initial rates of 0.00 for the first three years; followed by 2.50%
Life insurance	0.00%

* Blended rates for medical and prescription drug.

Mortality rates are based on system-specific mortality tables utilizing scale BB to project generational morality improvement.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Non-U.S. equity	17.00%	6.50%
U.S. equity	15.00%	5.05%
Private equity	10.00%	8.65%
Core real estate	10.00%	4.10%
Trend following	9.00%	3.00%
U.S. microcap	7.00%	7.00%
Global options	7.00%	4.50%
Private credit	6.00%	5.25%
Long treasuries	6.00%	1.90%
Alternative risk premia	5.00%	2.45%
TIPS	5.00%	0.75%
Core bonds	3.00%	1.30%
	100.00%	

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

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

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

Changes in OHA's Proportionate Share of the State's Net OPEB Liability - The following table represents a schedule of changes in OHA's proportionate share of the State's net OPEB liability. The ending balances are as of the measurement date, July 1, 2018.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2018	\$ 35,977,269	\$ 2,651,970	\$ 33,325,299
Changes for the fiscal year:			
Service cost	631,702	--	631,702
Interest on the total OPEB liability	1,955,895	--	1,955,895
Contributions - employer	--	1,881,695	(1,881,695)
Net investment income	--	216,804	(216,804)
Benefit payments	(952,352)	(952,352)	--
Administrative expense	--	(710)	710
Difference between expected and actual experience	(578,349)	--	(578,349)
Change in assumptions	350,035	--	350,035
Net changes	<u>1,406,931</u>	<u>1,145,437</u>	<u>261,494</u>
Balance at June 30, 2019	\$ <u>37,384,200</u>	\$ <u>3,797,407</u>	\$ <u>33,586,793</u>

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

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

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
OHA's proportionate share of the net OPEB liability	\$ <u>39,707,647</u>	\$ <u>33,586,793</u>	\$ <u>28,777,301</u>

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

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
OHA's proportionate share of the net OPEB liability	\$ <u>28,515,183</u>	\$ <u>33,586,793</u>	\$ <u>40,168,627</u>

Payables to the OPEB Plan - OHA's employer contributions payable to the EUTF by fiscal year end was paid by June 30, 2019.

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

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

- (4) ***Trustee Retirement Plan*** - OHA's Board of Trustees froze the dormant supplemental retirement plan, the Office of Hawaiian Affairs Supplemental Plan for Trustees ("the Plan"), which was established in 1999 for the benefit of the Trustees. The Plan was designed to qualify as an unfunded deferred compensation plan under ERISA sections 201(1), 301(a)(3), and 401(a)(1), and as a pension for past services under Hawai'i Revised Statutes, Section 235-7(a)(3).

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE M - EMPLOYEE BENEFITS (Continued)

- (5) ***Hi'ilei Aloha LLC and Ho'okele Pono LLC Retirement Plan*** - Hi'ilei Aloha LLC and Ho'okele Pono LLC offer 401(k) profit sharing plans. Employees become eligible upon six (6) months of employment and may contribute to the plan to the extent allowed by law. Hi'ilei Aloha LLC and Ho'okele Pono LLC match employees' contributions up to a specified percentage of salary. For the year ended December 31, 2018, contribution expense amounted to \$67,850 and \$3,800 for Hi'ilei Aloha LLC and Ho'okele Pono LLC, respectively.
- (6) ***Sick Leave*** - Accumulated sick leave amounted to approximately \$2,960,000 as of June 30, 2019. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Employees who retire or leave government service in good standing with sixty or more unused sick days are entitled to additional service credit in the ERS. Accordingly, no liability for sick leave is recorded in the accompanying basic financial statements.

NOTE N - NON-IMPOSED EMPLOYEE FRINGE BENEFITS

Payroll fringe benefit costs for employees of OHA funded by state appropriations (general fund) are assumed by the State and are not charged to OHA's operating funds. These costs, totaling \$594,067 for the year ended June 30, 2019, have been reported as revenues and expenditures of OHA's general fund.

NOTE O - RISK MANAGEMENT AND CONTINGENT LIABILITIES

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

The State is self-insured for workers' compensation. Accordingly, the OHA is liable for workers' compensation claims filed by its employees to the extent not otherwise covered by insurance. Liabilities for workers' compensation claims are established if information indicates that it is probable that liabilities have been incurred and the amount of those claims can be reasonably estimated. Beginning in fiscal year 2013 OHA began purchasing a third party workers' compensation policy, but was still liable for outstanding claims related to periods in which the OHA was self-insured. As of June 30, 2019, there are no outstanding claims for which OHA is liable.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO FINANCIAL STATEMENTS
June 30, 2019

NOTE O - RISK MANAGEMENT AND CONTINGENT LIABILITIES (Continued)

- (2) ***Quiet Title Litigation*** - Under Haw. Rev. Stat. Section 669-3(e), OHA is required to be statutorily joined as a defendant in any action to quiet title to an interest in kuleana if an owner of an inheritable interest in the kuleana died intestate or partially intestate and without any heirs or other takers. OHA typically responds in these actions by answering the complaint, seeking discovery and information, reviewing the evidence to determine whether OHA has an escheat interest in the kuleana, and participating in the litigation as necessary. OHA retains outside counsel for quiet title litigation. As of June 30, 2019, OHA is currently evaluating its potential interest in 12 quiet title actions. OHA continues to monitor these actions for any potential escheated interest.
- (3) ***Litigation*** - OHA is a party to administrative and court proceedings that arise in the ordinary course of business. Although occasional adverse decisions (or settlements) may occur, OHA believe that the final disposition of such matters will not have a material adverse effect on the financial position or changes in the financial position of OHA.

NOTE P - RELATED PARTY TRANSACTIONS

OHA receives a portion of ceded land revenues from various state agencies. In June 2006, Act 178 was passed which laid the foundation for a quarterly guaranteed ceded land revenue stream of \$3,775,000, totaling \$15,100,000 per year. The total received during the year ended June 30, 2019 was \$15,075,484. As OHA is entitled to \$15,100,000, that amount was included as public land trust revenue in the PLTF. The outstanding \$24,516 was included in accounts receivable, net in the PLTF.

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

During 2019, OHA did not make any payments to Hi'iilei Aloha LLC and Ho'okele Pono LLC. The resulting net transfer in of \$937,326 on the statement of activities is due to the difference in reporting period for the proprietary funds noted in Note A.

In December 2008, OHA and DHHL mutually agreed to a collaborative financing arrangement to provide funds for DHHL's use in the planning, design and construction of infrastructure for homesteads for native Hawaiians on properties owned and controlled by DHHL, in fulfillment of OHA's mission to better the conditions of Native Hawaiians. OHA's obligation under the agreement was to pay DHHL an annual fee not to exceed \$3,000,000 for 23 years. As of June 30, 2019, OHA has committed \$28,020,247 of its fund balances for future payments to DHHL.

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

Measurement Period Ended	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a %age of Covered Payroll	Plan Fiduciary Net Position as a %age of the Total Pension Liability
June 30, 2018	0.41%	\$ 32,698,545	\$ 9,008,205	362.99%	54.80%
June 30, 2017	0.41%	\$ 31,892,391	\$ 10,027,875	354.04%	54.80%
June 30, 2016	0.42%	\$ 32,669,717	\$ 10,033,406	325.61%	51.28%
June 30, 2015	0.43%	\$ 21,773,504	\$ 9,966,952	218.46%	62.42%
June 30, 2014	0.42%	\$ 20,332,122	\$ 9,270,781	219.31%	63.92%
June 30, 2013	0.43%	\$ 22,136,982	\$ 9,028,381	245.19%	57.96%

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

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

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

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 68
Year Ended June 30, 2019

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

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

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

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

Office of Hawaiian Affairs, State of Hawai'i
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
Year Ended June 30, 2019*

	<u>2019</u>	<u>2018</u>
Total OPEB liability		
Service cost	\$ 631,702	\$ 510,265
Interest on the total OPEB liability	1,955,895	1,549,389
Difference between expected and actual experience of the total OPEB liability	(578,349)	--
Change in assumptions	350,035	--
Benefit payments	<u>(952,352)</u>	<u>(766,044)</u>
Net change in total OPEB liability	1,406,931	1,293,610
Total OPEB liability - Beginning	<u>35,977,269</u>	<u>34,683,659</u>
Total OPEB liability - Ending	\$ <u><u>37,384,200</u></u>	\$ <u><u>35,977,269</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 1,881,695	\$ 1,523,372
Net investment income	216,804	152,522
Benefit payments	(952,352)	(766,044)
Administrative expense	(710)	(391)
Other	<u>--</u>	<u>12,248</u>
Net change in plan fiduciary net position	1,145,437	921,707
Plan fiduciary net position - Beginning	<u>2,651,970</u>	<u>1,730,263</u>
Plan fiduciary net position - Ending	\$ <u><u>3,797,407</u></u>	\$ <u><u>2,651,970</u></u>
Net OPEB liability	\$ <u><u>33,586,793</u></u>	\$ <u><u>33,325,299</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	10.16%	7.37%
Covered payroll	\$ 9,008,205	\$ 10,027,875
Net OPEB Liability as a Percentage of Covered Payroll	372.85%	369.94%

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

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

Year Ended	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
June 30, 2019	\$ 2,125,952	\$ 2,048,768	\$ 77,184	\$ 8,810,968	24.13%
June 30, 2018	\$ 2,123,100	\$ 1,881,695	\$ 241,405	\$ 9,008,205	23.57%
June 30, 2017	\$ 1,523,372	\$ 1,523,372	\$ --	\$ 10,027,875	15.19%

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
REQUIRED BY GASB STATEMENT NO. 75
Year Ended June 30, 2018

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

An actuarial valuation of OHA's liability associated with other postemployment benefits other than pension provided through the EUTF is performed as of July 1 of each odd-numbered year (e.g. July 1, 2015). This actuarial valuation serves as the basis for developing the annual required contributions ("ARC") for the two fiscal years which begin one year after the actuarial valuation date. For example, the ARC for the fiscal years ended June 30, 2018 and 2017 were developed from the actuarial valuation as of July 1, 2015. Beginning July 1, 2017, the EUTF will be completing an actuarial valuation on an annual basis.

The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the fiscal year ended June 30, 2018:

Actuarial valuation date	July 1, 2015
Actuarial cost method	Entry Age Normal
Amortization method	Level percent, closed
Equivalent single amortization period	19.9
Asset valuation method	Market
Inflation rate	3.00%
Investment rate of return	7.00%
Payroll growth	3.50%
Healthcare cost trend rates	
PPO	Initial rate of 9%, declining to a rate of 5% after 8 years
HMO	Initial rate of 7%, declining to a rate of 5% after 8 years
Part B	Initial rate of 3% for the first two years, 5% thereafter
Dental	4.00%
Vision	3.00%
Life Insurance	0.00%

The actuarial valuation as of July 1, 2009, which was used to develop the ARC for fiscal year 2011 and 2012, included a reduction to the discount rate used from the prior valuation. The discount rate changed from a blended discount rate of 7% - 8% to 7%. This resulted in an overall increase to the actuarially determined OPEB liability and the ARC.

There were no other factors that significantly affected trends in the amounts reported in the schedule of changes in the net OPEB liability and related ratios or the schedule of contributions (OPEB).