

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

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

Year Ended June 30, 2021



**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, 2021

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, 2021. This report has been prepared by *ka Paia Kanaloa Wai*, Resource Management Division. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with OHA. I believe the information, as presented, is fairly stated in all material aspects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of OHA as measured by the financial activity of its various funds; and that all the information necessary to enable the reader to gain the maximum understanding of OHA's financial affairs has been included.

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

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

THE REPORTING ENTITY

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

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

BOARD CHANGES, LAND & COMMERCIAL PROPERTIES

In December 2020, Board leadership reorganized, and Administration supported, the work of two Board authorized land and commercial property Permitted Interaction Groups (PIG), by the end of the fiscal year, to investigate: 1) the development of land and commercial property policies and strategies relating to the Development of OHA's Na Lama Kukui (NLK) and Kakaako Makai properties (January 2021); 2) and recommend a short list of eligible entities for selection of a development consultant; land and commercial property policies and the development and implementation of a request for proposal for a community planner (April 2021).

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In September 2021, Administration completed the Board authorized purchase of two properties, one at 500 N. Nimitz Highway and the other at 501 Sumner Street. Both properties are adjacent to Nā Lama Kukui, the OHA headquarters at 560 N. Nimitz Highway. The Board of Trustees voted to purchase the properties for \$47 million. OHA's acquisition of these commercial properties represents a long-term investment that is expected to generate more than \$1 million per year in net income as well as provide a larger presence in the Iwilei area. All funds generated by OHA are directed toward the betterment of conditions for Native Hawaiians and spending is guided by OHA's strategic plan and related investment and spending policies. 500 N. Nimitz currently houses popular national retail chains Ross Dress for Less, Long's (CVS Pharmacy) and PetSmart. 501 Sumner Street is an industrial property that also houses a host of small businesses. The purchase follows OHA's 15-year strategic plan which calls for increasing the value of investments and the value from financial, commercial, and land resources.

The Board's land and commercial property PIGs continued after 6/30/2021 and resulted in the following three, to investigate: 3) the initial steps in the first phase of work for the development of Kaka'ako Makai (November 2021); 4) the activation of Kaka'ako Makai Site A (January 2022) and 5) the activation of Kaka'ako Makai Site E (March 2022).

In March 2022, Administration also completed the Board authorized refinancing of NLK that was scheduled for maturity in September 2022.

LIMITED LIABILITY COMPANIES

OHA is the sole member of two limited liability companies, Hi'ilei Aloha LLC (Hi'ilei) and Ho'okele Pono LLC (Ho'okele Pono). Hi'ilei is the sole member of two limited liability companies Hi'ipaka LLC (Hi'ipaka) and Hi'ikualono LLC (Hi'ikualono). Ho'okele Pono is the sole member of a single limited liability company Ho'okipaipai LLC (Ho'okipaipai). Based on its relationship with OHA, the LLCs are considered to be a component unit of OHA for financial reporting purposes.

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

In March 2020, OHA executives as LLC Managers worked with Hi'ilei and Ho'okele Pono operating management to address the impacts of COVID-19 and various government-imposed directives, while completing winddown activities, to effect the May 2019 BOT directives described above.

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Hi'ipaka's operations have been affected by the outbreak of COVID-19 which was declared a pandemic by the World Health Organization in March 2020. The virus caused unprecedented disruptions in the global economy and severely disrupted the Hawaii tourism industry, which is a significant source of Hi'ipaka's revenue. In response to national and statewide shelter-in-place guidelines, Hi'ipaka suspended customer oriented operations for several months in 2020, laid off employees, and operated with a substantially reduced personnel base to maintain basic operations during the State's shelter-in-place mandate. Hi'ipaka re-opened after the State's shelter-in-place mandate was lifted, however the State's tourism industry has not fully recovered which continues to negatively impact Hi'ipaka's daily visitor count.

Hi'ipaka was able to fund operating losses in 2020 from cash savings, cost containment efforts, additional grants and donations, and a loan under the Paycheck Protection Program in the amount of \$694,335. Hi'ipaka expects to resume more normal operations in 2021, once the pandemic is contained through widespread vaccinations. Hi'ilei has not been directly impacted by the COVID-19 pandemic. Management believes that Hi'ilei and Hi'ipaka have sufficient financial resources to remain in business throughout 2021.

Winddown activities included, but was not limited to: interactions with the State of Hawaii Attorney General's office for dissolution activities; review of monthly financial statements and related operational winddown funding; audits and filing of Form 990s; physical office closure, related business lease terminations and transfer of records and work sites; business records transition and retention; transfer of artifacts; filing of final PTAC reports; continuing other grantor reporting requirements; securing of location for on-going operations and continuity of business records; creditor settlements; employee/employment separation; and other related business transitions.

As LLC business operations are calendar year based, most of calendar years 2020 and 2021, OHA LLC Managers focused on COVID-19 responses and winddown activities. New non-OHA executives as Managers ("Community LLC Managers") were approved by the Board in February 2021 and began effective April 1, 2021. As a result, common governance structure and financial obligations, regardless of the LLC Managers, the financial results of Ho'okele Pono and Hi'ilei and its member owned LLCs through December 31, 2020 have been included as business-type activities in the government-wide financial statements of OHA for the year ended June 30, 2021.

ORGANIZATIONAL STRUCTURE - FINANCIAL REPORTING

On June 30, 2021, the Board of Trustees ("BOT" or "Board") approved the OHA Biennium Budget for the Fiscal Biennium Periods 2021 - 2022 (FY 22) and 2022 - 2023 (FY 23) which reflected an organizational operating structure that was designed to enable the implementation of strategies and tactics to achieve outcomes outlined in Strategic Plan 2020 - 2035 and related implementation plans. Administration began with designing a business model, backwards mapping to include: vision; mission and mandate; strategic foundations; strategic outcomes; strategic directions; strategies; tactics; functions; functional classifications and roles; knowledge, aspirations, skills, attitudes and behaviors; and reorganization design principles, elements and considerations.

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With a business model designed, Administration then examined the existing “AS IS” organization (e.g., positions, functions, roles, costs); mapped Chapter 10 purposes, mandates and requirements to functional roles and responsibilities; crossmapped functional roles and responsibilities to policy oriented operating framework and related responsibilities; created a functional organization chart; applied reorganization design principles, elements and considerations; created positional organization charts, including positions, reporting and management structures; and identified change elements (e.g., position impacts, compensation impacts, separation costs).

The Board further directed Administration to complete the reorganization by December 30, 2021. The information below (e.g., names of operating units) therefore refers to the organizational structure (before the impacts of the reorganization) of June 30, 2021 and will be updated for the June 30, 2022 period.

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

Division Title	Division Objectives
<p>1. Board of Trustees</p> <p><i>Board of Trustees, Board of Trustees Staff</i></p>	<p>To work for the betterment of all Hawaiians by setting policy and strategies in response to the concerns and interest of the beneficiaries, in order to ensure the well being of Native Hawaiians; to protect their rights and entitlements in their homeland; to assist them to achieve self-determination and self-governance; and to nurture and honor their culture.</p>
<p>2. Support Services</p> <p><i>Chief Executive Officer, Chief Operating Officer, Kaka'ako Makai, Na Lama Kukui, Corporate Counsel, Travel Services, Human Resources, Program Improvement, Systems Office, Operations Management, Chief Financial Officer, Land & Property Management, Palaeua Cultural Preserve, Wao Kele o Puna, Investments, Information Systems, Procurement, Community Relations, Digital Media, Communications, Land Assets Director, Commercial Property, Legacy and Programmatic Lands, Land Assets Facilities, Ho`omana, Kekaha Armory, Kukaniloko, Pahua Heiau, Waialua Courthouse</i></p>	<p>To work for the betterment of all Hawaiians by providing leadership, guidance, direction, and executive oversight. OHA seeks to excel among Hawai'i's organizations in managing resources, as well as applying technology to streamline processes, and fully integrate all aspects of information sharing and program support, and to coordinate data gathering, planning, research, and development efforts with other Hawaiian agencies. Included in this financial reporting division are OHA commercial property and land operations.</p>

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Division Title	Division Objectives
3. Beneficiary advocacy <i>Grants, Halawa-Luluku Interpretive Development, Native Hawaiian Revolving Loan Fund, Community Outreach, Hawaiian Registry, Research, Culture & History, Demographics, Special Projects, Program Improvement, Chief Advocate, WDC Bureau, Compliance Monitoring, Public Policy, Papahānaumokuākea, Micro Loans</i>	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, 2021, 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.

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

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

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

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

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

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

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FACTORS AFFECTING FINANCIAL CONDITION, INCLUDING COVID-19

The information presented in the basic financial statements is perhaps best understood when considered from the broader perspective of the specific environment within which OHA operates, including events that occur between the time of the financial statements (June 2021) and the report date (March 2022). Because COVID-19 continued to stay front and center in the world, nation, state and island communities, the following section will continue to be framed as it was in the prior year with additive operating updates.

COVID-19

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

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

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

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

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Act 29, SLH 2021 Relating to the Budget of the Office of Hawaiian Affairs, Restoration of FY20-21 General Fund Appropriations

In May 2021, the Governor signed Act 29, SLH 2021 relating to the FY 22, FY 23 budget of the OHA and included Part IV. RELEASE OF PRIOR FUNDS, Section 9 which amended Section 8 of Act 37, SLH 2019 and providing that the general funds appropriated for fiscal year 2020 - 2021 pursuant to part II of Act 29 shall not be released to the Office of Hawaiian Affairs until after the CLA - OHA & LLCs Contract and Disbursement Review - Report, dated December 4, 2019 (CLA Report), is received by the legislature. Act 29 further approved that the restored general funds for FY 20 and FY 21 would not lapse until June 30, 2022.

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 targeted investment returns to sustain the mission in perpetuity and to uphold OHA’s mission. In this regard the Board of Trustees established both an investment and a spending policy. Generally, the investment policy targets the growth of the NHTF at least inflation plus five percent annually, while the spending policy limits the amount of withdrawals that can be made from the fund in any given fiscal year. Withdrawals are limited to five (5) percent of the NHTF’s 20-quarter rolling average market value, as defined, to ensure that resources held within the trust are available for future spending.

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

State of the Local Economy

Hawaii’s economic recovery continues despite rising uncertainties with COVID-19 Omicron variant cases according to the Hawaii Department of Business, Economic Development & Tourism (DBEDT). Hawaii’s economy benefitted from increases in investment and consumption from a boom in the construction and real estate market, while the tourism sector lagged. According to the U.S. Bureau of Economic Analysis, Hawaii’s economic growth rate, as measured by the growth of real gross domestic product (GDP), dropped 10.8 percent in 2020 and expects economic growth for 2021 to be at 3.8 percent.

Looking forward, the Economic Research Organization at the University of Hawaii (UHERO) expects renewed economic growth to continue, touching nearly all sectors of the economy, with industries linked to tourism standing to make the largest gains. However, the global economy is facing another new challenge due to the outbreak of war between Russia and Ukraine further disrupting global supply chains and increasing oil and energy prices potentially delaying Hawaii’s economic recovery.

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State of the National Economy

Following a strong rebound in 2021, the global economy is entering a pronounced slowdown amid fresh threats from COVID-19 variants and a rise in inflation, debt, and income inequality that could endanger the recovery in emerging and developing economies, according to the World Bank's latest Global Economic Prospects report. Global growth is expected to decelerate from 5.5 percent in 2021 to 4.1 percent in 2022 and 3.2 percent in 2023 as pent-up demand dissipates and as fiscal and monetary support is unwound across the world. Meanwhile, rising inflation which hits low-income workers particularly hard is constraining monetary policy. Globally and in advanced economies, inflation is running at the highest rates since 2008. In developing economies, inflation has reached its highest rate since 2011, which has led many developing economies to withdraw policy support to contain inflationary pressures well before the recovery is complete.

The rapid spread of the Omicron variant indicates that the pandemic will likely continue to disrupt economic activity in the near term. In addition, a notable deceleration in major economies such as the United States and China will weigh on external demand in developing economies. Governments in many developing economies lack the policy space to support activity, if needed, to address new COVID-19 outbreaks, persistent supply-chain bottlenecks, inflationary pressures, and elevated financial vulnerabilities in large swaths of the world could increase the risk of a hard landing. At the time we are completing this report, Russia has launched a full-scale invasion of Ukraine, and the US and other countries have responded with a range of economic sanctions. The biggest risk from the Ukraine crisis is a potential surge in oil and gas prices and a hit to the European and global macroeconomy. We do not attempt to predict what markets might do in the short to intermediate-term. Economic risks are certainly elevated which likely means that the increased volatility in the financial markets we have witnessed over the last five years is likely to persist and even go higher.

OHA's Investments

OHA's Native Hawaiian Trust Fund (NHTF) reported a 26 percent net gain for the year ending June 30, 2021. Total assets increased to \$485,416,792 from \$394,399,972, which includes organizational spending totaling \$15,000,000. Global equity markets were strong across the board, with the MSCI All-Country World Index returning 39.3 percent. U.S. equity markets led the way (Russell 3000 Index; 44.2 percent), followed by Emerging Markets (MSCI Emerging Markets Index; 40.9 percent), and Developed International equities (MSCI All-country World ex U.S. Index; 35.7 percent). For the fiscal year, the NHTF outperformed its policy benchmark by 3.9 percent, with outperformance coming from most of the asset classes except for private investments. While it was a solid year, the success of an investment program for a perpetual trust is measured not in years, but decades. Success is measured by preserving the purchasing power of the Trust after spending, inflation, and all fees and expenses. Over the last 10 years, NHTF returned 7.5 percent or 5.4 percent real, meeting its long-term return objective of Consumer Price Index (CPI) + 5 percent.

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MANA I MAULI OLA

OHA 15-Year Strategic Plan for 2020 - 2035

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

Strategic Direction: Educational Pathways

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

Outcome: Strengthened and Integrated Community, Culture based Learning Systems

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

Strategy Outcomes:

- 1.1. Increased number or percent of Native Hawaiian students who enter educational systems ready to learn;
- 1.2. Increased number or percent of Native Hawaiian students graduating high school who are college, career, and community ready; and
- 1.3. Increased number of Native Hawaiians engaged in traditional learning systems (i.e., hale, hālau, hale mua, hale pe'a) that reestablish/maintain strong cultural foundations and identity.

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

Strategy Outcomes:

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

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Strategic Direction: Health Outcomes

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

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

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

Strategy Outcomes:

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

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

Strategy Outcomes:

- 4.1 Preservation and perpetuation of Hawaiian language, culture, traditions, identity and sense of lāhui;
- 4.2 Increased community stewardship of Hawai‘i’s natural and cultural resources that foster connection to ‘āina, ‘ohana, and communities; and
- 4.3 Increased restoration of Native Hawaiian cultural sites, landscapes, kulāiwi and traditional food systems.

Strategic Direction: Quality Housing

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

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

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

Strategy Outcomes:

- 5.1. Increased numbers/percent of Native Hawaiians who rent housing that meets their 'ohana's financial and well-being needs
- 5.2. Increased numbers/percent of Native Hawaiians who own housing that meets their 'ohana's financial and well-being needs
- 5.3. Increased safety, stability, social support networks, and cultural connection in Native Hawaiian communities

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

Strategy Outcomes:

- 6.1. Increased affordable non-traditional housing options (accessory dwelling units/tiny homes, large multi-generational lots or homes) in communities of 'ohana's choice;
- 6.2. Increased housing unit supply on Hawaiian Home Lands; and
- 6.3. Decreased rate of Native Hawaiian 'ohana out of state migration.

Strategic Direction: Economic Stability

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

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

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

Strategy Outcomes:

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

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

Strategy Outcomes:

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

CLOSING COMMENTS

This past fiscal year continued to be challenging for OHA to operationally respond to continuing COVID-19 mandates and safety measures, including related policy adoption, while moving forward with expanded granting opportunities and commercial property activities in Kaka'ako Makai and Iwilei, and designing, planning and implementing a reorganization. I would like to express gratitude to the Board of Trustees, Administration of the State of Hawai'i and members of the Hawai'i State Legislature for their continuing support. We look forward to continuing our efforts to better the conditions of Native Hawaiians as we look toward a vibrant and thriving 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, 2021, 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'iilei Aloha LLC, which is both a major fund and 100 percent, 100 percent, and 100 percent, respectively, of the assets, net position, and revenues of the business-type activities. Those statements were audited by another auditor, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Hi'iilei Aloha LLC, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OHA, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 19 through 25 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 72 through 77 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 29, 2022 on our consideration of OHA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of OHA's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering OHA's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii
March 29, 2022

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

As management of OHA, we offer the following narrative overview and analysis to readers of our financial statements. While the financial statements and notes present only the financial activities for the fiscal year ended June 30, 2021, management discussion and analysis will address both this year and the year ended June 30, 2020, including any subsequent events and disclosures that should be made to understand the financial statements between the fiscal year ended June 30, 2021 and the report issuance date of March 29, 2022.

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.

ECONOMIC CONDITIONS IMPACTED BY THE COVID-19 PANDEMIC

The outbreak of the novel strain of Coronavirus (COVID-19) resulted in governments worldwide enacting measures to combat the spread of the virus, which include the implementation of travel restrictions, quarantine periods, and social distancing. These measures have caused material disruption to businesses globally, resulting in an economic slowdown, with the governments and central banks reacting with significant monetary and fiscal interventions to stabilize economic conditions. As COVID-19 cases and hospitalizations around the country continue to fall, city and state leaders race to lift COVID restrictions and prepare for full reopening in Hawaii. However, it is reported that a more infectious type of the Omicron variant has surged to account for more than a third of global COVID-19 cases recently. While health authorities are examining whether this subvariant of Omicron could extend the length of the COVID -19 wave, it remains to be seen how these new variants may disrupt the economic recovery. Future impacts of the COVID-19 pandemic cannot be quantified at this time, however, as of the reporting date, OHA has sufficient resources and liquidity to meet its financial obligations and mission spending.

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 and Proprietary Funds Financial Statements*, 3) *Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund*, and 4) *Notes to Financial Statements*. The first three components are intended to present different financial views of OHA. The fourth component is intended to further explain some of the information in the financial statements and provide more detail. These components are described below.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

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

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

Statement of Net Position

Summarized financial information of OHA's Statement of Net Position as of June 30, 2021 and 2020 is as follows:

	2021	2020
ASSETS		
Capital assets	\$ 245,907,242	\$ 246,885,678
Other assets	<u>536,210,846</u>	<u>432,682,644</u>
Total assets	<u>782,118,088</u>	<u>679,568,322</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows of resources related to pensions	5,316,091	4,991,503
Deferred outflows of resources related to OPEB	<u>1,542,238</u>	<u>2,473,361</u>
Total deferred outflows of resources	<u>6,858,329</u>	<u>7,464,864</u>
LIABILITIES		
Other liabilities	7,621,347	6,945,052
Long-term liabilities	<u>92,369,435</u>	<u>93,245,866</u>
Total liabilities	<u>99,990,782</u>	<u>100,190,918</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows of resources related to pensions	177,722	295,237
Deferred inflows of resources related to OPEB	<u>1,962,432</u>	<u>402,703</u>
Total deferred inflows of resources	<u>2,140,154</u>	<u>697,940</u>
NET POSITION		
Invested in capital assets, net of related debt	224,487,577	223,188,697
Restricted	25,666,278	25,379,277
Unrestricted	<u>436,691,626</u>	<u>337,576,354</u>
Total net position	\$ <u>686,845,481</u>	\$ <u>586,144,328</u>

The assets and deferred outflows of resources of OHA exceeded its liabilities and deferred inflows of resources as of June 30, 2021 by \$686,845,481 (presented as "Total net position"). Of this amount, \$436,691,626 is reported as "Unrestricted", while \$25,666,278 is reported as "Restricted" federal funds and \$224,487,577 is reported as "Invested in capital assets, net of related debt."

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

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

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

OHA's total net position, from June 30, 2021 of \$686,845,481 and June 30, 2020 of \$586,144,328 increased by \$100,701,153 (a 17.18% increase) in 2021.

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

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

It also includes the results of Business-Type Activities, Ho'okele Pono LLC (Ho'okele) and Hi'ilei Aloha LLC (Hi'ilei) and its wholly-owned subsidiaries, through its separate year end, December 31, 2020. 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. Based on its relationship with OHA, the LLCs are considered to be a component unit of OHA for financial reporting purposes.

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

Administration tracked the completion of the dissolution, operational winddown, funding and reporting, and non-OHA executives Managers' recruitment and seating activities. New non-OHA executives as Managers were approved by the Board in February 2021 to begin effective April 1, 2021.

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

Statement of Activities

Summarized financial information of OHA's Statement of Activities for the fiscal years ended June 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
REVENUES		
Program revenues:		
Charges for services	\$ 9,917,931	\$ 14,605,273
Operating grants	257,396	1,158,046
General revenues:		
State allotments, net of lapsed appropriations	2,474,023	3,037,879
Public land trust revenue	15,100,000	15,100,000
Unrestricted contributions	594,866	471,247
Interest and investment earnings	114,995,247	1,420,776
Non-imposed employee fringe benefits	--	660,844
Total revenues	<u>143,339,463</u>	<u>36,454,065</u>
EXPENSES		
Current divisions:		
Board of trustees	2,621,449	3,079,741
Support services	20,245,073	20,084,271
Beneficiary advocacy	14,154,555	16,862,133
Unallocated depreciation	1,141,776	1,066,249
Hi'ilei Aloha LLC	4,638,973	6,583,971
Ho'okele Pono LLC	47,542	276,394
Total expenses	<u>42,849,368</u>	<u>47,952,759</u>
NET TRANSFERS (TO) / FROM OTHER FUNDS	<u>211,058</u>	<u>758,514</u>
Change in net position	\$ <u>100,701,153</u>	\$ <u>(10,740,180)</u>

OHA's Change in net position, increased by \$111,441,333 a (1,037.61%) increase during the year. The key elements of this increase compared to the prior year is:

A significant increase in investment and interest earnings of \$113,574,471 due to a strong market despite the pandemic which led to global economic shutdown, and job losses. Approximately \$88 million was due to the market value increase of the assets in the portfolio. OHA's Native Hawaiian Trust Fund (NHTF) reported a 26 percent net gain for the year ending June 30, 2021. Additional information regarding OHA's investments can be found in Note H to the financial statements.

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

GOVERNMENTAL FUNDS FINANCIAL ANALYSIS

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

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are included on page 30 and 32 of this report.

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

The business type activities of blended component units, Ho'okele Pono LLC and Hi'ilei Aloha LLC and its wholly-owned subsidiaries, have been classified as a proprietary funds. Like the government-wide financial statements, the proprietary fund statements report long-term (noncurrent) and short-term (current) financial information. The Statement of Cash Flows for the proprietary funds presents changes in cash and cash equivalents, resulting from operating, noncapital financing, capital and related financing, and investing activities. OHA's proprietary funds are classified as business-type activities in the government-wide financial statements on pages 26 and 27.

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

At the close of FY21, OHA's governmental funds reported an ending fund balance of \$525,904,341. Fund balance was segregated into the following categories: Nonspendable, Restricted, Committed, Assigned and Unassigned.

Nonspendable fund balance totaled \$418,462, or 0.08% due to amounts related to inventory, prepaid items and security deposits.

Restricted fund balance totaled \$25,660,778 or 4.88%, and is comprised of 95.28% for the Native Hawaiian Revolving Loan Fund program and 4.72% restricted for other federal programs administered by OHA.

Committed fund balance totaled \$24,795,393 or 4.71% based on the Board of Trustees' resolution to commit these funds towards the debt service of DHHL-issued revenue bonds.

Assigned fund balance totaled \$475,509,149 or 90.42% of fund balance and is comprised of the following: 3.86% has been encumbered, 0.01% represents the non-current portion of outstanding loans and 96.13% is available for future expenditures, including Board designations.

Unassigned fund of (\$479,441), or (0.09)%.

OHA's governmental funds experienced an increase of \$104,405,885 or 24.77% in fund balance during FY21. This is an increase of \$114,995,589 in comparison to the decrease of \$10,589,704 or 27.28% in fund balance during FY20. The primary reason for the increase is the interest and investment earnings increased by \$112,679,789 from prior fiscal year.

PROPRIETARY FUNDS FINANCIAL ANALYSIS

Proprietary funds' net position totaled \$16,992,328 at the end of FY21 compared to \$19,399,539 at the end of FY20, representing a decrease of \$2,407,211 or 12.41%.

Capital assets, net of related debt, represents the largest portion of proprietary funds' net position at \$15,192,223 or 83.98% and is primarily comprised of capital assets of Hi'ilei Aloha LLC and its wholly-owned subsidiary.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

OHA's investment in capital assets, net of depreciation, amounted to \$245,907,242 and \$246,885,678, as of June 30, 2021 and 2020, respectively. Capital assets include land, building, leasehold improvements, equipment and software development.

	2021	2020
Land and construction in progress	\$ 227,456,731	\$ 227,456,731
Buildings and improvements	33,455,906	33,441,628
Furniture, fixtures, equipment, and vehicles	8,049,292	7,667,996
Accumulated depreciation	<u>(23,054,687)</u>	<u>(21,680,677)</u>
Totals	\$ <u>245,907,242</u>	\$ <u>246,885,678</u>

Office of Hawaiian Affairs, State of Hawai'i
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2021

The decrease in capital assets is due to the combined effect of depreciation expense of \$1,426,946 and net additions of \$395,574 during the year. 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 obligations. Additional information about OHA's long-term liabilities can be found in Note L and M to the financial statements.

SUBSEQUENT EVENTS

Act 29 Release of General Fund Appropriations for FY2020-2021

On May 28, 2021, Governor Ige signed into law, Act 29, Session Laws of Hawaii 2021, amending Act 37, Session Laws of Hawaii 2019. Act 37, section 8, was amended to read as follows: "Provided that the general funds appropriated for fiscal year 2020 - 2021 pursuant to part II of this Act shall not be released to the Office of Hawaiian Affairs until after the CLA - OHA & LLCs Contract and Disbursement Review - Report, dated December 4, 2019 (CLA Report) is received by the legislature." The general funds appropriated for fiscal year 2020 - 2021 were released with the provision and acceptance of the CLA Report.

Act 29, Part IV - Section 10, states that the general funds appropriated for fiscal year 2020 - 2021 shall not lapse at the end of the fiscal year for which the appropriation is made; provided that all moneys from the appropriation are encumbered as of June 30, 2022. In addition Section 11, of the Act provides for \$200,000 for fiscal year 2021 - 2022 to conduct or contract for the follow-up of the CLA Report.

Purchase of Iwilei Properties

On September 30, 2021, OHA purchased the Iwilei Properties which included, 1) 500 N. Nimitz Hwy, a retail property with three national retail chain tenants, Ross Dress for Less, Long's (CVS Pharmacy) and PetSmart; and 2) 501 Sumner Street an industrial property. The purchase price was \$47 million. Gross rents from the properties, including tenant recoveries is estimated to be \$2.5 million and net income \$1.5 million for the period October 1, 2021 to June 30, 2022.

Refinancing of Na Lama Kukui Loans

On March 15, 2022, OHA refinanced the loans on Na Lama Kukui, a large retail complex and office to the Honolulu based OHA staff. The original Term Loan termination date and payment of the outstanding loan balance was September 1, 2022. OHA paid off the original loans and negotiated a superior rate due to existing market conditions and a banking partner that made this possible. OHA now pays 60 basis points lower than the original term loan.

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, 2021

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Petty cash	\$ 700	\$ --	\$ 700
Cash:			
Held in bank	23,107,043	2,426,956	25,533,999
Held by investment managers	10,075,062	--	10,075,062
Held in State Treasury	2,431,788	--	2,431,788
Restricted cash	272,252	--	272,252
Accounts receivable, net	5,034,519	147,699	5,182,218
Interest and dividends receivable	60,722	--	60,722
Inventory, prepaid items and other assets	609,180	323,440	932,620
Notes receivable, net:			
Due within one year	883,029	--	883,029
Due after one year	5,421,664	--	5,421,664
Investments	485,416,792	--	485,416,792
Capital assets			
Non-depreciable assets	214,026,998	13,429,733	227,456,731
Depreciable assets, net	<u>16,688,021</u>	<u>1,762,490</u>	<u>18,450,511</u>
Total assets	<u>764,027,770</u>	<u>18,090,318</u>	<u>782,118,088</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows of resources related to pension	5,316,091	--	5,316,091
Deferred outflows of resources related to OPEB	<u>1,542,238</u>	<u>--</u>	<u>1,542,238</u>
Total deferred outflows of resources	<u>6,858,329</u>	<u>--</u>	<u>6,858,329</u>
LIABILITIES			
Accounts payable and accrued liabilities	6,917,692	403,655	7,321,347
Due to State of Hawaii	300,000	--	300,000
Long-term liabilities:			
Due within one year	3,182,478	502,954	3,685,432
Due after one year	19,358,433	191,381	19,549,814
Other liabilities due in more than one year:			
Net pension liability	37,039,176	--	37,039,176
Net OPEB liability	<u>32,095,013</u>	<u>--</u>	<u>32,095,013</u>
Total liabilities	<u>98,892,792</u>	<u>1,097,990</u>	<u>99,990,782</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows of resources related to pension	177,722	--	177,722
Deferred inflows of resources related to OPEB	<u>1,962,432</u>	<u>--</u>	<u>1,962,432</u>
Total deferred inflows of resources	<u>2,140,154</u>	<u>--</u>	<u>2,140,154</u>
NET POSITION			
Invested in capital assets, net of related debt	209,295,354	15,192,223	224,487,577
Restricted	25,666,278	--	25,666,278
Unrestricted	<u>434,891,521</u>	<u>1,800,105</u>	<u>436,691,626</u>
Total net position	<u>\$ 669,853,153</u>	<u>\$ 16,992,328</u>	<u>\$ 686,845,481</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
STATEMENT OF ACTIVITIES
Year Ended June 30, 2021

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	\$ 14,154,555	\$ --	\$ 257,396	\$ (13,897,159)	\$ --	\$ (13,897,159)
Board of trustees	2,621,449	--	--	(2,621,449)	--	(2,621,449)
Support services	20,245,073	7,849,685	--	(12,395,388)	--	(12,395,388)
Unallocated depreciation	1,141,776	--	--	(1,141,776)	--	(1,141,776)
Total governmental activities	<u>38,162,853</u>	<u>7,849,685</u>	<u>257,396</u>	<u>(30,055,772)</u>	<u>--</u>	<u>(30,055,772)</u>
Business-Type Activities:						
Hi'iilei Aloha LLC	4,638,973	2,068,246	--	--	(2,570,727)	(2,570,727)
Ho'okele Pono LLC	47,542	--	--	--	(47,542)	(47,542)
Total business-type activities	<u>4,686,515</u>	<u>2,068,246</u>	<u>--</u>	<u>--</u>	<u>(2,618,269)</u>	<u>(2,618,269)</u>
Total government-wide	<u>\$ 42,849,368</u>	<u>\$ 9,917,931</u>	<u>\$ 257,396</u>	<u>\$ (30,055,772)</u>	<u>\$ (2,618,269)</u>	<u>\$ (32,674,041)</u>
General Revenues:						
Interest and investment earnings				\$ 114,995,247	\$ --	\$ 114,995,247
Public land trust revenue				15,100,000	--	15,100,000
State allotments				2,474,023	--	2,474,023
Unrestricted contributions				594,866	--	594,866
Total general revenues				133,164,136	--	133,164,136
Transfers				--	211,058	211,058
Total general revenues and transfers				<u>133,164,136</u>	<u>211,058</u>	<u>133,375,194</u>
Change in net position				103,108,364	(2,407,211)	100,701,153
Net position at beginning of year				<u>566,744,789</u>	<u>19,399,539</u>	<u>586,144,328</u>
Net position at end of year				<u>\$ 669,853,153</u>	<u>\$ 16,992,328</u>	<u>\$ 686,845,481</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
GOVERNMENTAL FUNDS - BALANCE SHEET
June 30, 2021

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	<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	168,034	15,717,605	6,901,217	320,187	23,107,043
Held by investment managers	--	9,621,033	454,029	--	10,075,062
Held in State Treasury	--	2,431,788	--	--	2,431,788
Restricted cash	--	--	272,252	--	272,252
Accounts receivable, net	3,037,879	1,953,744	37,800	5,096	5,034,519
Due from other funds	--	2,374,181	--	444	2,374,625
Interest and dividends receivable	--	467	60,255	--	60,722
Inventory, prepaid items and other assets	--	412,962	5,500	--	418,462
Notes receivable:					
Due within one year	--	54,428	828,601	--	883,029
Due after one year	--	66,190	5,355,474	--	5,421,664
Investments	--	<u>473,299,955</u>	<u>12,116,837</u>	--	<u>485,416,792</u>
Total assets	\$ <u>3,205,913</u>	\$ <u>505,933,053</u>	\$ <u>26,031,965</u>	\$ <u>325,727</u>	\$ <u>535,496,658</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
GOVERNMENTAL FUNDS - BALANCE SHEET (Continued)
June 30, 2021

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	<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	\$ 639,241	\$ 5,412,663	\$ 60,620	\$ 805,168	\$ 6,917,692
Due to other funds	2,369,558	--	5,067	--	2,374,625
Due to State of Hawaii	<u>--</u>	<u>--</u>	<u>300,000</u>	<u>--</u>	<u>300,000</u>
Total liabilities	<u>3,008,799</u>	<u>5,412,663</u>	<u>365,687</u>	<u>805,168</u>	<u>9,592,317</u>
Fund balances					
Nonspendable:					
Inventory, prepaid items and other assets	--	412,962	5,500	--	418,462
Restricted for:					
Beneficiary advocacy	--	--	1,211,502	--	1,211,502
Long-term portion of notes receivable	--	--	5,355,474	--	5,355,474
Native Hawaiian loan programs	--	--	19,093,802	--	19,093,802
Committed to:					
DHHL-issued revenue bonds	--	24,795,393	--	--	24,795,393
Assigned to:					
Beneficiary advocacy	197,114	9,394,494	--	--	9,591,608
Board of trustees	--	1,157	--	--	1,157
Support services	--	8,777,522	--	--	8,777,522
Long-term portion of notes receivable	--	66,190	--	--	66,190
Public land trust	--	457,072,672	--	--	457,072,672
Unassigned	<u>--</u>	<u>--</u>	<u>--</u>	<u>(479,441)</u>	<u>(479,441)</u>
Total fund balances	<u>197,114</u>	<u>500,520,390</u>	<u>25,666,278</u>	<u>(479,441)</u>	<u>525,904,341</u>
Total liabilities and fund balances	\$ <u>3,205,913</u>	\$ <u>505,933,053</u>	\$ <u>26,031,965</u>	\$ <u>325,727</u>	\$ <u>535,496,658</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, 2021

Total fund balances - governmental funds		\$ 525,904,341
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.		230,715,019
Other assets used in governmental activities are not current financial resources and therefore are not reported in the funds.		190,718
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	(1,121,246)	
Capital lease obligations	(31,180)	
Net pension liability	(37,039,176)	
Net OPEB liability	(32,095,013)	
Deferred outflows of resources related to pension	5,316,091	
Deferred inflows of resources related to pension	(177,722)	
Deferred outflows of resources related to OPEB	1,542,238	
Deferred inflows of resources related to OPEB	(1,962,432)	
Note payable	(17,908,916)	
Lines of credit	<u>(3,479,569)</u>	<u>(86,956,925)</u>
Net position of governmental activities		\$ <u>669,853,153</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, 2021

	<u>General Fund</u>	<u>Public Land Trust</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
REVENUES					
Appropriations, net of lapses	\$ 2,474,023	\$ --	\$ --	\$ --	\$ 2,474,023
Charges for services	--	7,815,440	--	34,245	7,849,685
Donations and other	--	283,345	311,521	--	594,866
Interest and investment earnings	--	114,734,031	261,109	107	114,995,247
Intergovernmental revenue	--	--	257,396	--	257,396
Public land trust revenue	--	15,100,000	--	--	15,100,000
Total revenues	<u>2,474,023</u>	<u>137,932,816</u>	<u>830,026</u>	<u>34,352</u>	<u>141,271,217</u>
EXPENDITURES					
Beneficiary advocacy	1,407,826	11,939,296	543,045	264,388	14,154,555
Board of trustees	54,420	2,567,029	--	--	2,621,449
Support services	<u>1,697,141</u>	<u>16,112,175</u>	<u>--</u>	<u>33,820</u>	<u>17,843,136</u>
Total expenditures	<u>3,159,387</u>	<u>30,618,500</u>	<u>543,045</u>	<u>298,208</u>	<u>34,619,140</u>
OTHER FINANCING (USES) SOURCES					
Payment on debt	--	(2,246,192)	--	--	(2,246,192)
Net transfers from (to) other funds	<u>--</u>	<u>325,757</u>	<u>20</u>	<u>(325,777)</u>	<u>--</u>
Net change in fund balances	<u>(685,364)</u>	<u>105,393,881</u>	<u>287,001</u>	<u>(589,633)</u>	<u>104,405,885</u>
FUND BALANCES					
Beginning of year	<u>882,478</u>	<u>395,126,509</u>	<u>25,379,277</u>	<u>110,192</u>	<u>421,498,456</u>
End of year	\$ <u>197,114</u>	\$ <u>500,520,390</u>	\$ <u>25,666,278</u>	\$ <u>(479,441)</u>	\$ <u>525,904,341</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, 2021

Net change in fund balances - total governmental funds		\$ 104,405,885
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	399,233	
Current year depreciation, amortization and other changes	<u>(1,141,776)</u>	(742,543)
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.		2,277,316
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	(76,995)	
Decrease in compensated absences	310,998	
Increase in net pension liability	(2,539,629)	
Increase in deferred outflows of resources related to pension	324,588	
Decrease in deferred inflows of resources related to pension	117,515	
Increase in net OPEB liability	1,522,081	
Decrease in deferred outflows of resources related to net OPEB	(931,123)	
Increase in deferred inflows of resources related to net OPEB	<u>(1,559,729)</u>	<u>(2,832,294)</u>
Change in net position of governmental activities		\$ <u>103,108,364</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, 2021

	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>2,474,023</u>	\$ <u>(563,856)</u>
EXPENDITURES				
Beneficiary advocacy	1,855,514	1,855,514	1,846,580	(8,934)
Board of trustees	58,323	58,323	54,420	(3,903)
Support services	<u>1,124,042</u>	<u>1,124,042</u>	<u>1,107,799</u>	<u>(16,243)</u>
	<u>3,037,879</u>	<u>3,037,879</u>	<u>3,008,799</u>	<u>(29,080)</u>
Excess of expenses over revenues	\$ <u> --</u>	\$ <u> --</u>	\$ <u>(534,776)</u>	\$ <u>(534,776)</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, 2021

	December 31, 2020		
	<u>Hi'ilei Aloha LLC</u>	<u>Ho'okele Pono LLC</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and cash equivalents	\$ 2,426,682	\$ 274	\$ 2,426,956
Accounts receivable, net	147,699	--	147,699
Inventory, prepaid items and other assets	<u>323,440</u>	<u>--</u>	<u>323,440</u>
Total current assets	2,897,821	274	2,898,095
Capital assets - net	<u>15,192,223</u>	<u>--</u>	<u>15,192,223</u>
Total assets	\$ <u>18,090,044</u>	\$ <u>274</u>	\$ <u>18,090,318</u>
LIABILITIES AND NET POSITION			
Current liabilities			
Accounts payable and accrued liabilities	\$ 368,743	\$ 34,912	\$ 403,655
Paycheck Protection Program loan	<u>502,954</u>	<u>--</u>	<u>502,954</u>
	<u>871,697</u>	<u>34,912</u>	<u>906,609</u>
Paycheck Protection Program loan, net of current portion	<u>191,381</u>	<u>--</u>	<u>191,381</u>
Net position			
Invested in capital assets	15,192,223	--	15,192,223
Unrestricted	<u>1,834,743</u>	<u>(34,638)</u>	<u>1,800,105</u>
Total net position	<u>17,026,966</u>	<u>(34,638)</u>	<u>16,992,328</u>
Total liabilities and net position	\$ <u>18,090,044</u>	\$ <u>274</u>	\$ <u>18,090,318</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, 2021

	December 31, 2020		
	<u>Hi'ilei</u>	<u>Ho'okele</u>	<u>Total</u>
	<u>Aloha LLC</u>	<u>Pono LLC</u>	
OPERATING REVENUES			
Sales - gift store and other	\$ 733,196	\$ --	\$ 733,196
Cost of sales	<u>(1,163,563)</u>	<u>--</u>	<u>(1,163,563)</u>
Gross loss	(430,367)	--	(430,367)
Admission and tours	1,728,183	--	1,728,183
Other revenue	<u>770,430</u>	<u>--</u>	<u>770,430</u>
Total operating revenues	2,068,246	--	2,068,246
EXPENSES			
Program services	3,685,802	47,542	3,733,344
Management and general	910,861	--	910,861
Fundraising	<u>42,310</u>	<u>--</u>	<u>42,310</u>
Total operating expenses	<u>4,638,973</u>	<u>47,542</u>	<u>4,686,515</u>
Operating loss	(2,570,727)	(47,542)	(2,618,269)
NONOPERATING REVENUES AND EXPENSES			
Net transfers from other funds	<u>128,854</u>	<u>82,204</u>	<u>211,058</u>
	<u>128,854</u>	<u>82,204</u>	<u>211,058</u>
Change in net position	<u>(2,441,873)</u>	<u>34,662</u>	<u>(2,407,211)</u>
NET POSITION			
Beginning of year	<u>19,468,839</u>	<u>(69,300)</u>	<u>19,399,539</u>
End of year	\$ <u>17,026,966</u>	\$ <u>(34,638)</u>	\$ <u>16,992,328</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, 2021

	December 31, 2020		
	Hi'ilei Aloha LLC	Ho'okele Pono LLC	Total
Cash flows from operating activities			
Receipts from customers, grantors and funders	\$ 3,434,885	\$ --	\$ 3,434,885
Payments to suppliers, vendors and service providers	(2,602,507)	(12,344)	(2,614,851)
Payments to employees for salaries and benefits	(3,052,594)	(44,018)	(3,096,612)
Payments of unrelated business income taxes	<u>(130,350)</u>	<u>--</u>	<u>(130,350)</u>
Net cash used in operating activities	<u>(2,350,566)</u>	<u>(56,362)</u>	<u>(2,406,928)</u>
Cash flows from noncapital financing activities			
Proceeds from PPP loan	694,335	--	694,335
Cash grants from OHA	128,854	82,204	211,058
Advances from Hi'ilei Aloha LLC	--	45,449	45,449
Repayments of advances from Hi'ilei Aloha LLC	<u>--</u>	<u>(94,148)</u>	<u>(94,148)</u>
Net cash provided by noncapital financing activities	<u>823,189</u>	<u>33,505</u>	<u>856,694</u>
Cash flows from capital and related financing activities			
Acquisition of property and equipment	<u>(49,277)</u>	<u>--</u>	<u>(49,277)</u>
Net cash used in capital and related financing activities	<u>(49,277)</u>	<u>--</u>	<u>(49,277)</u>
Cash flows from investing activities			
Advances to Ho'okipaipai LLC	(45,449)	--	(45,449)
Repayments of advances to Ho'okipaipai LLC	<u>94,148</u>	<u>--</u>	<u>94,148</u>
Net cash provided by investing activities	<u>48,699</u>	<u>--</u>	<u>48,699</u>
Net decrease in cash and cash equivalents	(1,527,955)	(22,857)	(1,550,812)
Cash and cash equivalents - January 1, 2020	<u>3,954,637</u>	<u>23,131</u>	<u>3,977,768</u>
Cash and cash equivalents - December 31, 2020	\$ <u><u>2,426,682</u></u>	\$ <u><u>274</u></u>	\$ <u><u>2,426,956</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, 2021

	December 31, 2020		
	Hi'ilei Aloha LLC	Ho'okele Pono LLC	Total
Reconciliation of operating loss to net cash used in operating activities			
Operating loss	\$ (2,570,727)	\$ (47,542)	\$ (2,618,269)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation	285,170	--	285,170
Change in:			
Accounts receivable, net	64,087	--	64,087
Inventory, prepaid items and other assets	76,294	2,084	78,378
Accounts payable and accrued liabilities	<u>(205,390)</u>	<u>(10,904)</u>	<u>(216,294)</u>
Net cash used in operating activities	\$ <u>(2,350,566)</u>	\$ <u>(56,362)</u>	\$ <u>(2,406,928)</u>

See accompanying notes to the basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

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, 2021, 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, 2020, their year ends, have been included in OHA's basic financial statements. In May 2019, the Board of Trustees, via Resolution, authorized and approved: Amended and Restated Operating Agreements of Hi'ilei Aloha LLC and Hi'ipaka LLC; Proposed Articles of Termination and Plan of Dissolution of Ho'okele Pono LLC, Ho'okipaipai LLC and Hi'ikualono LLC; Implementation actions of Managers to complete all operating and dissolution activities in accordance with state and federal requirements and/or to effect the intents of the Resolution; and A position description for Manager of Hi'ilei Aloha and Hi'ipaka, including commencement of recruitment activities for these non-OHA manager positions.

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

- (1) ***Basis of Presentation*** - OHA's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).
- (2) ***Governmental Funds Financial Statements*** - The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, OHA considers revenues to be available if they are collected within 60 days of the end of the current year. Principal revenue sources susceptible to accrual include Federal grants, public land trust revenue, and interest and earnings 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, 2021 have been reported only in the government-wide financial statements.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

OHA reports the following funds as major:

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

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

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

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

OHA reports the following funds as major:

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

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

- (4) ***Government-wide Financial Statements*** - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

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, 2021 includes fringe benefits computed at the rate of 7.65% of accrued vacation and compensatory pay. Accrued vacation is reported as an expense when earned in the government-wide and proprietary fund financial statements, but not reported as an expenditure in the governmental funds financial statements, as current financial resources are not used.
- (10) ***Risk Management*** - OHA is exposed to various risks of loss from torts, theft of or damage to assets, errors and omissions, and employee injuries and illnesses.
- (11) ***Governmental Funds - Fund Balance*** - GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) provides guidance on the reporting of stabilization arrangements and changes the classifications and definitions to the following:

Nonspendable Fund Balance

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

Restricted Fund Balance

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Committed Fund Balance

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

Assigned Fund Balance

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

Unassigned Fund Balance

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

Stabilization Arrangements

In September 2019, the Board approved a new Fiscal Stabilization Policy, including Withdrawal Guidelines and eliminated the Fiscal Reserve Withdrawal Guidelines contained within the Native Hawaiian Trust Fund Spending Policy. The Fiscal Stabilization Fund (FSF) was established by an initial, one-time appropriation of \$1,500,000 into a separate fund account outside the Native Hawaiian Trust Fund (NHTF) upon adoption of this policy. This appropriation shall be counted toward maximum withdrawal limitation in the Board of Trustees (BOT) Spending Policy. Deposits and withdrawals into the FSF shall follow the requirements of this policy. Upon adoption of this policy, "OHA's Native Hawaiian Trust Fund Spending Policy's Fiscal Reserve Management Guidelines" shall terminate. At the discretion of the BOT, additional deposits of up to \$3,000,000 may be made in each subsequent year from funds that were budgeted from the NHTF Financial Assets Portfolio that were unspent at the end of previous years. The audited financial statements and audited processes (i.e., lapsing of prior encumbered purchase orders) for each respective year shall be used as the sole basis to determine the eligible deposits into the FSF. Annual deposits shall be counted toward the maximum withdrawal limitations in the BOT Spending Policy. The monies in the FSF may be carried over from year to year, provided that the total amount in the FSF shall not exceed \$10,000,000. Funds above and beyond the \$10,000,000 cap shall be redeposited into the NHTF. Withdrawals from the FSF shall not be included in the maximum withdrawal limitations in the BOT Spending Policy for the fiscal year in which the withdrawal is made. Temporarily idle moneys in the FSF

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NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

may be invested as directed by the BOT, and the interest earned may be either transferred permanently into the NHTF or may remain in the FSF, at the discretion of the BOT. If the interest remains in the FSF, it may serve to increase the fund balance, but in no event shall the balance of the FSF be allowed to exceed the \$10,000,000.

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

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

As of July 1, 2020, the State of Hawaii did not release the fiscal year 2021 general fund appropriation as conditioned in Act 37, Session Laws of Hawaii (SLH) 2019, Section 8, pending the completion of an audit by the State Auditor, which the State Auditor previously suspended in December 2019. In anticipation of the impact of the State Auditor's suspended work, in June 2020, the BOT approved the use of the FSF in the amount of \$3,000,000, to be drawn in quarterly increments of \$750,000, to replace the general fund appropriations for the year ended June 30, 2021.

In May 2021, Governor Ige signed into law Act 29, SLH 2021, which included fiscal year 2022 and 2023 general fund appropriations and an amendment to applicable sections of Act 37, SLH 2019. The Act 37, SLH 2019 amendment related to the release of the 2021 general fund appropriation based on the provision of the CLA - OHA & LLCs Contract and Disbursement Review Report, dated December 4, 2019, in place of the previously required State Auditor report. Act 29, SLH 2021 further extended the 2021 appropriations lapse date to June 30, 2022. Administration will bring to the BOT recommendations regarding the balances and purposes currently authorized in the FSF.

- (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.

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NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances as of June 30, 2021 consist of the following:

General Fund	\$ 197,114
Public Land Trust Fund	18,173,173
Federal Grants Fund	<u>1,211,502</u>
	<u>\$ 19,581,789</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.
- (15) **Pensions** - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) and additions to/deductions from the ERS's fiduciary net position have been determined on the same basis as they are reported by the ERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at their fair value.
- (16) **Postemployment Benefits Other Than Pensions** - For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Hawaii Employer-Union Health Benefits Trust Fund (EUTF) and additions to/deductions from EUTF's fiduciary net position have been determined on the same basis as they are reported by EUTF. For this purpose, EUTF recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for investments in commingled and money market funds, which are reported at net asset value (NAV). The NAV is based on the fair value of the underlying assets held by the respective fund less its liabilities.
- (17) **Recent Accounting Pronouncements** - 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

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June 30, 2021

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 June 15, 2021. Management has not yet determined the effect this Statement will have on OHA's financial statements.

The GASB issued Statement No. 90, *Majority Equity Interest - an amendment of GASB Statement No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, as postponed by GASB 95. This Statement was adopted during the year ended June 30, 2021. Management has determined that the adoption of this Statement did not have a material effect on OHA's financial statements.

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

The GASB issued Statement No. 92, *Omnibus 2020*. This Statement establishes accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance-related activities of public entity risk pools, fair value measurements, and derivative instruments. The provisions of this Statement are effective for reporting period beginning after June 15, 2021. Management has not yet determined the effect this Statement will have on OHA's financial statements.

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this

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NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. Management has not yet determined the effect this Statement will have on OHA's financial statements.

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

NOTE C - BIENNIAL BUDGET

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

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

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

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

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

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NOTE C - BIENNIAL BUDGET (Continued)

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

Adjustments necessary to reconcile the results of operations for the year ended June 30, 2021 from the budgetary basis to GAAP basis are as follows:

	<u>Amount</u>
Excess of expenditures over revenues - actual (budgetary basis)	\$ (534,776)
Reserve for encumbrances at June 30, 2021	197,114
Prior year reserve for encumbrances	(100,904)
Expenditures for liquidation of prior-year encumbrances	<u>(246,798)</u>
Expenditures over revenues - actual (GAAP basis)	\$ <u>(685,364)</u>

NOTE D - APPROPRIATIONS

OHA is authorized to transfer appropriation amounts and staffing positions between programs for operating purposes, provided that a report of all transfers are made to the State Legislature prior to convening of the next legislative session. Act 37, SLH 2019 authorized a total of \$3,037,879 in general fund appropriations for the year ended June 30, 2020 and there were no lapsed appropriations for the same period. Act 37 conditioned the release of the same amount of \$3,037,879 for fiscal year ended June 30, 2021 based on the submission of the State Auditor's findings and recommendations in a "financial and management audit". Pursuant to Act 29, SLH 2021, which was enacted on May 28, 2021 and amended Act 37 Section 8, the general fund appropriation of \$3,037,879 for the year ended June 30, 2021 was released. Such funds were processed and released to OHA in July 2021 and are recorded in accounts receivable, net for the general fund on the accompanying governmental funds - balance sheet.

NOTE E - CASH

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

OHA's cash included in State pooled funds is fully collateralized with securities held by third-party agents in the State's name, as required by the HRS, Section 38-8. As of June 30, 2021, OHA's cash held in the State Treasury totaled \$2,431,788. OHA holds cash in banking institutions held outside of the State Treasury to maximize investment returns in accordance with HRS Section 10-5.

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE E - CASH (Continued)

As of December 31, 2020, Hi'ilei Aloha LLC had a cash and cash equivalents balance of \$2,426,682. 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, 2020, 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, 2021, OHA's governmental funds had inventory, prepaid items and other assets totaling \$418,462. As of December 31, 2020, Hi'ilei Aloha LLC had inventory, prepaid items, and other assets of \$323,440.

NOTE G - NOTES RECEIVABLE

At June 30, 2021, notes receivable bear interest from 0% to 12.50%, mature on various dates through January 2029, and consists of the following:

	Amount
Notes receivable (of which \$3,120 is guaranteed by the Department of Hawaiian Home Lands (DHHL))	\$ 9,107
Native Hawaiian Revolving Loan Fund	7,230,726
Other	184,558
Total	7,424,391
Less allowance for doubtful accounts	(1,119,698)
Notes receivable, net	6,304,693
Amounts due within one year	(883,029)
Amounts due after one year	\$ 5,421,664

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.

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NOTES TO BASIC FINANCIAL STATEMENTS
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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, 2021 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	\$ 12,116,837	\$ 3,700,285	\$ 8,416,552
Mutual funds	NHTF	\$ 232,311,672		
Commingled funds	NHTF	89,762,924		
Alternative investments				
Private equity	NHTF	96,125,116		
Hedge funds	NHTF	49,903,783		
Private debt	NHTF	5,196,460		
Subtotal - NHTF		<u>473,299,955</u>		
Total investments		\$ <u>485,416,792</u>		

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

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

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

- (1) **Foreign Currency Risk** - To diversify the NHTF portfolio against market fluctuations, OHA's investment policy allows for investments in foreign countries. As of June 30, 2021, OHA's foreign currency risks are as follows:

Investment Type	Currency	Value (US Dollar)
Private equity funds	Euro	\$ 2,818,566

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE H - INVESTMENTS (Continued)

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

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

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

- (3) **Credit Risk** - Pursuant to 45 C.F.R. 1336.72(a), "any portion of the revolving loan fund that is not required for expenditure must be invested in obligations of the United States or in obligations guaranteed or insured by the United States." At June 30, 2021, credit rates for all securities of government agencies were rated at least Aa (Moody's) or AA (Standard & Poor's).
- (4) **Concentration of Credit Risk** - The NHRLF investment policy states that except for U.S. Treasury securities, fixed income securities will be limited to not more than 5% of the total portfolio, at the time of purchase, in any one issue. OHA is in compliance with this policy.
- (5) **Fair Value Measurements** - The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

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

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

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

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE H - INVESTMENTS (Continued)

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

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

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

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

The following table sets forth by level, within the fair value hierarchy, assets measured at fair value on a recurring basis as of June 30, 2021.

	Fund	Level 1	Level 2	Level 3	Total
Mutual funds					
U.S. equities	NHTF	\$ 90,145,463	\$ --	\$ --	\$ 90,145,463
U.S. fixed income	NHTF	65,831,994	--	--	65,831,994
Non-U.S. equities	NHTF	60,275,960	--	--	60,275,960
Emerging market equities	NHTF	13,803,451	--	--	13,803,451
Real assets	NHTF	2,254,804	--	--	2,254,804
Total mutual funds		232,311,672	--	--	232,311,672
U.S. Treasuries	NHRLF	12,116,837	--	--	12,116,837
Total investments at fair value		244,428,509	--	--	244,428,509
Investments held at NAV					
Commingled funds					89,762,924
Alternative investments					
Private equity					96,125,116
Hedge funds					49,903,783
Private debt					5,196,460
Total investments at NAV					240,988,283
Total investments					\$ 485,416,792

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, 2021.

	Fair Value	Unfunded Commitments	Redemption Frequency	Required Redemption Notice
Investments measured at NAV				
Commingled funds				
Domestic equity	\$ 18,161,864	None	Monthly/Quarterly	Various up to trade date
International equity	36,586,741	None	Monthly/Quarterly	Various up to trade date
Domestic core fixed income	35,014,319	None	Monthly/Quarterly	Various up to trade date
Alternative investments				
Marketable alternatives	49,903,783	None	Monthly/Quarterly	Various up to trade date
Illiquid alternatives	101,321,576	22,617,893	Upon realization	Not applicable
Total investments measured at NAV	\$ 240,988,283			
Invested securities lending collateral				
Money market fund	\$ 9,621,033			Same as trade date

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

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.
- **Marketable alternatives** - The marketable alternatives portfolio seeks to provide a consistently positive return source above the risk free rate that has a low volatility and low correlation to other asset classes. The portfolio is diversified by strategies which may include but are not limited to macro, relative value, opportunistic, distressed, market neutral, and quantitative strategies.
- **Illiquid alternatives** - The illiquid alternatives portfolio seeks to enhance total return through investments/partnerships which may have limited liquidity and/or utilize leverage. The types of investments may consist of leveraged buy-outs, venture capital, secondary transactions, private debt (mezzanine, convertible, secured loans), recapitalization, distressed (debt and/or equity), and acquisitions. Staff and investment consultant will conduct diligence on each fund and the CEO must approve commitments into funds. Each commitment is made as a limited partner. The funds are generally illiquid for five to ten years.
- **Money market funds** - State Street Institutional U.S. Government Money Market Fund - primary objective is to maximize current income, to the extent consistent with the preservation of capital and liquidity and the maintenance of a stable \$1.00 per share net asset value ("NAV").

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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE I - CAPITAL ASSETS

OHA's capital assets of governmental activities during the year ended June 30, 2021 are as follows:

	Balance July 1, 2020	Additions	Deductions	Balance June 30, 2021
Capital assets not depreciated:				
Land	\$ 213,961,981	\$ --	\$ --	\$ 213,961,981
Construction in progress	65,017	--	--	65,017
	<u>214,026,998</u>	<u>--</u>	<u>--</u>	<u>214,026,998</u>
Capital assets being depreciated:				
Buildings	23,708,949	--	--	23,708,949
Leasehold improvements	6,215,252	--	--	6,215,252
Furniture, fixtures and equipment	6,411,538	399,233	--	6,810,771
Total capital assets being depreciated	36,335,739	399,233	--	36,734,972
Less accumulated depreciation	(18,905,175)	(1,141,776)	--	(20,046,951)
Capital assets being depreciated, net	<u>17,430,564</u>	<u>(742,543)</u>	<u>--</u>	<u>16,688,021</u>
Governmental activities capital assets, net	\$ <u>231,457,562</u>	\$ <u>(742,543)</u>	\$ <u>--</u>	\$ <u>230,715,019</u>

Hi'ilei Aloha LLC's capital assets activities during the year ended December 31, 2020 are as follows:

	Balance January 1, 2020	Additions	Deductions	Balance December 31, 2020
Capital assets not depreciated:				
Land	\$ 13,429,733	\$ --	\$ --	\$ 13,429,733
Capital assets being depreciated:				
Buildings and improvements	3,517,427	14,278	--	3,531,705
Furniture, fixtures and equipment	967,000	34,999	(52,936)	949,063
Vehicles	289,458	--	--	289,458
Total capital assets being depreciated	4,773,885	49,277	(52,936)	4,770,226
Less accumulated depreciation	(2,775,502)	(285,170)	52,936	(3,007,736)
Total capital assets being depreciated	<u>1,998,383</u>	<u>(235,893)</u>	<u>--</u>	<u>1,762,490</u>
Capital assets, net	\$ <u>15,428,116</u>	\$ <u>(235,893)</u>	\$ <u>--</u>	\$ <u>15,192,223</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, 2021, assets recorded under capital lease included in furniture, fixtures and equipment is approximately \$247,500 and related amortization is approximately \$244,300.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

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>
2022	\$ 28,065	\$ 626
2023	<u>3,115</u>	<u>58</u>
	\$ <u>31,180</u>	\$ <u>684</u>

NOTE K - OPERATING LEASES

OHA leases office space and equipment under various noncancelable operating leases through November 2027. Future minimum payments under these operating leases as of June 30, 2021 are approximately as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 169,700
2023	199,000
2024	92,300
2025	66,800
2026	44,300
Thereafter	<u>19,800</u>
	\$ <u>591,900</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 all operating leases totaled approximately \$219,000 for the year ended June 30, 2021.

Hi'ilei Aloha LLC leases space on a month-to-month basis to support program and administrative operations, including space on Hi'ipaka's premises. Rental expense totaled \$21,298 for the year ended December 31, 2020, including \$4,800 paid to Hi'ipaka LLC.

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, 2021, rental revenue from Kaka'ako Makai and Na Lama Kukui amounted to approximately \$3,924,000 and \$3,858,000 respectively, and are recorded in the PLTF as charges for services.

Office of Hawaiian Affairs, State of Hawai'i
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June 30, 2021

NOTE K - OPERATING LEASES

As of June 30, 2021, approximate minimum future lease rentals under non-cancellable operating leases are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 4,748,100
2023	3,518,100
2024	1,910,700
2025	1,093,400
2026	964,600
2027 - 2031	3,116,400
2032 - 2036	2,696,600
2037 - 2041	1,763,400
2042 - 2043	<u>529,000</u>
	\$ <u><u>20,340,300</u></u>

Hi'ipaka LLC leases its food and beverage premises to an independent third party under a lease agreement expiring in October 2025. The agreement provides for the payment of minimum base rent, percentage rent on sales exceeding certain breakpoints, and fixed payments for utilities. The agreement allows the tenant to extend the lease for an additional five year period. Rental income earned during the year ended December 31, 2020 was \$127,880. As of December 31, 2020, future minimum base rentals under this non-cancellable operating lease are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 168,450
2022	204,000
2023	204,000
2024	204,000
2025	<u>170,000</u>
	\$ <u><u>950,450</u></u>

NOTE L - LONG-TERM LIABILITIES

On August 14, 2012, OHA entered into a \$21,370,000 long term note payable with a bank, to finance the purchase of Na Lama Kukui. The interest rate is fixed at 3.35%. The note is due in full on September 1, 2022 and is collateralized by a mortgage lien on the property, assignment of OHA's right, title and interest as landlord in and to any rents under tenant leases and rental agreements on Na Lama Kukui and security interest in all furniture, fixtures, and equipment. On July 26, 2013 the agreement was modified to increase the interest rate to 3.6% and include certain financial covenants. The outstanding balance on the note payable as of June 30, 2021 was \$17,908,916. At June 30, 2021, OHA was in compliance with those covenants. In the event of default, OHA is liable for the immediate

Office of Hawaiian Affairs, State of Hawai'i
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June 30, 2021

NOTE L - LONG-TERM LIABILITIES (Continued)

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, 2021, 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>
2022	\$ 648,626	\$ 648,970	\$ 1,297,596
2023	<u>17,260,290</u>	<u>107,421</u>	<u>17,367,711</u>
	\$ <u>17,908,916</u>	\$ <u>756,391</u>	\$ <u>18,665,307</u>

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 \$3,479,569 between the lines of credit as of June 30, 2021. 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, 2021, OHA was in compliance with those covenants. Future principal and interest payments for direct borrowings on the lines of credit are as follows:

<u>Fiscal Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 1,614,774	\$ 69,755	\$ 1,684,529
2023	1,614,423	30,669	1,645,092
2024	<u>250,372</u>	<u>2,252</u>	<u>252,624</u>
	\$ <u>3,479,569</u>	\$ <u>102,676</u>	\$ <u>3,582,245</u>

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

Changes in long-term liabilities for governmental activities during the year ended June 30, 2021 were as follows:

	<u>Balance</u> <u>July 1, 2020</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2021</u>	<u>Amount due</u> <u>within one year</u>	<u>Amount due</u> <u>after one year</u>
Compensated absences	\$ 1,432,244	\$ 535,394	\$ (846,392)	\$ 1,121,246	\$ 891,013	\$ 230,233
Capital lease obligation	82,506	--	(51,326)	31,180	28,065	3,115
Note payable	18,519,648	--	(610,732)	17,908,916	648,626	17,260,290
Lines of credit	<u>5,094,827</u>	--	<u>(1,615,258)</u>	<u>3,479,569</u>	<u>1,614,774</u>	<u>1,864,795</u>
Total	\$ <u>25,129,225</u>	\$ <u>535,394</u>	\$ <u>(3,123,708)</u>	\$ <u>22,540,911</u>	\$ <u>3,182,478</u>	\$ <u>19,358,433</u>

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE L - LONG-TERM LIABILITIES (Continued)

In April 2020, Hi'ipaka obtained a loan under the Paycheck Protection Program (PPP) in the amount of \$694,335. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels. The amount of loan forgiveness will be reduced if the borrower terminates employees or reduces salaries during specified measurement periods. The unforgiven portion of the PPP loan is payable over two years at an interest rate of 1.00%, with a deferral of payments for the first six months. In December 2020, Hi'ipaka submitted an application to have its loan completely forgiven. The loan balance presented in the proprietary funds - statement of net position is based on the scheduled repayment terms without regard to the possibility of loan forgiveness, with the current portion due in 2021 and the noncurrent portion due in 2022.

NOTE M - EMPLOYEE BENEFITS

(1) Defined Benefit Pension Plan

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

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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE M - EMPLOYEE BENEFITS (Continued)

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.

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.

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

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.

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.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE M - EMPLOYEE BENEFITS (Continued)

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.

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. Contributions to the pension plan from OHA were \$2,134,887 for the year ended June 30, 2021.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE M - EMPLOYEE BENEFITS (Continued)

Per Act 17, SLH 2017, employer contributions from the State have been increased over the four years beginning July 1, 2017. The rate for general employees increased to 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, 2021, OHA reported a liability of \$37,039,176 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, OHA's proportion was 0.35% as compared to its proportion measured as of June 30, 2019 of 0.37%. There were no changes between the measurement date, June 30, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on the proportionate share of the net pension liability.

For the year ended June 30, 2021, OHA recognized pension expense of \$4,232,413. At June 30, 2021, 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	\$ 454,075	\$ 46,408
Changes in assumptions	1,425,730	425
Net difference between projected and actual earnings on pension plan investments	1,113,283	--
Changes in proportion and differences between OHA contributions and proportionate share of contributions	188,116	130,889
OHA's contributions subsequent to the measurement date	<u>2,134,887</u>	<u>--</u>
	<u>\$ 5,316,091</u>	<u>\$ 177,722</u>

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

The \$2,134,887 reported as deferred outflows of resources related to pensions resulting from OHA's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2022.

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2022	\$ 1,211,331
2023	619,164
2024	669,819
2025	492,725
2026	<u>10,443</u>
	<u>\$ 3,003,482</u>

Actuarial Assumptions - The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions adopted by the ERS Board of Trustees on August 12, 2019, based on the 2018 Experience Study for the five year period from July 1, 2013 through June 30, 2018:

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

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

Post-retirement mortality rates are based on the 2019 Public Retirees of Hawaii mortality table with adjustments based on generational projections of the BB projection table for 2019 and full generational projections in future years. Pre-retirement mortality rates are based on multiples of Pub-2010 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 Client-Constrained Simulation-based Optimization Model (a statistical technique known as "re-sampling with a replacement" that directly keys in on specific plan-level risk factors as stipulated by the ERS Board of Trustees) in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future nominal rates of return (real returns and inflation) by the target asset allocation percentage.

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NOTE M - EMPLOYEE BENEFITS (Continued)

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%	7.90%	5.70%
Diversifying strategies	37.0%	3.70%	1.50%
	<u>100.0%</u>		

* Uses an expected inflation rate of 2.20%

Discount Rate - The discount rate used to measure the net pension liability at June 30, 2020 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.

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:

	<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 pension liability	\$ 49,649,736	\$ 37,039,176	\$ 29,579,712

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.

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June 30, 2021

NOTE M - EMPLOYEE BENEFITS (Continued)

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

Payables to the Pension Plan - At June 30, 2021, the amount payable to the ERS was \$165,624.

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

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

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

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, 2020, the following number of plan members of the State were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	37,767
Inactive plan members entitled to but not yet receiving benefits	7,576
Active plan members	<u>50,831</u>
Total plan members	<u>96,174</u>

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE M - EMPLOYEE BENEFITS (Continued)

Contributions - Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF from OHA were \$983,690 for the year ended June 30, 2021. 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, 2021, OHA reported a net OPEB liability of \$32,095,013. The net OPEB liability was measured as of July 1, 2020, 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, 2020, OHA's proportionate share of the State's net OPEB liability was 0.25%.

There were no changes between the measurement date, July 1, 2020, and the reporting date, June 30, 2021, that are expected to have a significant effect on OHA's proportionate share of the State's net OPEB liability.

For the year ended June 30, 2021, OHA recognized OPEB expense of \$1,952,462. At June 30, 2021, 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	\$ --	\$ 1,837,566
Changes in assumptions	292,344	124,866
Net difference between projected and actual earnings on OPEB plan investments	266,204	--
OHA's contributions subsequent to the measurement date	<u>983,690</u>	<u>--</u>
	\$ <u><u>1,542,238</u></u>	\$ <u><u>1,962,432</u></u>

The \$983,690 reported as deferred outflows of resources related to OPEB resulting from OHA's contribution subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ending June 30, 2022.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE M - EMPLOYEE BENEFITS (Continued)

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

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2022	\$ (281,664)
2023	(271,247)
2024	(268,585)
2025	(252,569)
2026	(327,454)
Thereafter	<u>(2,365)</u>
	\$ <u>(1,403,884)</u>

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

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

Healthcare cost trend rates:

PPO*	Initial rate of 7.50%; declining to a rate of 4.70% after 13 years
HMO*	Initial rate of 7.80%; declining to a rate of 4.70% after 13 years
Contribution	Initial rate of 5.00%; declining to a rate of 4.70% after 10 years
Dental	Initial rate of 5.00% for the first year; followed by 4.00%
Vision	Initial rate of 0.00 for the first year; 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 mortality 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.

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June 30, 2021

NOTE M - EMPLOYEE BENEFITS (Continued)

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Non-U.S. equity	16.00%	7.72%
U.S. equity	14.00%	6.23%
Private equity	10.00%	9.66%
Core real estate	10.00%	5.98%
Trend following	8.00%	2.12%
U.S. microcap	6.00%	7.85%
Private credit	6.00%	5.50%
Global options	6.00%	4.65%
Long treasuries	6.00%	0.86%
Reinsurance	5.00%	4.34%
Alternative risk premia	5.00%	1.56%
TIPS	5.00%	0.11%
Core bonds	3.00%	8.00%
	100.00%	

Single Discount Rate - The discount rate used to measure the net OPEB liability was 7.00%, based on the expected rate of return on OPEB plan investments of 7.00%. 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. In July 2020, the Governor's office issued the Tenth Proclamation related to the COVID-19 Emergency, allowing employers of the EUTF to suspend Act 268 contributions for the fiscal year ending June 30, 2021 and instead limit their contribution amounts to the OPEB benefits due. This temporary Act 268 suspension would not derail the plan's long-term funding progress. Even if Act 268 is suspended through the fiscal year ending June 30, 2025, the OPEB plan's fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Act 229, SLH 2021 suspends the contribution requirement for fiscal years 2022 and 2023. The State made its full Annual Required Contribution in the fiscal year 2021 and intends to make contributions for fiscal years 2022 and 2023. 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

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE M - EMPLOYEE BENEFITS (Continued)

recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

There were no significant changes after the report measurement date. Detailed information about the OPEB plan's fiduciary net position is available in the separately issued EUTF financial report. EUTF's complete financial statements are available at <https://eutf.hawaii.gov/reports/>.

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, 2020.

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2020	\$ 39,216,375	\$ 5,599,281	\$ 33,617,094
Changes for the fiscal year:			
Service cost	622,313	--	622,313
Interest on the total OPEB liability	1,998,401	--	1,998,401
Contributions - employer	--	2,053,803	(2,053,803)
Net investment income	--	109,657	(109,657)
Benefit payments	(919,089)	(919,089)	--
Administrative expense	--	(774)	774
Difference between expected and actual experience	(1,829,616)	--	(1,829,616)
Change in assumptions	(149,804)	--	(149,804)
Other	--	689	(689)
Net changes	<u>(277,795)</u>	<u>1,244,286</u>	<u>(1,522,081)</u>
Balance at June 30, 2021	\$ <u>38,938,580</u>	\$ <u>6,843,567</u>	\$ <u>32,095,013</u>

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
OHA's proportionate share of the net OPEB liability	\$ <u>38,511,609</u>	\$ <u>32,095,013</u>	\$ <u>27,038,760</u>

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE M - EMPLOYEE BENEFITS (Continued)

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>26,810,031</u>	\$ <u>32,095,013</u>	\$ <u>38,931,074</u>

Payables to the OPEB Plan - OHA's employer contributions payable to the EUTF as of June 30, 2021, was \$-0-.

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

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

- (4) ***Hi'ilei Aloha LLC and Ho'okele Pono LLC Retirement Plan*** - Hi'ilei Aloha LLC and Ho'okele Pono LLC offer 401(k) profit sharing plans. Employees become eligible upon six months of employment and may contribute to the plan to the extent allowed by law. Hi'ilei Aloha LLC and Ho'okele Pono LLC match employees' contributions up to a specified percentage of salary. For the year ended December 31, 2020, contribution expense amounted to \$66,792 and \$1,470 for Hi'ilei Aloha LLC and Ho'okele Pono LLC, respectively.
- (5) ***Sick Leave*** - Accumulated sick leave amounted to approximately \$2,612,000 as of June 30, 2021. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Employees who retire or leave government service in good standing with sixty or more unused sick days are entitled to additional service credit in the ERS. Accordingly, no liability for sick leave is recorded in the accompanying basic financial statements.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE N - NON-IMPOSED EMPLOYEE FRINGE BENEFITS

Payroll fringe benefit costs for employees of OHA whose payroll are funded by state appropriations (general fund) are assumed by the State and are not charged to OHA's operating funds. These costs are generally reported as revenues of OHA's general fund. However, as discussed in Notes B11 and D, the general fund appropriation for the year ended June 30, 2021 was withheld as the result of Act 37, SLH 2019. While the general fund appropriations were eventually released pursuant to Act 29, SLH 2021, in July 2021, OHA had already processed its payroll for the year ended June 30, 2021 without the general fund appropriation and as such, could not record any non-imposed fringe benefits for the payroll fringe benefit costs of OHA funded staff payroll expense covered by the state appropriations for the year ended June 30, 2021.

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, 2021, there are no outstanding claims for which OHA is liable.

- (2) ***Quiet Title Litigation*** - Under Haw. Rev. Stat. Section 669-3(e), OHA is required to be statutorily joined as a defendant in any action to quiet title to an interest in kuleana if an owner of an inheritable interest in the kuleana died intestate or partially intestate and without any heirs or other takers. OHA typically responds in these actions by answering the complaint, seeking discovery and information, reviewing the evidence to determine whether OHA has an escheat interest in the kuleana, and participating in the litigation as necessary. OHA retains outside counsel for quiet title litigation. As of June 30, 2021, OHA is currently evaluating its potential interest in several quiet title actions. OHA continues to monitor these actions for any potential escheated interest.

Office of Hawaiian Affairs, State of Hawai'i
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE O - RISK MANAGEMENT AND CONTINGENT LIABILITIES

- (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. Ceded land revenue of \$15,100,000 is included as public land trust revenue in the PLTF. As of June 30, 2021 \$1,266,007 is included in accounts receivable, net in the PLTF.

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

In December 2008, OHA and DHHL mutually agreed to a collaborative financing arrangement to provide funds for DHHL's use in the planning, design and construction of infrastructure for homesteads for native Hawaiians on properties owned and controlled by DHHL, in fulfillment of OHA's mission to better the conditions of Native Hawaiians. OHA's commitment under the agreement was to pay DHHL an annual fee not to exceed \$3,000,000 for 23 years. Payments to DHHL are presented as beneficiary advocacy expenditures in the PLTF; governmental funds - statement of revenues, expenditures, and changes in fund balances. As of June 30, 2021, OHA has approximately \$33,000,000 in future payments committed 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

<u>Measurement Period Ended</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a %age of Covered Payroll</u>	<u>Plan Fiduciary Net Position as a %age of the Total Pension Liability</u>
June 30, 2020	0.35%	\$ 37,039,176	\$ 8,362,878	442.90%	54.80%
June 30, 2019	0.37%	\$ 34,499,547	\$ 8,810,968	391.55%	54.80%
June 30, 2018	0.41%	\$ 32,698,545	\$ 9,008,205	362.99%	54.80%
June 30, 2017	0.41%	\$ 31,892,391	\$ 10,027,875	318.04%	54.80%
June 30, 2016	0.42%	\$ 32,669,717	\$ 10,033,406	325.61%	51.28%
June 30, 2015	0.43%	\$ 21,773,504	\$ 9,966,952	218.46%	62.42%
June 30, 2014	0.42%	\$ 20,332,122	\$ 9,270,781	219.31%	63.92%
June 30, 2013	0.43%	\$ 22,136,982	\$ 9,028,381	245.19%	57.96%

Note: GASB 68 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, 2021	\$ 2,134,887	\$ 2,134,887	\$ --	\$ 8,953,558	23.84%
June 30, 2020	\$ 1,846,492	\$ 1,846,492	\$ --	\$ 8,362,878	22.08%
June 30, 2019	\$ 1,663,734	\$ 1,663,734	\$ --	\$ 8,810,968	18.88%
June 30, 2018	\$ 1,694,776	\$ 1,621,477	\$ 73,299	\$ 9,008,205	18.81%
June 30, 2017	\$ 1,633,906	\$ 1,633,906	\$ --	\$ 10,027,875	16.29%
June 30, 2016	\$ 1,705,768	\$ 1,634,903	\$ 70,865	\$ 10,033,406	17.00%
June 30, 2015	\$ 1,644,547	\$ 1,644,547	\$ --	\$ 9,966,952	16.50%
June 30, 2014	\$ 1,483,325	\$ 1,483,325	\$ --	\$ 9,270,781	16.00%

* GASB 68 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, 2021

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
Last Ten Years*

	2021	2020	2019	2018
Total OPEB liability				
Service cost	\$ 622,313	\$ 638,464	\$ 631,702	\$ 510,265
Interest on the total OPEB liability	1,998,401	2,012,496	1,955,895	1,549,389
Difference between expected and actual experience of the total OPEB liability	(1,829,616)	(16,757)	(578,349)	--
Change in assumptions	(149,804)	161,749	350,035	--
Benefit payments	<u>(919,089)</u>	<u>(963,777)</u>	<u>(952,352)</u>	<u>(766,044)</u>
Net change in total OPEB liability	(277,795)	1,832,175	1,406,931	1,293,610
Total OPEB liability - Beginning	<u>39,216,375</u>	<u>37,384,200</u>	<u>35,977,269</u>	<u>34,683,659</u>
Total OPEB liability - Ending	\$ <u>38,938,580</u>	\$ <u>39,216,375</u>	\$ <u>37,384,200</u>	\$ <u>35,977,269</u>
Plan fiduciary net position				
Contributions - employer	\$ 2,053,803	\$ 2,125,953	\$ 1,881,695	\$ 1,523,372
Net investment income	109,657	193,288	216,804	152,522
Benefit payments	(919,089)	(963,777)	(952,352)	(766,044)
Administrative expense	(774)	(1,328)	(710)	(391)
Other	<u>689</u>	<u>447,738</u>	<u>--</u>	<u>12,248</u>
Net change in plan fiduciary net position	1,244,286	1,801,874	1,145,437	921,707
Plan fiduciary net position - Beginning	<u>5,599,281</u>	<u>3,797,407</u>	<u>2,651,970</u>	<u>1,730,263</u>
Plan fiduciary net position - Ending	\$ <u>6,843,567</u>	\$ <u>5,599,281</u>	\$ <u>3,797,407</u>	\$ <u>2,651,970</u>
Net OPEB liability	\$ <u>32,095,013</u>	\$ <u>33,617,094</u>	\$ <u>33,586,793</u>	\$ <u>33,325,299</u>
Plan fiduciary net position as a percentage of the total OPEB liability	17.58%	14.28%	10.16%	7.37%
Covered payroll	\$ 8,362,878	\$ 8,810,968	\$ 9,008,205	\$ 10,027,875
Net OPEB Liability as a Percentage of Covered Payroll	383.78%	381.54%	372.85%	369.94%

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

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

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, 2021	\$ 983,690	\$ 983,690	\$ --	\$ 8,953,558	10.99%
June 30, 2020	\$ 2,144,512	\$ 2,053,803	\$ 90,709	\$ 8,362,878	25.64%
June 30, 2019	\$ 2,125,952	\$ 2,048,768	\$ 77,184	\$ 8,810,968	24.13%
June 30, 2018	\$ 2,123,100	\$ 1,881,695	\$ 241,405	\$ 9,008,205	23.57%
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, 2021

NOTE A - SIGNIFICANT METHODS AND ASSUMPTIONS

The following summarizes the significant methods and assumptions used to determine the actuarially determined contribution for the year ended June 30, 2021:

Actuarial valuation date	July 1, 2018
Actuarial cost method	Entry Age Normal
Amortization method*	Level percent, closed
Remaining amortization period	24 years
Asset valuation method	Market
Actuarial assumptions	
Investment rate of return	7.00%
Payroll growth	3.50%
Healthcare inflation rates	
PPO**	10.00% initial, declining to 4.86% after 13 years
HMO**	10.00% initial, declining to 4.86% after 13 years
Part B	4.00 and 5.00% initial, declining to 4.70% after 12 years
Dental	5.00% for the first 3 years, then to 4.00% for all future years
Vision	0.00% for the first 3 years, then 2.50% for all future years

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

** Blended rates for medical and prescription drugs.