

# **Office of Hawaiian Affairs**

State of Hawai‘i

## **Independent Auditors’ Reports and Financial Statements**

*For the Year Ended June 30, 2023*





# Office of Hawaiian Affairs, State of Hawai‘i

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**Office of Hawaiian Affairs, State of Hawai‘i**  
**LETTER FROM THE CHIEF EXECUTIVE OFFICER – UNAUDITED**  
**June 30, 2023**

To the Board of Trustees of the Office of Hawaiian Affairs,

As the newly appointed Chief Executive Officer of the Office of Hawaiian Affairs (“OHA”), having assumed my role on November 1, 2023, I would like to clarify that the work detailed in this letter and the findings reflected in the accompanying audit were conducted under the guidance and execution of the previous administration. I am writing to respectfully submit the Financial Statements and Report of Independent Certified Public Accountants of the Office of Hawaiian Affairs for the fiscal year ended June 30, 2023. 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 and accurately 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 fiscal 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 auditor’s 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**

Upon statehood in 1959, Section 5(f) of the Admission Act directed the State to hold lands in trust for five purposes, one of which was “the betterment of the conditions of Native Hawaiians,” as defined in the Hawaiian Homes Commission Act of 1920. In 1978, a Constitutional Convention reviewed and revised the responsibilities of Hawai‘i’s government. Among the provisions incorporated into the new state constitution was the establishment of the OHA as a public trust with mandates to better the conditions of Native Hawaiians and the Native Hawaiian community in general. Established by the 1979 Hawai‘i State Legislature, under the provisions of Chapter 10 of the Hawai‘i Revised Statutes (Act 196), OHA was further defined as a semi-autonomous self-governing body to address the needs of the aboriginal class of people of Hawai‘i. 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 aspirational vision is *Ho‘oulu Lāhui Aloha*--to raise a beloved *Lāhui*.

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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 strong and healthy Hawaiian people and Lāhui, recognized nationally and internationally.

According to Hawai‘i Revised Statutes Chapter 10, OHA is the principal public agency in the State of Hawai‘i responsible for: the betterment of conditions of Native Hawaiians; the performance, development and coordination of programs and activities relating to Native Hawaiians; assessing the policies and practices of other agencies impacting Native Hawaiians; conducting advocacy efforts for Native Hawaiians; and serving as a receptacle for reparations.

OHA carries out its mission through the strategic allocation of its resources. Consistent with best practices among foundations and endowments, and with the purpose of ensuring the continued viability of its Native Hawaiian Trust Fund (NHTF), OHA’s Board of Trustees (“BOT” or “Board”) adopted its first Spending Policy in 2003 and last amended it in 2021. The Spending Policy limits OHA’s annual spending up to 5% of the rolling 20 quarter average of the NHTF to ensure sufficient resources are available each year and in perpetuity by not diminishing the corpus.

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.

## **PUBLIC LAND TRUST**

Since 2006, the interim annual share of the income and proceeds from the public land trust was set by the Hawai‘i State Legislature at \$15,100,000. In June 2022, Governor Ige signed into law Act 226 which enacted the following three key elements from SB2021 SD1 HD2 CD1: 1) Established \$21,500,000 as the OHA’s interim annual share of the income and proceeds of the public land trust beginning in fiscal year 2022-2023; 2) Appropriated \$64,000,000; and 3) Established a working group to determine the pro rata share of income and proceeds from the public land trust annually to the OHA.

## **LIMITED LIABILITY COMPANIES**

Hi‘ipaka LLC (“Hi‘ipaka”) was established on December 6, 2007, and began operations in February 2008. Hi‘ipaka’s purpose is to preserve and perpetuate the human, cultural and natural resources of Waimea Valley, O‘ahu for future generations through education and stewardship. Hi‘ipaka is a limited liability company with Hi‘ilei Aloha LLC (“Hi‘ilei”) as its sole member. Hi‘ilei is a limited liability company with OHA as its sole member. Hi‘ipaka’s governing body previously consisted of three “Managers” who were senior management officials of OHA. In 2019, OHA approved amending the Hi‘ipaka’s Operating Agreement to state that the Managers shall not be OHA employees. Non-OHA employee Managers replaced the existing Managers in 2021. Since the Company is a limited liability company, no member, manager, agent, or employee of Hi‘ipaka shall be personally liable for debts, obligations, or liabilities of Hi‘ipaka whether arising

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in contract, tort, or otherwise for the acts or omissions of any other member, director, manager, agent, or employee of the Company, unless the individual has signed a specific personal guarantee. The duration of the Company is perpetual. Revenues are generated primarily from sales of admission to Waimea Valley and the activities and events (hikes, education programs, tours, gift shop sales, facility use charges, etc.) held there, as well as grants and donations. The Company is a component unit of Hi‘ilei which in turn is a component unit of OHA for financial reporting purposes.

The COVID-19 pandemic disrupted the Company’s operations in 2020. Operations returned to a more normal level in 2021.

**ORGANIZATIONAL STRUCTURE – FINANCIAL REPORTING**

On June 30, 2021, the Board of Trustees 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 Mana i Maui Ola (MIMO) -- Strength to Wellbeing 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; outcomes; directions; strategies; tactics; functions; functional classifications and roles; knowledge, aspirations, skills, attitudes and behaviors; and reorganization design principles, elements and considerations.

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 and compensation impacts, separation costs).

The Board further directed Administration to complete the reorganization by December 30, 2021—this meant a transition from 179 (pre-reorganization) authorized positions to 153 (post reorganization), noting the reorganization did not impact the 29 positions supporting the Board (9 Trustees plus 20 staff positions). Though the organization was still operating remotely due to COVID-19 (since March 2020), with offices closed statewide and in Washington, D.C., Administration initiated the recruitment for open positions in the reorganized structure in August 2021, simultaneously while completing the separation and reorganization activities by December 2021. Recruitment to fill vacant positions and working remotely, continued into the new year. January 2022 to April 2022 OHA’s offices reopened for business when the State of Hawai‘i emergency proclamation ended and the agency instituted COVID-19 protocols and practices (e.g., vaccination policy, daily wellness check-ins, mask usage). Like many government departments and agencies, and businesses who were able to re-open, the inability to fill vacant positions, plagued hiring organizations, including the OHA. As of the March 2024 report date,

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OHA’s vacancy rate is approximately 26% and essential work functions is being effected via exisiting employee overtime and contracted labor.

The information below (e.g., names of operating units) therefore refers to the organizational structure post reorganization and as of June 30, 2023.

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

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

<b>Division Title</b>	<b>Division Objectives</b>
1. Board of Trustees <i>Board of Trustees, Board of Trustees Staff</i>	To work for the betterment of all Hawaiians by setting strategy and policy in response to the concerns, needs and interest of the beneficiaries, in order to ensure strategic outcomes, including the wellbeing of Native Hawaiians; to protect their rights and entitlements in their homeland; to assist them to achieve self-determination and self-governance; and to nurture and honor their culture.
2. Support Services <i>Chief Executive Officer, Communications, Beneficiary Services, Chief Operating Officer, Legacy Lands, Palauea Cultural Preserve, Wao Kele o Puna, Ho`omana, Kekaha Armory, Kukaniloko, Pahua Heiau, Waialua Courthouse, Commercial Properties, Research, Strategy Management, Information Technology, Operations, Chief Financial Officer, Finance, Budget, Financial Assets, Procurement, Financial Services, Corporate Counsel, Human Resources</i>	To work for the betterment of all Hawaiians and 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.



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<b>Division Title</b>	<b>Division Objectives</b>
3. Beneficiary advocacy <i>Grants, Halawa-Luluku Interpretive Development, Native Hawaiian Revolving Loan Fund, Advocacy, Public Policy, Community Engagement, Compliance &amp; Enforcement, WDC Bureau, Papahānaumokuākea, Consumer Micro Loan Program</i>	To work for the betterment of all Hawaiians and 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 an Affairs as of June 30, 2023, and for the year then ended. The auditor’s 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**

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 2023) and the report date (March 2024).

***Sources of Funding***

The sources of funding for OHA include State of Hawai‘i general fund appropriations, income and proceeds from ceded lands, public land trust, federal grants, and miscellaneous other income. Income and proceeds from the annual, interim public land trust is designated for beneficiary and community investments; and operational funding is derived from commercial properties as well as withdrawals made from the Native Hawaiian Trust Fund (“NHTF”). The goal of the NHTF is to provide targeted investment returns to sustain and uphold the mission of OHA in perpetuity. In this regard, the Board of Trustees established investment and spending policies. 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 are closely tied to the local economy, as is the operations of commercial properties as a resource; while the performance of and resources from the financial assets in the NHTF, are closely tied to the national economy.

***State of the Local Economy***

Hawai‘i 's economy has demonstrated remarkable resilience despite facing numerous challenges, including a weakening U.S. and global economic environment, elevated interest rates, and a sluggish recovery of the Japanese visitor market. Despite these obstacles, the state's economy has remained steadfast. However, as the broader macroeconomic recovery from the pandemic nears its conclusion, the anticipated slowdown in the U.S. economy is expected to hinder Hawai‘i 's growth in 2024. Nevertheless, there is optimism for stronger momentum in 2025, contingent upon the avoidance of a recession in the U.S.

One pivotal factor influencing Hawai‘i 's economic trajectory is the recovery of Maui from devastating wildfires. Fortunately, initial repercussions have been somewhat less severe than anticipated. Nonetheless, uncertainties persist regarding the future progress of rebuilding efforts. It is improbable that full restoration of Maui's infrastructure will be realized until late in the decade, which will continue to impact the island's visitor industry and housing sector, exerting strain on both County and State finances. Displaced residents will necessitate ongoing financial and moral support from the community for years to come. The Economic Research Organization at the University of Hawai‘i (“UHERO”) anticipates that future growth will increasingly depend on

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local resources, particularly in the construction sector. This sector is expected to receive a significant boost from Maui's rebuilding endeavors, further driving the state's economic recovery.

***State of the National Economy***

Additionally, the upcoming U.S. presidential election, over 50 national elections worldwide, and ongoing global conflicts in Ukraine, Israel, and Taiwan introduce significant uncertainty to the U.S. and global economies. The outcomes of these elections can potentially reshape domestic policies, international relations, trade dynamics, and diplomatic engagements. Global peace has experienced a notable deterioration over the past decade, marked by conflicts erupting across multiple regions in the previous year. The prospect of contentious elections or ambiguity surrounding power transitions could exacerbate market volatility, potentially undermining consumer and investor confidence.

***OHA's Financial Asset Investments***

The Native Hawaiian Trust Fund increased 6.9 percent in net returns for the fiscal year ending June 30, 2023. Total assets increased by \$96,700,000, from \$423,100,000 to \$519,800,000, driven by investment returns and the \$64,000,000 appropriated from Act 226, Session Laws of Hawaii 2022, SB2021 SD1 HD2 CD1.

Throughout fiscal year 2023, investors remained resilient despite concerns surrounding escalating interest rates and heightened inflation. Notably, advancements in generative artificial intelligence bolstered equity returns significantly. The MSCI All Country World Index (“ACWI”) demonstrated this trend with a remarkable return of 17.1 percent. Domestically, the U.S. experienced unemployment rates below 4 percent, a slowdown in consumer inflation from 9.1 percent to 3 percent, a 2.6 percent growth in real U.S. GDP, and a substantial 19.6 percent gain in the S&P 500. Conversely, Chinese equity markets faced challenges, with the MSCI China Index declining by 16.7 percent due to geopolitical factors and domestic policy issues. Amidst strong equity markets and rising interest rates, U.S. Treasury bond markets posted negative returns, with the blended Bloomberg U.S. Treasury Bond Index losing 1.7 percent for the year.

This market landscape posed difficulties for diversified institutional portfolios with substantial allocations to private investments. Over the twelve months ending June 30, 2023, the NHTF recorded a 6.9 percent gain, underperforming its policy portfolio benchmark's 11.8 percent return. Notably, the public equity portfolio outperformed global equity markets, yielding a return of 17.1 percent compared to MSCI ACWI's 16.5 percent. However, the private equity portfolio lagged significantly, declining by 9.5 percent, primarily due to valuation adjustments and industry exposures. Nonetheless, the impact of valuation timing is expected to dissipate over multi-year periods, emphasizing the importance of focusing on the long-term performance data.

Despite these challenges, NHTF remains significantly underweight in private equity, representing an attractive market opportunity to realign the private program investments toward its long-term strategic targets. For a perpetual trust, the success of the investment program is measured over decades, focusing on preserving purchasing power after spending, inflation, fees, and expenses.

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Over the past decade, the NHTF has achieved an annualized return of 7.1 percent, in line with its policy portfolio benchmark, but falling short of its long-term return objective to surpass the Consumer Price Index (“CPI”) by 5 percent.

**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 guide OHA’s work to better the conditions of Native Hawaiians. Strategies regarding OHA’s endowment, consisting of financial, commercial and legacy land assets, are designed to enable the organization to exist in perpetuity. Since 2020, and for the next 15 years, OHA’s strategies, are aligned with our foundations and directions to achieve our envisioned outcomes for a thriving and abundant Lāhui.

Administration is responsible for the implementation and operationalization of *Mana I Maui Ola*.

**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*.

Strategic 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.

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

Strategic Outcomes:

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

**Strategic Direction: Health Outcomes**

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

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

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

Strategic 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. Empower communities to take care of iwi kupuna.

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

Strategic 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.

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

Strategic 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 wellbeing needs; and
- 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.

Strategic 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;

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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.

Strategic Outcomes:

7.1. Increased number / percent of Native Hawaiian ‘ohana who are able to provide high quality keiki and kupuna care;

7.2. Increase access to capital and credit for community strengthening Native Hawaiian businesses and individuals;

7.3. Increase number of Native Hawaiian ‘ohana who are resource stable (financial, subsistence, other); and

7.4. Increased Native Hawaiian employment rate.

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

Strategic 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.

**Endowment Strategy**

Outcome: Increased value of, investments in and value from financial, commercial and land resources.

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Strategy 9: Steward financial and commercial resources to enable strategic outcomes.

Strategic Outcomes:

- 9.1. Increased value of the Native Hawaiian Trust Fund (“NHTF”);
- 9.2. Increased value of the commercial resources;
- 9.3. Increased direct investments in Hawai‘i;
- 9.4. Increased value derived from the NHTF and commercial resources; and
- 9.5. Increased strategic granting.

Strategy 10: Steward land resources to fulfill fiduciary responsibilities and enable strategic outcomes.

Strategic Outcomes:

- 10.1. Protected traditional and customary rights;
- 10.2. Deepened sense to *auamo kuleana* for land resources;
- 10.3. Strengthen and elevated cultural resource management practices;
- 10.4. Broaden cadre of cultural resource managers; and
- 10.5. Increased stewarded direct land investments.

## **SUBSEQUENT EVENTS**

### **Grants and Sponsorships Awarded Post June 30, 2023**

OHA awarded \$10,413,269 and \$141,000 in grants and sponsorships, respectively, as of June 30, 2023. Since June 30, 2023, an additional \$9,815,000 was awarded in grants and \$1,610,000 in sponsorships.

Included in the additional grants is an approved \$5,000,000 aid in disaster recovery to support Native Hawaiian families impacted by the 2023 Maui wildfires. The \$5,000,000 commitment of funds is one of many actions OHA has taken to provide support to Maui wildfire victims. Other initiatives OHA has undertaken to help are: 1) In partnership with Lieutenant Governor Sylvia Luke and the Council for Native Hawaiian Advancement, OHA opened the Maui Relief Storage Facility on Oahu on August 19 for relief supplies and deployment to Maui. Located in Hakuone at Kaka‘ako Makai, the 30,000 square-foot warehouse was provided with rent and utilities waived; 2) OHA offered deferral of their Mālama Loan payments for up to 12 months for borrowers



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affected by the Maui wildfires; 3) In partnership with Global Empowerment Mission (“GEM”), OHA provided office space and GEM issued Airbnb housing vouchers and gift cards to 420 families left houseless by the fires; and 4) More than \$100,000 was raised in partnership with numerous Maui recording artists and hula hālau at the Wiwo‘ole Maui Benefit Concert held on August 19. OHA was one of the presenting sponsors for the concert that was livestreamed around the world. OHA also assisted in securing the venue and promoted the event.

Included in the additional approved sponsorships is a \$1,500,000 sponsorship to the 13th Festival of Pacific Arts and Culture, commonly known as FestPAC. OHA will be noted as a major sponsor of the world’s largest celebration of Indigenous Pacific Islanders when Hawai‘i hosts FestPAC, this summer. With delegations from 28 Pacific Island nations including Australia, Samoa, Fiji, Aotearoa (New Zealand), Palau, Tonga, American Samoa and the Federated States of Micronesia, and a theme of “Ho‘oulu Lāhui: Regenerating Oceania,” FestPAC Hawai‘i 2024 will run at sites across O‘ahu from June 6-16, 2024.

Finally, eleven solicitations totaling \$8,530,000 have been released, intended to aid the Native Hawaiian community. OHA’s grants program supports Hawai‘i based nonprofit organizations that have projects, programs and initiatives that serve the lāhui in alignment with the agency’s Mana i Mauili Ola strategic plan.

### **Federal Grant Awarded**

OHA won a \$2,240,000 grant award from the Department of Defense readiness and Environmental Protection Integration (“REPI”) Challenge in partnership with the Army Garrison-Hawai‘i. The REPI Challenge is a competition that funds conservation partners near military installations and supports large-scale innovation, conservation, and climate resilience actions. OHA’s I Ulu Mai Ka Ulu La‘au project will work with community partners on reforestation, agroforestry, and native seed orchard projects on its Wahiawā lands near Schofield Barracks.

The five-year grant pursued by OHA’s staff represents the organization’s first multi-million dollar award dedicated to land management. \$2,240,000 will fund the first-year grant activities, including the purchase of equipment and materials, planning, designating project sites, site preparation, and providing resources to each community partner to support their successful project implementation. Additional funding representing a total of \$8,000,000 is anticipated over the five-year grant.

### **Organization Restructuring**

Since beginning my tenure as CEO of the Office of Hawaiian Affairs on November 1, 2023, I have diligently focused on working alongside the executive leadership team to tackle critical strategic and operational priorities. My efforts have been directed at addressing significant human resource, strategic, and operational deficiencies within the agency's administrative framework. To date, my tenure has seen notable advancements in key areas such as Governance and Compliance, Strategic Development, Organizational Effectiveness, and Efficiency Enhancements. Additionally, we have made significant strides in Human Resources, Compliance, and Staff Development, as well as in Legislative Engagement and Advocacy, Organizational Transparency, and Accountability.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**LETTER FROM THE CHIEF EXECUTIVE OFFICER – UNAUDITED (CONTINUED)**  
**June 30, 2023**

**CLOSING COMMENTS**

The fiscal year ending June 30, 2023, including the time to the issuance of the report (March 2024) continued to be operationally challenging for OHA to: support the implementation of the Board’s governance and policy frameworks; grow commercial property activities; recruit and fill position vacancies; transition from the pandemic protocols to COVID-19 endemic practices; expediently expanded beneficiary and community investments through grants; improve financial reporting systems; and effectively address organization and employee fatigue.

I would like to mahalo the OHA Board of Trustees, the Governor and the Administration of the State of Hawai‘i and members of the Hawai‘i State Legislature, for their continuing support of the OHA. I would also like to mahalo the employees of the OHA, who have navigated through the agency’s reorganization and rebounding from COVID-19, with a continuing commitment to serve our beneficiaries and Lāhui. Lastly, I mahalo our beneficiaries and Lāhui for their faith, patience and grace as the OHA continues our efforts to better the conditions of Native Hawaiians and *Ho‘oulu Lāhui Aloha*--to raise a beloved *Lāhui*.

Respectfully submitted,

Stacy Ferreira.  
Ka Pouhana, Chief Executive Officer  
Office of Hawaiian Affairs



## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees and management  
of the Office of Hawaiian Affairs  
Honolulu, Hawai'i

### Report on the Audit of the Financial Statements

#### *Opinions*

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 ("State"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise OHA's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Hi'ilei Aloha LLC (Hi'ilei), which represent 100 percent, 100 percent, and 100 percent, respectively, of the assets, net position, and revenues of business-type activities as of December 31, 2022. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for Hi'ilei are based solely on the report of the other auditor.

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("*Government Auditing Standards*"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of OHA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about OHA's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditors' Responsibility for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit 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 OHA's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about OHA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of OHA's Proportionate Share of the Net Pension Liability, Schedules of Contributions (Pension), Schedules of Changes in Net Other Postemployment Benefits (OPEB) Liability and Related Ratios, Schedules of the Contributions – OPEB be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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***

Management is responsible for the other information included in the annual report. The other information comprises the Letter from the Chief Executive Officer but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2024, 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.

A handwritten signature in black ink that reads "The PwC Group, LLP". The signature is written in a cursive, flowing style.

Santa Ana, California  
March 29, 2024

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**Office of Hawaiian Affairs, State of Hawai‘i**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS - UNAUDITED**  
June 30, 2023

As management of Office of Hawaiian Affairs, State of Hawai‘i (“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, 2023, management discussion and analysis will address both this year and the year ended June 30, 2022, including any subsequent events and disclosures that should be made to understand the financial statements between the fiscal year ended June 30, 2023 and the report issuance date of March 29, 2024.

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

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

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

**Office of Hawaiian Affairs, State of Hawai‘i**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED (CONTINUED)**  
June 30, 2023

**Statement of Net Position**

Summarized financial information of OHA’s Statement of Net Position as of June 30, 2023 and 2022 is as follows:

	<b>2023</b>	<b>2022</b>
<b>ASSETS</b>		
Capital assets	\$ 293,650,315	\$ 294,398,403
Other assets	609,668,872	579,273,011
Total assets	903,319,187	873,671,414
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflows of resources related to pensions	3,423,179	3,541,247
Deferred outflows of resources related to OPEB	1,630,107	1,119,953
Total deferred outflows of resources	5,053,286	4,661,200
<b>LIABILITIES</b>		
Other liabilities	5,277,989	6,691,062
Long-term liabilities	123,107,065	124,342,030
Total liabilities	128,385,054	131,033,092
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows of resources related to pensions	1,897,202	3,832,825
Deferred inflows of resources related to OPEB	3,518,311	2,086,977
Deferred inflows of resources related to leases	28,206,356	29,036,305
Total deferred inflows of resources	33,621,869	34,956,107
<b>NET POSITION</b>		
Net investment in capital assets	233,415,669	234,353,441
Restricted	24,339,083	24,589,699
Unrestricted	488,610,798	453,400,275
Total net position	\$ 746,365,550	\$ 712,343,415

The assets and deferred outflows of resources of OHA exceeded its liabilities and deferred inflows of resources as of June 30, 2023 by \$746,365,550 (presented as Total net position). Of this amount, \$488,610,798 is reported as Unrestricted, while \$24,339,083 is reported as Restricted federal funds and \$233,415,669 is reported as Net Investment in Capital Assets.



**Office of Hawaiian Affairs, State of Hawai‘i**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED (CONTINUED)**  
June 30, 2023

The assets of OHA exceeded its liabilities as of June 30, 2022 by \$712,343,415 (presented as Total net position). Of this amount, \$453,400,275 is reported as Unrestricted, while \$24,589,699 is reported as Restricted federal funds and \$234,353,441 is reported as Net Investment in Capital Assets.

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, 2023 of \$746,365,550 and June 30, 2022 of \$712,343,415 increased by \$34,022,135 (a 4.78% increase) in FY2023.

**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, i.e., federal grants and lease rents, Public Land Trust income and proceeds from state agencies, revenues from financial investments held in the Native Hawaiian Trust Fund, i.e., investment income and net gains/losses, General Fund Appropriations from the State of Hawaii and other revenues, i.e., newspaper advertisements, donations, and other miscellaneous receipts.

It also includes the results of Business-Type Activities, Hi‘ilei Aloha LLC and its wholly-owned subsidiary Hi‘ipaka LLC, through its separate year end, December 31, 2022. Hi‘ilei Aloha LLC has been included as a blended component unit due to the fact that OHA is the sole corporate member of the entity and is considered to be a component unit of OHA for financial reporting purposes.

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**Office of Hawaiian Affairs, State of Hawai‘i**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED (CONTINUED)**  
June 30, 2023

**Statement of Activities**

Summarized financial information of OHA’s Statement of Activities for the fiscal years ended June 30, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 20,643,206	\$ 18,405,116
Operating grants	421,680	149,886
General revenues:		
State allotments	2,254,400	2,254,400
Public land trust revenue	21,500,000	79,100,000
Unrestricted contributions	498,336	900,240
Interest and investment earnings	38,305,711	(34,427,233)
Total revenues	<u>83,623,333</u>	<u>66,382,409</u>
<b>EXPENSES</b>		
Current divisions:		
Board of trustees	2,744,430	2,763,835
Support services	21,537,794	18,478,022
Beneficiary advocacy	17,801,034	13,063,124
Unallocated depreciation and amortization	1,729,236	1,418,176
Hi‘ilei Aloha LLC	5,788,704	5,345,556
Ho‘okele Pono LLC	-	21,212
Total expenses	<u>49,601,198</u>	<u>41,089,925</u>
<b>NET TRANSFERS (TO) / FROM OTHER FUNDS</b>	-	205,450
Change in net position	<u>\$ 34,022,135</u>	<u>\$ 25,497,934</u>

OHA’s Change in net position, increased by \$8,524,201 (a 33.4% increase) during the year. The key elements of this increase compared to the prior year are:

The \$64,000,000 appropriation from the State of Hawaii, Act 226, was received in FY23 and fully invested in the Native Hawaiian Trust fund in FY23. The continued recovery of the stock market contributed to the increase in unrealized gains on investment of \$82,800,000 in FY23, offset by a decrease in dividend and realized gains of \$10,800,000.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED (CONTINUED)**  
June 30, 2023

Furthermore, Public Land Trust income from the State increased from \$15,100,000 in FY22 to \$21,500,000 in FY23, an increase of \$6,400,000. Additional information regarding OHA’s investments can be found in Note 9 to the financial statements.

This increase in investment was offset by the ramp up of grant processing, increasing payment to grantees by \$5,500,000 in FY23.

### **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 the funds of OHA are considered “*governmental funds*” as opposed to proprietary (operate more like those of commercial enterprises) and fiduciary funds (used to account for resources held for the benefit of parties outside OHA).

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are included on pages 24 and 26 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 Federal Funds.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED (CONTINUED)**  
June 30, 2023

The business type activities of the blended component unit, Hi‘ilei Aloha LLC and its wholly-owned subsidiary, has 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 29 through 31.

At the close of FY23, OHA’s governmental funds reported an ending fund balance of \$568,117,527. Fund balance was segregated into the following categories: Nonspendable, Restricted, Committed, Assigned and Unassigned.

Nonspendable fund balance totaled \$882,853, or 0.16% due to amounts related to inventory, prepaid items and security deposits.

Restricted fund balance totaled \$24,339,083 or 4.28%, and is comprised of 99.43% for the Native Hawaiian Revolving Loan Fund program and 0.57% restricted for other federal programs administered by OHA.

Committed fund balance totaled \$21,233,555 or 3.74% based on the Board of Trustees’ resolution to commit these funds towards the debt service of DHHL-issued revenue bonds.

Assigned fund balance totaled \$521,761,577 or 91.84% of fund balance and is comprised of the following: 3.92% has been encumbered, 0.01% represents the non-current portion of outstanding loans and 96.07% is available for future expenditures, including Board designations.

Unassigned fund of (\$99,541), or (0.02)%.

OHA’s governmental funds experienced an increase of \$30,806,704 or 5.73% in fund balance during FY23. This is an increase of \$19,400,222 in comparison to the 11,406,482 or 2.17% increase in fund balance during FY22. This difference is mainly due to the increase in interest and investment earnings of \$38,305,711 between FY23 and FY22, the increase in Public Land Trust revenue of \$6,400,000 between FY23 and FY22, offset by the increase in beneficiary advocacy expenditures .

## **PROPRIETARY FUNDS FINANCIAL ANALYSIS**

Proprietary funds’ net position totaled \$25,336,434 at the end of FY22 compared to \$21,316,019 at the end of FY22, representing an increase of \$4,020,415 or 18.86%.

Invested in capital assets, net of related debt represents the largest portion of proprietary funds’ net position at \$15,539,934 or 61.33% and is primarily comprised of capital assets of Hi‘ilei Aloha LLC and its wholly-owned subsidiary.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED (CONTINUED)**  
June 30, 2023

## **SUBSEQUENT EVENTS**

### **Stacy Kealohalani Ferreira, new Ka Pouhana/Chief Executive Officer**

The Office of Hawaiian Affairs trustees selected Stacy Kealohalani Ferreira as the organization’s new Ka Pouhana/Chief Executive Officer on November 1, 2023.

Since 2019, Stacy has served as budget chief of the Hawai‘i State Senate, where she helped to shape and formulate state budgets. She is a former executive strategy consultant and division director of Extension Educational Services for Kamehameha Schools, where she also served as the trust coordinator for the Charles Reed Bishop Trust.

Stacy carries a master’s in education and a bachelor’s in communications from the University of Hawai‘i at Mānoa. She is kama‘āina with familial ties to Hawai‘i Island, Moloka‘i, and O‘ahu. Many of her Ōpūnui ‘ohana are from Lahaina, Maui.

Among her priorities are developing strategic partnerships and collaborations to achieve the goals of OHA’s Mana i Maui Ola Strategic Plan, strengthening the organization’s current community programs and services, and working to increase the agency’s trust assets and portfolio performance.

*“I am honored and invigorated to lead our charge toward a brighter future for the lāhui. With an unyielding commitment, we’re embarking on a transformative journey to uplift and amplify the strength and resilience of our Native Hawaiian communities.”*

With more than 20 years of experience working in Hawai‘i, Ferreira has amassed an extensive professional network and important connections within the Native Hawaiian community.

*“The Office of Hawaiian Affairs stands at the forefront of change. With unwavering determination and precision, we will be resolute in our mission to ensure the conditions necessary for the prosperity and wellness of all Hawaiians and our beloved pae ‘āina.”*

### **Grants and Sponsorships Awarded Post June 30, 2023**

OHA awarded \$10,413,269 and \$141,000 in grants and sponsorships, respectively, as of June 30, 2023. Since June 30, 2023, an additional \$9,815,000 was awarded in grants and \$1,610,000 in sponsorships.

### **Native Hawaiian Trust Investments**

The Native Hawaiian Trust Fund (“NHTF”) increased by 6.9 percent net for the fiscal year ending June 30, 2023. Total assets increased by \$96,700,000, from \$423,100,000 to \$519,800,000, driven by investment returns and the \$64,000,000 appropriated from Act 226, Session Laws of Hawaii, 2022 SB2021 SD1 HD2 CD1 With the recent market gains and \$64,000,000 appropriation integrated into the 20-quarter market value moving average spending calculation, a positive trajectory is anticipated for future spending on OHA’s programs and beneficiary services. This increase in spending reflects the ongoing growth and stability of NHTF, enhancing the support and resources available for the Native Hawaiian community.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS – UNAUDITED (CONTINUED)**  
June 30, 2023

As for OHA’s commercial properties in Hawaii, the national commercial property market values have been impacted by the increase in interest rates over the last few years, which has heightened refinancing risks for many owners. However, OHA took proactive measures to secure advantageous long-term fixed-rate financing before the rate hikes. This has benefited two of our commercial properties in the long term. With low-fixed rates locked in, a stable tenant base, and built-in provisions for inflation rent escalation, OHA's commercial properties can sustain stable cash flows that positively contribute to program spending and the growth of the NHTF.

**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

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# **BASIC FINANCIAL STATEMENTS**

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# **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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**Office of Hawaiian Affairs, State of Hawai‘i**  
**Statement of Net Position**  
**June 30, 2023**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current assets:</b>			
Petty cash	\$ 500	\$ -	\$ 500
Cash held in bank	21,622,759	7,384,253	29,007,012
Cash held by investment managers	311,909	-	311,909
Restricted cash	271,756	-	271,756
Accounts receivable, net	6,561,824	320,882	6,882,706
Interest and dividends receivable	52,324	-	52,324
Inventory, prepaid items and other assets	882,853	251,888	1,134,741
Lease receivables - due within one year	4,298,948	183,374	4,482,322
Notes receivable, net - due within one year	1,126,144	-	1,126,144
<b>Total current assets</b>	<b>35,129,017</b>	<b>8,140,397</b>	<b>43,269,414</b>
<b>Noncurrent assets:</b>			
Lease receivables - due after one year	24,355,318	358,344	24,713,662
Notes receivable, net - due after one year	6,744,606	-	6,744,606
Investments	532,538,322	2,402,868	534,941,190
Capital assets:			
Nondepreciable	253,380,817	13,429,733	266,810,550
Depreciable, net	24,254,031	2,110,201	26,364,232
Right to use lease assets, net	475,533	-	475,533
Total capital assets	278,110,381	15,539,934	293,650,315
<b>Total noncurrent assets</b>	<b>841,748,627</b>	<b>18,301,146</b>	<b>860,049,773</b>
<b>Total assets</b>	<b>876,877,644</b>	<b>26,441,543</b>	<b>903,319,187</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows of resources related to pensions	3,423,179	-	3,423,179
Deferred outflows of resources related to OPEB	1,630,107	-	1,630,107
<b>Total deferred outflows of resources</b>	<b>5,053,286</b>	<b>-</b>	<b>5,053,286</b>

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Statement of Net Position (Continued)**  
**June 30, 2023**

	Governmental Activities	Business-Type Activities	Total
<b>LIABILITIES</b>			
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	2,685,098	563,391	3,248,489
Due to State of Hawai‘i	300,000	-	300,000
Compensated absences - due within one year	590,228	-	590,228
Lease liabilities - due within one year	118,606	-	118,606
Long-term debt - due within one year	1,020,666	-	1,020,666
<b>Total current liabilities</b>	<b>4,714,598</b>	<b>563,391</b>	<b>5,277,989</b>
<b>Noncurrent liabilities:</b>			
Compensated absences - due after one year	666,038	-	666,038
Lease liabilities - due after one year	366,040	-	366,040
Long-term debt - due after one year	58,729,334	-	58,729,334
Net pension liabilities	33,444,702	-	33,444,702
Net OPEB liability	29,900,951	-	29,900,951
<b>Total noncurrent liabilities</b>	<b>123,107,065</b>	<b>-</b>	<b>123,107,065</b>
<b>Total liabilities</b>	<b>127,821,663</b>	<b>563,391</b>	<b>128,385,054</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	1,897,202	-	1,897,202
Deferred inflows of resources related to OPEB	3,518,311	-	3,518,311
Deferred inflows of resources related to leases	27,664,638	541,718	28,206,356
<b>Total deferred inflows of resources</b>	<b>33,080,151</b>	<b>541,718</b>	<b>33,621,869</b>
<b>NET POSITION</b>			
Net investment in capital assets	217,875,735	15,539,934	233,415,669
Restricted			
Beneficiary advocacy	98,019	-	98,019
Support services	40,445	-	40,445
Long-term portion of notes receivable	6,696,453	-	6,696,453
Native Hawaiian loan programs	17,504,166	-	17,504,166
Total restricted	24,339,083	-	24,339,083
Unrestricted	478,814,298	9,796,500	488,610,798
<b>Total net position</b>	<b>\$ 721,029,116</b>	<b>\$ 25,336,434</b>	<b>\$ 746,365,550</b>

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Statement of Activities**  
**For the Year Ended June 30, 2023**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>						
Beneficiary advocacy	\$17,801,035	\$ -	\$ 421,680	\$ (17,379,355)	\$ -	\$ (17,379,355)
Board of trustees	2,744,430	-	-	(2,744,430)	-	(2,744,430)
Support services	21,537,793	10,834,087	-	(10,703,706)	-	(10,703,706)
Unallocated depreciation and amortization	1,729,236	-	-	(1,729,236)	-	(1,729,236)
<b>Total governmental activities</b>	<b>43,812,494</b>	<b>10,834,087</b>	<b>421,680</b>	<b>(32,556,727)</b>	<b>-</b>	<b>(32,556,727)</b>
<b>Business-type Activities:</b>						
Hi‘ilei Aloha LLC	5,788,704	9,809,119	-	-	4,020,415	4,020,415
<b>Total business-type activities</b>	<b>5,788,704</b>	<b>9,809,119</b>	<b>-</b>	<b>-</b>	<b>4,020,415</b>	<b>4,020,415</b>
<b>Total primary government</b>	<b>\$49,601,198</b>	<b>\$ 20,643,206</b>	<b>\$ 421,680</b>	<b>(32,556,727)</b>	<b>4,020,415</b>	<b>(28,536,312)</b>
<b>General revenues:</b>						
Interest and investment gain				38,305,711	-	38,305,711
Public land trust revenue				21,500,000	-	21,500,000
Appropriations, net of lapses				2,254,400	-	2,254,400
Donations and other				498,336	-	498,336
<b>Total general revenues</b>				<b>62,558,447</b>	<b>-</b>	<b>62,558,447</b>
<b>Changes in net position</b>				<b>30,001,720</b>	<b>4,020,415</b>	<b>34,022,135</b>
<b>Net position - beginning of year</b>				<b>691,027,396</b>	<b>21,316,019</b>	<b>712,343,415</b>
<b>Net position - end of year</b>				<b>\$ 721,029,116</b>	<b>\$ 25,336,434</b>	<b>\$ 746,365,550</b>

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# **FUND FINANCIAL STATEMENTS**

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# **GOVERNMENTAL FUND FINANCIAL STATEMENTS**

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**Office of Hawaiian Affairs, State of Hawai‘i**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2023**

	Major Funds			Nonmajor	Total
	General	Public Land	Federal	Governmental	Governmental
	Fund	Trust	Grants	Fund	Funds
<b>ASSETS</b>					
Petty cash	\$ -	\$ 500	\$ -	\$ -	\$ 500
Cash held in bank	1,360,901	15,755,832	4,505,987	39	21,622,759
Cash held by investment managers	-	242,078	69,831	-	311,909
Restricted cash	-	-	271,756	-	271,756
Accounts receivable, net	-	6,441,833	99,552	20,439	6,561,824
Lease receivables - due within one year	-	4,298,948	-	-	4,298,948
Lease receivables - due after one year	-	24,355,318	-	-	24,355,318
Due from other funds	-	100,215	-	-	100,215
Interest and dividends receivable	-	306	52,018	-	52,324
Inventory, prepaid items and other assets	-	882,853	-	-	882,853
Notes receivable, net - due within one year	-	19,953	1,106,191	-	1,126,144
Notes receivable, net - due after one year	-	48,153	6,696,453	-	6,744,606
Investments	-	520,509,626	12,028,696	-	532,538,322
<b>Total assets</b>	<b>\$ 1,360,901</b>	<b>\$ 572,655,615</b>	<b>\$ 24,830,484</b>	<b>\$ 20,478</b>	<b>\$ 598,867,478</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	\$ -	\$ 2,487,913	\$ 191,155	6,030	\$ 2,685,098
Due to other funds	-	-	246	99,969	100,215
Due to State of Hawai‘i	-	-	300,000	-	300,000
<b>Total liabilities</b>	<b>-</b>	<b>2,487,913</b>	<b>491,401</b>	<b>105,999</b>	<b>3,085,313</b>
<b>Deferred inflows of resources:</b>					
Leases	-	27,664,638	-	-	27,664,638
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>27,664,638</b>	<b>-</b>	<b>-</b>	<b>27,664,638</b>
<b>Fund balances:</b>					
Nonspendable					
Inventory, prepaid items and other assets	-	882,853	-	-	882,853
Restricted					
Beneficiary advocacy	-	-	98,019	-	98,019
Support services	-	-	40,445	-	40,445
Long-term portion of notes receivable	-	-	6,696,453	-	6,696,453
Native Hawaiian loan programs	-	-	17,504,166	-	17,504,166
Committed					
DHHL-issued revenue bonds	-	21,233,555	-	-	21,233,555
Assigned					
Beneficiary advocacy	1,360,901	9,337,948	-	14,020	10,712,869
Board of trustees	-	224,647	-	-	224,647
Support services	-	3,355,561	-	-	3,355,561
Long-term portion of notes receivable	-	48,153	-	-	48,153
Public land trust	-	507,420,347	-	-	507,420,347
Unassigned (deficit)	-	-	-	(99,541)	(99,541)
<b>Total fund balances (deficit)</b>	<b>1,360,901</b>	<b>542,503,064</b>	<b>24,339,083</b>	<b>(85,521)</b>	<b>568,117,527</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,360,901</b>	<b>\$ 572,655,615</b>	<b>\$ 24,830,484</b>	<b>\$ 20,478</b>	<b>\$ 598,867,478</b>

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Position**  
**June 30, 2023**

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<b>Total Fund Balances - Total Governmental Funds</b>	\$ 568,117,527
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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.	278,110,381
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Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds' Balance Sheet.

Compensated absences	\$	(1,256,266)	
Lease liabilities		(484,646)	
Notes payable		(59,750,000)	
Net pension liability		(33,444,702)	
Net OPEB liability		(29,900,951)	
Deferred outflows of resources related to pensions		3,423,179	
Deferred inflows of resources related to pensions		(1,897,202)	
Deferred outflows of resources related to OPEB		1,630,107	
Deferred inflows of resources related to OPEB		(3,518,311)	
		(125,198,792)	

<b>Net position of governmental activities</b>	<b>\$ 721,029,116</b>
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**Office of Hawaiian Affairs, State of Hawai‘i**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2023**

	Major Funds			Nonmajor	Total
	General	Public Land	Federal	Governmental	Governmental
	Fund	Trust	Grants	Fund	Funds
<b>REVENUES:</b>					
Appropriations, net of lapses	\$ 2,254,400	\$ -	\$ -	\$ -	\$ 2,254,400
Charges for services	-	10,787,497	-	46,590	10,834,087
Donations and other	-	275,746	15,440	207,150	498,336
Interest and investment gain	-	37,892,243	410,186	3,282	38,305,711
Intergovernmental revenue	-	-	421,680	-	421,680
Public land trust revenue	-	21,500,000	-	-	21,500,000
<b>Total revenues</b>	<b>2,254,400</b>	<b>70,455,486</b>	<b>847,306</b>	<b>257,022</b>	<b>73,814,214</b>
<b>EXPENDITURES:</b>					
Current:					
Beneficiary advocacy	5,254,678	12,055,226	954,921	-	18,264,825
Board of trustees	53,650	2,676,507	-	-	2,730,157
Support services	634,400	19,635,285	143,001	12,907	20,425,593
Debt service:					
Principal retirement	-	206,973	-	-	206,973
Interest and fiscal charges	-	1,776,619	-	-	1,776,619
<b>Total expenditures</b>	<b>5,942,728</b>	<b>36,350,610</b>	<b>1,097,922</b>	<b>12,907</b>	<b>43,404,167</b>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(3,688,328)</b>	<b>34,104,876</b>	<b>(250,616)</b>	<b>244,115</b>	<b>30,410,047</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Inception of leases	-	396,657	-	-	396,657
Transfers in	3,284,400	-	-	-	3,284,400
Transfers out	-	(3,284,400)	-	-	(3,284,400)
<b>Total other financing sources (uses)</b>	<b>3,284,400</b>	<b>(2,887,743)</b>	<b>-</b>	<b>-</b>	<b>396,657</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>(403,928)</b>	<b>31,217,133</b>	<b>(250,616)</b>	<b>244,115</b>	<b>30,806,704</b>
<b>FUND BALANCES (DEFICIT):</b>					
Beginning of year	1,764,829	511,285,931	24,589,699	(329,636)	537,310,823
End of year	\$ 1,360,901	\$ 542,503,064	\$ 24,339,083	\$ (85,521)	\$ 568,117,527

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities**  
**For the Year Ended June 30, 2023**

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**Net change in fund balances - total governmental funds:** \$ 30,806,704

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense.

Expenditures for capital assets	\$ 570,754	
Current year depreciation and amortization	(1,729,236)	
Loss on disposal of capital assets	<u>(48,342)</u>	(1,206,824)

Certain 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:

Change in compensated absences	(12,800)	
Change in lease liabilities	(189,684)	
Change in net pension liability	(1,536,145)	
Change in net OPEB liability	1,244,094	
Change in deferred outflows of resources related to pension	(118,068)	
Change in deferred inflows of resources related to pension	1,935,622	
Change in deferred outflows of resources related to OPEB	510,154	
Change in deferred inflows of resources related to OPEB	<u>(1,431,333)</u>	<u>401,840</u>

**Change in net position of governmental activities** **\$ 30,001,720**

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# **PROPRIETARY FUND FINANCIAL STATEMENTS**

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**Office of Hawaiian Affairs, State of Hawai‘i**  
**Statement of Net Position**  
**Proprietary Fund**  
**June 30, 2023**

	<u>December 31, 2022</u> <u>Hi‘ilei Aloha LLC</u>
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and investments	\$ 7,384,253
Accounts receivable, net	320,882
Inventory, prepaid items and other assets	251,888
Lease receivable, due in one year	183,374
<b>Total current assets</b>	<u>8,140,397</u>
<b>Noncurrent assets:</b>	
Lease receivable, due after one year	358,344
Investments	2,402,868
Capital assets, net	15,539,934
<b>Total noncurrent assets</b>	<u>18,301,146</u>
<b>Total assets</b>	<u><u>\$ 26,441,543</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	\$ 417,546
Deferred revenue	145,845
<b>Total liabilities</b>	<u>563,391</u>
<b>Deferred Inflows of Resources:</b>	
Deferred inflows of resources related to leases	541,718
<b>Net Position:</b>	
Net investment in capital assets	15,539,934
Unrestricted	9,796,500
<b>Total net position</b>	<u>25,336,434</u>
<b>Total liabilities, deferred inflows of resources and net position</b>	<u><u>\$ 26,441,543</u></u>

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**Proprietary Fund**  
**For the Year Ended June 30, 2023**

	December 31, 2022 Hi‘ilei Aloha LLC
<b>OPERATING REVENUES:</b>	
Sales - gift store and other	\$ 1,405,612
Cost of sales	(1,649,963)
Gross loss	(244,351)
Admission and tours	7,589,547
Other revenue	2,463,923
<b>Total operating revenues</b>	<b>9,809,119</b>
<b>OPERATING EXPENSES:</b>	
Program services	4,355,858
Management and general	1,364,297
Fundraising	68,549
<b>Total operating expenses</b>	<b>5,788,704</b>
<b>OPERATING INCOME</b>	<b>4,020,415</b>
<b>CHANGES IN NET POSITION</b>	<b>4,020,415</b>
<b>NET POSITION:</b>	
Beginning of year	21,316,019
End of year	<u><u>\$ 25,336,434</u></u>



**Office of Hawaiian Affairs, State of Hawai‘i**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2023**

	December 31, 2022 Hi‘ilei Aloha LLC
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers, grantors and funders	\$ 11,231,138
Payments to suppliers, vendors and service providers	(3,302,196)
Payments to employees for salaries and benefits	(3,781,771)
Payments of unrelated business income taxes	(175,076)
<b>Net cash provided by operating activities</b>	<b>3,972,095</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Lease income from capitalized lease	299,536
Expenditures for property and equipment	(735,014)
Sale of capital asset	12,000
<b>Net cash (used in) capital and related financing activities</b>	<b>(423,478)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of investments	(2,518,167)
<b>Net cash (used in) investing activities</b>	<b>(2,518,167)</b>
<b>Net change in cash and cash equivalents</b>	<b>1,030,450</b>
<b>CASH AND CASH EQUIVALENTS:</b>	
Beginning of year	6,353,803
End of year	<b>\$ 7,384,253</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 4,020,415
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	266,728
Realized and unrealized investment loss	115,299
Lease income from capitalized lease	(269,684)
Gain on sale of capital assets	(2,449)
Change in:	
Accounts receivable	(35,836)
Inventories	(35,639)
Prepaid expenses	(15,014)
Accounts payable and accrued liabilities	(3,317)
Income taxes payable and receivable	(72,556)
Deferred revenue	4,148
Total adjustment	(48,320)
<b>Net cash provided by operating activities</b>	<b>\$ 3,972,095</b>

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# **NOTES TO THE BASIC FINANCIAL STATEMENTS**

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**Office of Hawaiian Affairs, State of Hawai‘i**  
**Index to the Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2023**

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**Office of Hawaiian Affairs, State of Hawai‘i**  
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**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements**  
**For the Year Ended June 30, 2023**

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**Note 1 – Financial Reporting Entity**

The accompanying basic financial statements present the financial activity of the Office of Hawaiian Affairs (“OHA”) and its blended component unit, which is a separate legal organization.

As of June 30, 2023, OHA’s blended component unit is comprised of Hi‘ilei Aloha LLC, a Hawai‘i limited liability company (the “Company”). OHA is the sole corporate member of the Company. The results of the Company as of and for the year ended December 31, 2022, its year end, has been included in OHA’s basic financial statements.

Hi‘ilei Aloha LLC and its wholly-owned subsidiary, Hi‘ipaka LLC, are exempt from federal income tax under Sections 501(a) and 501(c)(3) of the Internal Revenue Code.

**Note 2 – Significant Accounting Policies**

**A. Basis of Presentation**

OHA’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) as prescribed by the Governmental Accounting Standards Board (“GASB”).

**B. Government-wide Financial Statements**

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

Appropriations and other items not properly included among program revenues are reported instead as general revenues. 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.

**C. 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 considered susceptible to accrual include public land trust revenue, interest on loans and investments, and interest receivable.

Expenditures are generally recorded when a liability is incurred as under accrual accounting. However, employees’ accumulated annual leave, workers’ compensation, lease liabilities, claims and judgements, net pension liability, and net OPEB liability are recorded only when payment is due.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 2 – Significant Accounting Policies (Continued)**

**C. Governmental Funds Financial Statements (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.

**D. Proprietary Fund 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 fund 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.

**E. Accounts Receivable**

All accounts receivables are shown net of any allowance for uncollectible accounts based on OHA’s estimate of the amount of uncollectible receivables.



**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 2 – Significant Accounting Policies (Continued)**

***F. 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.

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 Native Hawaiian Trust Fund ("NHTF") holds significant amounts of investments that are measured on a recurring basis. OHA is required to provide the following information according to the three-tier fair value hierarchy, which is based on the observability of the inputs used in the valuation techniques to measure the fair value of certain financial assets and liabilities. The three-tier hierarchy ranks the quality and reliability of the information used to determine fair values and is summarized 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 measurement date.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full-term of the related assets or liabilities.
- Level 3 - Inputs that are unobservable for the asset or liability include situations where there is little market activity for the asset or liability.

***G. 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.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 2 – Significant Accounting Policies (Continued)**

***H. 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.

***I. 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.

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

***J. Leases***

In June 2017, the GASB issued Statement No. 87, *Leases*, to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring 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 also establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. GASB Statement No. 87 is effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

Leases as lessee

OHA has a policy to recognize a lease liability and a right to use lease asset (lease asset) in the government-wide financial statements. OHA recognizes lease liabilities with an initial, individual value of \$25,000 or more for equipment and \$100,000 or more for building/land with a lease term greater than one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease liability.

At the commencement of a lease, OHA initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 2 – Significant Accounting Policies (Continued)**

***J. Leases (Continued)***

Leases as lessee (Continued)

Lease assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service. Lease assets are amortized using the straight-line method over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the State has determined is reasonably certain of being exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.

Key estimates and judgments related to leases include how OHA determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) the lease term, and (3) lease payments.

- OHA uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, OHA generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that OHA is reasonably certain to exercise.

OHA monitors changes in circumstances that would require a remeasurement of its lease and will remeasure any lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported as right to use lease assets along with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

Leases as lessor

OHA is a lessor for leases of office and commercial space and land. OHA recognizes leases receivable and deferred inflows of resources in the financial statements for building and land with initial, individual values of \$100,000 or greater and lease terms in excess of one year. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease receivable.

At the commencement of a lease, OHA initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflows of resources are initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflows of resources are recognized as revenue over the life of the lease term in a systematic and rational method.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 2 – Significant Accounting Policies (Continued)**

***J. Leases (Continued)***

Leases as lessor (Continued)

Key estimates and judgments include how OHA determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) the lease term, and (3) lease receipts.

- OHA uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

OHA monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

***K. Deferred Outflows of Resources and Deferred Inflows of Resources***

Deferred outflows (inflows) of resources represent a consumption of (benefit to) net asset that applies to a future period. The deferred outflow of resources related to pensions and 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.

***L. 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, 2023 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.

***M. 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.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 2 – Significant Accounting Policies (Continued)**

***N. Net Position***

In the Government-Wide Financial Statements and proprietary fund financial statements, net position is classified as follows:

Net Investment in Capital Assets

This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of retention payable and debt that are attributable to the acquisition, construction, or improvement of those assets, and related deferred outflows and inflows of resources, net of unspent debt proceeds.

Restricted

This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted

This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

***O. 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."

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.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 2 – Significant Accounting Policies (Continued)**

***O. Fund Balance (Continued)***

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 other 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 BOT approved the Fiscal Stabilization Policy, effective July 1, 2019, which addressed the need to create a Fiscal Stabilization Fund of discrete size and limited uses to address OHA’s historical needs for budget stabilization. The approved policy eliminated the Fiscal Reserve and related Withdrawal Guidelines into NHTF Spending Policy; and established a Fiscal Stabilization Fund, in the amount of \$1,500,000.

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

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, 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.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 2 – Significant Accounting Policies (Continued)**

***O. Fund Balance (Continued)***

Stabilization Arrangements (Continued)

As of July 1, 2020, the State of Hawai‘i 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. An additional funding of the FSF in the amount of \$1,500,000 was approved, noting the balance to be \$3,000,000 in the FSF, and is for budget stabilization purposes in replacing the General Funds appropriation for fiscal year 2021. Also approved was a \$1,000,000 funding of the FSF for COVID-19 related purposes, \$500,000 for COVID-19 grants and \$500,000 for operations to address work site and operational needs.

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 amendment to Act 37, SLH 2019 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 delivered the CLA – OHA & LLCs contract and Disbursement Review Report, dated December 4, 2019 to the Legislature and in September 2022, the BOT authorized the \$3,000,000 FSF amount to be reversed.

As of June 30, 2023, total COVID-19 grants awarded were more than \$2,000,000 and more than \$500,000 was paid out for operational changes needed to address the impacts of COVID-19. The balance in the Fiscal Stabilization Fund is zero.

***P. Encumbrances***

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

Encumbrances as of June 30, 2023 consist of the following:

General Fund	\$ 1,207,548
Public Land Trust Fund	18,027,198
Federal Grants Fund	1,040,548
Other Fund	177,290
	<u>\$ 20,452,584</u>

***Q. Use of Estimates***

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 2 – Significant Accounting Policies (Continued)**

***R. 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.

***S. Postemployment Benefits Other Than Pensions (OPEB)***

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.

***T. Implementation of New GASB Pronouncement***

In May 2020, GASB issued Statement No. 96, Subscription-Based Information Technology Arrangements (GASB Statement No. 96), to better meet the information needs of financial statement users by (a) establishing uniform accounting and financial reporting requirements for SBITAs; (b) improving the comparability of financial statements among governments that have entered into SBITAs; and (c) enhancing the understandability, reliability, relevance, and consistency of information about SBITAs. Under this Statement, a government is required to recognize a subscription liability and an intangible right-to-use subscription asset. The effective date of GASB Statement No. 96 is for fiscal years beginning after June 15, 2022. Implementation of this Statement did not have an effect on OHA's financial statements for the fiscal year ended June 30, 2023.

**Note 3 – 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 DRAFT 03.16.24s 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.



**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 3 – Biennial Budget (Continued)**

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.

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, 2023 from the budgetary basis to GAAP basis are as follows:

	Amount
Reserve for encumbrances at June 30, 2023	\$ 1,207,548
Prior year reserve for encumbrances	(1,736,176)
Expenditures for liquidation of prior year encumbrances	124,700
Expenditure over revenue - actual (GAAP basis)	<u>\$ (403,928)</u>

**Note 4 – 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 29, SLH 2021 authorized a total of \$2,254,000 in general fund appropriations for the year ended June 30, 2023.

**Note 5 – Cash**

The carrying amounts of OHA’s demand deposits were \$21,894,515 at June 30, 2023. Bank balances at that date were \$19,875,265, the total amount of which was collateralized or insured with accounts held by the pledging financial institutions in the OHA’s name. As of December 31, 2022, Hi‘ilei Aloha LLC had a cash and cash equivalents balance of \$7,384,253. 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.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 6 – Inventory, Prepaid items and Other Assets**

As of June 30, 2023, OHA’s governmental funds had inventory, prepaid items and other assets totaling \$882,853. As of December 31, 2022, Hi‘ilei had inventory, prepaid items, and other assets of \$251,888.

**Note 7 – Lease Receivables**

OHA leases land, office, and commercial space to tenants. OHA’s leases receivable consists of agreements with others for the right to use of the underlying assets at various locations. The terms of the agreements range from 1 to 45 years. The calculated interest rates used vary depending on the length of the lease. For the year ended June 30, 2023, OHA recognized approximately \$4,767,356 in lease revenue and \$819,156 in interest revenue. In addition, OHA recognized approximately \$2,324,589 in lease revenue for variable payments not previously included in the measurement of leases receivable. A summary of changes in OHA’s leases receivable for the year ended June 30, 2023 is as follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due within One Year	Due in more One Year
Lease Receivable	\$ 28,952,034	\$ 4,189,852	\$ 4,487,620	\$ 28,654,266	\$ 4,298,948	\$ 24,355,318

Future minimum payments on OHA’s leases receivable are summarized as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 4,298,948	\$ 805,598	\$ 5,104,546
2025	3,850,969	675,647	4,526,616
2026	3,803,975	555,343	4,359,318
2027	3,377,681	439,093	3,816,774
2028	2,359,594	348,225	2,707,819
2029 - 2033	6,242,489	1,121,800	7,364,289
2034 - 2038	2,074,860	523,170	2,598,030
2039 - 2043	2,645,750	180,220	2,825,970
Total	\$ 28,654,266	\$ 4,649,096	\$ 33,303,362

Income earned in 2022 amounted to approximately \$300,000, including approximately \$95,000 in variable payments based on percentage rent. A summary of Hi‘ilei’s lease receivable for the year ended December 31, 2022 is summarized as follows:

	Balance January 1, 2022	Additions	Deletions	Balance December 31, 2022	Due within One Year	Due in more One Year
Lease Receivable	\$ 641,783	\$ -	\$ 100,065	\$ 541,718	\$ 183,374	\$ 358,344

Future minimum payments on Hi‘ilei’s lease receivable are summarized as follows:

Fiscal Year	Principal	Interest	Total
2023	\$ 183,374	\$ 20,626	\$ 204,000
2024	191,798	12,202	204,000
2025	166,546	3,454	170,000
Total	\$ 541,718	\$ 36,282	\$ 578,000

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 8 – Notes Receivables**

At June 30, 2023, notes receivables bear interest from 0% to 6.25%, mature on various dates through July 2030, and consist of the following:

	Native Hawaiian Revolving Loan Fund	Other	Total
Notes Receivable	\$ 8,263,190	145,469	\$ 8,408,659
Less Allowance for Doubtful Accounts	(460,546)	(77,363)	(537,909)
Notes Receivable, Net	<u>\$ 7,802,644</u>	<u>\$ 68,106</u>	<u>\$ 7,870,750</u>

**Note 9 – 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 on August 12, 2021. OHA’s Board of Trustees is responsible for setting the investment policy guidelines, asset allocation constraints, and monitoring the advisors to ensure they act prudently and follow the investment policy.

The NHTF investment policy provides objectives, guidelines, and procedures for the type of investments, asset allocations, long-term targets, asset diversification, benchmark, and performance objectives. It provides for 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 Native Hawaiian Revolving Loan Fund (“NHRLF”) that is managed separately from the NHTF.

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, 2023.

			Fair Value Measurements Using		
			Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Fund	Reported Value			
Investments by fair value level					
Mutual Funds	NHTF	\$ 274,950,404	\$ 274,950,404	\$ -	\$ -
U.S. Government Securities	NHRLF	12,028,696	12,028,696	-	-
Equity Securities	NHTF	5,821,968	5,821,968	-	-
Total Investments at fair value		292,801,068	\$ 292,801,068	\$ -	\$ -
Investments held at NAV					
Commingled Funds	NHTF	97,264,770			
Alternative Investments					
Absolute Return	NHTF	51,805,651			
Private Investments	NHTF	81,677,733			
Total investments at NAV		230,748,154			
Invested securities lending collateral					
Money Market Funds		8,989,100			
Total investments		\$ 532,538,322			

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 9 – Investments (Continued)**

The valuation method for investments measured using the NAV per share (or its equivalent) is presented in the following table.

	Fair Value	Unfunded Commitments	Redemption Frequency	Required Redemption Notice
Investments measured at NAV				
Commingled funds				
Global Equity	\$ 48,139,335	None	Monthly/Quarterly	Various, up to trade date
Real Assets	25,375,953	None	Monthly/Quarterly	Various, up to trade date
Fixed income	23,749,482	None	Monthly/Quarterly	Various, up to trade date
Alternative Investments				
Marketable Alternatives	51,805,651	None	Monthly/Quarterly	Various, up to trade date
Illiquid Alternatives	81,677,733	\$ 22,658,545	Upon Realization	Not applicable
Total investments measured at NAV	<u>\$ 230,748,154</u>			
Invested securities lending collateral				
Money Market Fund	<u>\$ 8,989,100</u>			Same as the trade date

The following is a summary of OHA’s investment categories, including redemption restrictions, if any:

- **Global Equity** – This investment category includes public equity investments in exchanged traded funds, mutual funds, long-only commingled funds, and passive index funds. As of June 30, 2023, approximately 100%, respectively, of the value of the investments in this category can be redeemed within 30 days.
- **Real Assets** – This investment category includes public equity investments in mutual funds, long-only commingled funds, and passive index funds in real estate, natural resources, and other hard assets. As of June 30, 2023, approximately 100%, respectively, of the value of the investments in this category can be redeemed within 30 days.
- **Fixed Income** – This investment category includes public fixed-income investments in mutual funds, long-only commingled funds, and passive index funds. As of June 30, 2023, 100% of the value of the investments in this category can be redeemed within 30 days.
- **Marketable Alternatives** - The category includes investments in stable income and low-to-medium beta funds. Management of these funds seeks low correlation to broad equity markets by investing in assets that exhibit low volatility, deep discounts, and or/hedges against market downturns. As of June 20, 2023, approximately 83% of the value of the investments in this category can be redeemed within one year.
- **Illiquid Alternatives** - This category includes private equity buyouts, venture, debt, real assets, and special situations funds. These investments cannot be redeemed at the request of the organization. Distributions from each fund will be received as the funds' underlying investments are liquidated. The fund's underlying assets are expected to be liquidated over the next 1 to 10 years.
- **Money Market Funds** – Northern Trust U.S. Government Money Market Fund - the primary objective is to maximize current income to the extent consistent with preserving capital and liquidity and maintaining a stable \$1.00 per share net asset value (“NAV”).

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 9 – Investments (Continued)**

Investments are generally pooled and managed under various asset diversification strategies, depending upon the investment objectives, to manage the risks noted by OHA.

The following table presents OHA’s investments by maturity period as of June 30, 2023:

Investment type	Fund	Reported Value	Investment maturities (in years)		
			Less than 1	1-5	>5
U.S. Treasuries	NHRLF	\$ 12,028,696	\$ 4,743,551	\$ 7,285,145	\$ -
Mutual Funds	NHTF	274,950,404			
Equity Securities	NHTF	5,821,968			
Commingled Funds	NHTF	97,264,770			
Alternative Investments	NHTF	133,483,384			
Money Market Funds	NHTF/PLT	8,989,100			
Total investments		<u>\$ 532,538,322</u>			

OHA invests in various types of investment securities in public and private markets. These investments are exposed to various risks, such as market, interest rate, credit, illiquidity, and concentration risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of financial position.

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

**A. Foreign Currency Risk**

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. To diversify the NHTF portfolio against market fluctuations, OHA’s investment policy allows for investments in foreign countries. As of June 30, 2023, OHA’s foreign currency risks are as follows:

Investment type	Currency	Value (US\$)
Private equity funds	Euro	1,260,837

**B. 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:

Investment type	Maximum Maturity
U.S. Treasuries	3 years

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

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 9 – Investments (Continued)**

***C. 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, 2023, credit rates for all securities of government agencies were rated at least Aa (Moody's) or AA (Standard & Poor's).

***D. 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.

***E. Other Risks and Uncertainties***

Financial instruments that potentially subject the OHA to significant concentrations of credit risk consist principally of cash and cash equivalents and investments. While the majority of cash and cash equivalent amounts exceed available depository insurance limits, management does not anticipate non-performance by their financial institutions and regularly reviews the viability of these institutions. OHA also attempts to limit its investment risk by maintaining a diversified portfolio. In addition to credit risk, the NHTF and other investments are exposed to interest rate, market, and geographic risks.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 10 – Capital Assets**

OHA’s capital assets of governmental activities during the year ended June 30, 2023 are as follows:

	Governmental Activities				Balance June 30, 2023
	Balance July 1, 2022	Additions	Deletions	Transfers	
<b>Capital assets, not being depreciated:</b>					
Land	\$ 251,881,537	\$ -	\$ -	\$ -	\$ 251,881,537
Construction in progress	1,560,816	74,624	(17,163)	(128,997)	1,489,280
Artwork	10,000	-	-	-	10,000
Total capital assets, not being depreciated	253,452,353	74,624	(17,163)	(128,997)	253,380,817
<b>Capital assets, being depreciated:</b>					
Buildings	33,626,987	-	-	-	33,626,987
Leasehold Improvements	6,455,901	50,270	-	128,997	6,635,168
Furniture, Fixtures and Equipment	6,972,854	49,203	(118,556)	-	6,903,501
Total capital assets, being depreciated	47,055,742	99,473	(118,556)	128,997	47,165,656
<b>Less accumulated depreciation:</b>					
Buildings	(8,639,495)	(1,309,671)	-	-	(9,949,166)
Leasehold Improvements	(6,384,512)	(33,418)	-	-	(6,417,930)
Furniture, Fixtures and Equipment	(6,453,252)	(209,539)	118,262	-	(6,544,529)
Total accumulated depreciation	(21,477,259)	(1,552,628)	118,262	-	(22,911,625)
Total capital assets, being depreciated, net	25,578,483	(1,453,155)	(294)	128,997	24,254,031
<b>Intangible assets, being amortized:</b>					
Right-to-use leased building	397,073	396,657	(157,136)	-	636,594
Total lease assets	397,073	396,657	(157,136)	-	636,594
<b>Less accumulated amortization:</b>					
Right-to-use leased building	(110,704)	(176,608)	126,251	-	(161,061)
Total accumulated amortization	(110,704)	(176,608)	126,251	-	(161,061)
Total intangible assets, being amortized, net	286,369	220,049	(30,885)	-	475,533
<b>Governmental activities capital assets, net</b>	<b>\$ 279,317,205</b>	<b>\$ (1,158,482)</b>	<b>\$ (48,342)</b>	<b>\$ -</b>	<b>\$ 278,110,381</b>

Hi‘ilei Aloha LLC’s capital assets activities during the year ended December 31, 2022 are as follows:

	Business-type Activities				Balance December 31, 2022
	Balance January 1, 2022	Additions	Deletions	Transfers	
<b>Capital assets, not being depreciated:</b>					
Land	\$ 13,429,733	\$ -	\$ -	\$ -	\$ 13,429,733
Total capital assets, not being depreciated	13,429,733	-	-	-	13,429,733
<b>Capital assets, being depreciated:</b>					
Buildings	3,628,610	432,661	(12,064)	-	4,049,207
Leasehold Improvements	962,204	163,265	-	-	1,125,469
Furniture, Fixtures and Equipment	300,976	139,089	-	-	440,065
Total capital assets, being depreciated	4,891,790	735,015	(12,064)	-	5,614,741
<b>Less accumulated depreciation:</b>	(3,240,325)	(266,728)	2,513	-	(3,504,540)
Total capital assets, being depreciated, net	1,651,465	468,287	(9,551)	-	2,110,201
<b>Business-type activities capital assets, net</b>	<b>\$ 15,081,198</b>	<b>\$ 468,287</b>	<b>\$ (9,551)</b>	<b>\$ -</b>	<b>\$ 15,539,934</b>

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 11 – Long-Term Debt**

Changes in long-term liabilities for governmental activities during the year ended June 30, 2023 were as follows:

	Balance July 1, 2022	Additions	Deletions	Balance June 30, 2023	Due within One Year	Due in more One Year
Compensated absences	\$ 1,243,466	\$ 392,583	\$ (379,783)	\$ 1,256,266	\$ 590,228	\$ 666,038
Lease Liabilities	294,962	396,657	(206,973)	484,646	118,606	366,040
Notes Payable	59,750,000	-	-	59,750,000	1,020,666	58,729,334
<b>Total</b>	<b>\$ 61,288,428</b>	<b>\$ 789,240</b>	<b>\$ (586,756)</b>	<b>\$ 61,490,912</b>	<b>\$ 1,729,500</b>	<b>\$ 59,761,412</b>

OHA leases office space and equipment under various noncancelable leases. OHA’s leases payable include leases for office space in Lihue, Hilo, and Washington D.C., which expire on various dates from March 2026 through August 2027.

Principal and interest payments on OHA’s leases payable to maturity are as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 118,606	\$ 16,222	\$ 134,828
2025	124,428	11,658	136,086
2026	123,701	6,960	130,661
2027	103,559	2,594	106,153
2028	14,352	51	14,403
<b>Total</b>	<b>\$ 484,646</b>	<b>\$ 37,485</b>	<b>\$ 522,131</b>

On March 15, 2022, OHA entered into two notes payable with a bank to re-finance its existing note payable and line of credit facilities. The notes are collateralized by the Na Lama Kukui 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.

The first note payable amounted to \$17,560,832, includes interest at 2.85%, and matures in March 2032. The note payable includes monthly interest-only payments from April 2022 through March 2025, monthly principal and interest payments of \$81,912 beginning in April 2025, with the remaining balance due on March 5, 2032. The outstanding balance on the note payable was \$17,560,832 on June 30, 2023.

The second note payable amounted to \$6,939,168, includes interest at 2.50%, and matures in March 2032. The note payable includes monthly interest-only payments from April 2022 through March 2025, monthly principal and interest payments of \$31,131 beginning in April 2025, with the remaining balance due on March 5, 2032. The outstanding balance on the note payable was \$6,939,168 on June 30, 2023.

In September 2021, OHA entered into a \$35,250,000 note payable with a bank to finance the purchase of two properties (1) 500 N. Nimitz Hwy., a retail property with three national chain tenants; and (2) 501 Sumner Street, an industrial property (the Iwilei properties). The note payable includes interest at 2.85% from September 2021 through July 2022 and then increases to 3.10% thereafter. The credit facility provides for monthly interest-only payments from October 2021 through September 2024, monthly principal and interest payments of \$164,422 beginning on October 2024, with the remaining balance due on September 27, 2031. The note is collateralized by a mortgage lien on the Iwilei properties, assignment of OHA’s right, title and interest as landlord in and to any rents under tenant leases and rental agreements on the Iwilei properties. The outstanding balance on the note payable was \$35,250,000 on June 30, 2023.



**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 11 – Long-Term Debt (Continued)**

As of June 30, 2023, OHA’s future principal and interest payments from direct borrowings for the notes payable are as follows:

Fiscal Year	Principal	Interest	Total
2024	\$ 1,020,666	\$ 1,741,799	\$ 2,762,465
2025	848,680	1,728,583	2,577,263
2026	1,639,616	1,689,964	3,329,580
2027	1,688,578	1,641,002	3,329,580
2028	1,737,397	1,592,183	3,329,580
2029-2032	52,815,063	5,053,090	57,868,153
Total	<u>\$ 59,750,000</u>	<u>\$ 13,446,621</u>	<u>\$ 73,196,621</u>

Long-term liabilities have generally been liquidated by the Public Land Trust Fund.

**Note 12 – Defined Benefit Pension Plan**

**A. Pension Plan Description**

Generally, all full-time employees of the State and counties are required to be members of the Employees’ Retirement System of the State of Hawaii (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 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 the ERS website: <https://ers.ehawaii.gov/resources/financials>.

**B. Benefits Provided**

The ERS Pension Trust is comprised of three pension classes for membership purposes and is considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% to 2.25%) multiplied by the average final compensation multiplied by years of credited service.

Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 12 – Defined Benefit Pension Plan (Continued)**

***B. Benefits Provided (Continued)***

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 surviving 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 surviving dependent children receive a percentage of the member’s accrued maximum allowance unreduced for age.

Contributory Class for Employees Hired prior to July 1, 2012

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

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

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 12 – Defined Benefit Pension Plan (Continued)**

***B. Benefits Provided (Continued)***

Contributory Class for Employees Hired prior to July 1, 2012 (Continued)

Death Benefits – For service-connected deaths, the 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 surviving 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 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.

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 surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 12 – Defined Benefit Pension Plan (Continued)**

***B. Benefits Provided (Continued)***

Hybrid Class for Employees Hired Prior to July 1, 2012 (Continued)

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.

***C. Contributions***

Contributions are governed by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2023 was 24%. Contributions to the pension plan from OHA were \$1,901,118 for the year ended June 30, 2023.

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.

***D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2023, OHA reported a liability of \$33,444,702 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2022, 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, 2022, OHA’s proportion was 0.29% as compared to its proportion measured as of June 30, 2021 of 0.32%.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 12 – Defined Benefit Pension Plan (Continued)**

***D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)***

The following changes were made to the actuarial assumptions as of June 30, 2021 to June 30, 2022:

- The administrative expenses assumption was increased from 0.35% to 0.40 %.
- The general wage inflation assumption represents the average increase in wages in the general economy and is used to index salaries for each cohort of new entrants in projections. The general productivity component of the general wage inflation assumption for general employees decreased from 1.00% to 0.50%, that now yields a nominal assumption of 3.00%.
- The assumed salary increase schedules increased for all employees. These schedules include an ultimate component for general wage inflation that may add on additional increases for individual merit (which would include promotions) and then an additional component for step rates based on service. The schedules of assumed salary increase for general employees increased to 4.66%, from 4.41%.
- Retiree mortality was updated to the 2022 Public Retirees of Hawaii mortality tables. The rates are projected on a fully generational basis by the long-term rates of scale UMP from the year 2022 and with multiplier and setbacks based on plan and group experience.

For the year ended June 30, 2023, OHA recognized pension expense of \$1,619,709. At June 30, 2023, OHA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred outflows of Resources</b>	<b>Deferred inflows of Resources</b>
Difference between expected and actual experience	\$ 576,827	\$ 373,873
Changes of assumptions	695,170	270,561
Net difference between projected and actual earnings on pension plan investments	-	1,138,171
Changes in proportion and differences between OHA contributions and proportionate share of contributions	250,064	114,597
OHA’s contributions subsequent to the measurement date	1,901,118	-
Total	<u>\$ 3,423,179</u>	<u>\$ 1,897,202</u>

The \$1,901,118 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 year ending June 30, 2024.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 12 – Defined Benefit Pension Plan (Continued)**

***D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)***

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

Year Ending June 30	Amount
2024	\$ (97,357)
2025	(141,823)
2026	(262,866)
2027	129,659
2028	(2,755)
	\$ (375,141)

***E. Actuarial Assumptions***

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, adopted by the ERS Board of Trustees on August 8, 2022, based on the 2021 Experience Study for the five-year period from July 1, 2016 through June 30, 2021:

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 2022 Public Retirees of Hawaii mortality table with 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 plus inflation) by the target asset allocation percentage.

The rate of returns based on ERS's investment consultant as of June 30, 2022 are summarized below:

Asset Class	Strategic Class Weights	Long-term Expected Geometric Rate of Return
Broad growth	63.00%	65.60%
Diversifying strategies	37.00%	33.70%
	100.00%	

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 12 – Defined Benefit Pension Plan (Continued)**

***F. Discount Rate***

The discount rate used to measure the net pension liability 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 periods of projected benefit payments to determine the total pension liability.

***G. 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 one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Discount Rate - 1 % (6.00%)	Current Discount Rate (7.00%)	Discount Rate + 1 % (8.00%)
OHA’s proportionate share of the net pension	\$ 44,850,411	\$ 33,444,702	\$ 24,002,951

***H. Pension Plan Fiduciary Net Position***

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

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

***I. Payables to the Pension Plan***

The OHA’s employer contributions payable to the ERS by fiscal year end was paid by June 30, 2023.

**Note 13 – Postemployment Health Care and Life Insurance Benefits**

***A. 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 a 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/>.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 13 – Postemployment Health Care and Life Insurance Benefits (Continued)**

**A. Plan Description (Continued)**

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. Retirees in this category 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. Retirees in this category 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.

**B. Employees Covered by Benefit Terms**

At July 1, 2022, the following number of plan members of the State were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	\$ 39,326
Inactive plan members entitled to but no yet receiving benefit payments	7,564
Active plan members	48,678
Total	<u>\$ 95,568</u>

**C. Contributions**

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Employer contributions to the EUTF from OHA were \$888,662 for the year ended June 30, 2023. OHA is required to make all contributions for members.

**D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At June 30, 2023, OHA reported a net OPEB liability of \$29,900,949. The net OPEB liability was measured as of July 1, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

There were no changes between the measurement date, July 1, 2022, and the reporting date, June 30, 2023, that are expected to have a significant effect on the net OPEB liability.



**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 13 – Postemployment Health Care and Life Insurance Benefits (Continued)**

***D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)***

For the year ended June 30, 2023, OHA recognized OPEB expense of \$565,747. At June 30, 2023, OHA reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Difference between expected and actual experience	\$ -	\$ 3,047,120
Changes of assumptions	218,272	471,191
Net difference between projected and actual earnings on OPEB plan investments	523,172	-
OHA’s contributions subsequent to the measurement date	888,662	-
Total	<u>\$ 1,630,106</u>	<u>\$ 3,518,311</u>

The \$888,662 reported as deferred outflows of resources related to OPEB resulting from OHA’s contribution subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2024.

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>Year Ending June 30</u>	<u>Amount</u>
2024	\$ (677,478)
2025	(666,941)
2026	(716,214)
2027	(355,510)
2028	(360,724)
	<u>\$ (2,776,867)</u>

***E. Actuarial Assumptions***

The total OPEB liability in the July 1, 2022 actuarial valuation was determined using the following actuarial assumptions adopted by the EUTF’s Board of Trustees on January 9, 2023, based on the experience study covering the five-year period ended June 30, 2022:

Inflation	2.50%
Payroll growth rate	3.75% to 6.75% including inflation
Investment rate of return	7.00%
Healthcare cost trend rates:	
PPO*	Initial rate of 6.40%, declining to a rate of 4.25% after 22 years
HMO*	Initial rate of 6.40%, declining to a rate of 4.25% after 22 years
Contribution	Initial rate of 5.00%, declining to a rate of 4.25% after 22 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

\* Blended rates for medical and prescription drugs.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 13 – Postemployment Health Care and Life Insurance Benefits (Continued)**

***E. Actuarial Assumptions (Continued)***

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.

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Private equity	12.50%	11.72%
U.S. microcap	6.00%	8.28%
Global equity	27.50%	6.62%
Global options	5.00%	4.45%
Real assets	10.00%	6.59%
Private credit	8.00%	6.38%
TIPS	5.00%	1.35%
Long Treasuries	6.00%	2.32%
Alternative risk premia	5.00%	3.74%
Trend following	10.00%	4.53%
Reinsurance	5.00%	4.81%
	<u>100.00%</u>	

***F. 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 year ending June 30, 2021 and instead limit their contribution amounts to the OPEB benefits due. This relief provision related to OPEB funding was extended to fiscal years 2022 and 2023, by Act 229, SLH 2021. The OPEB plan’s fiduciary net position is expected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

**Note 13 – Postemployment Health Care and Life Insurance Benefits (Continued)**

**G. OPEB Plan Fiduciary Net Position**

The OPEB plan’s fiduciary net position has been determined on the same basis used by the OPEB plan. The EUTF’s financial statements are prepared using the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the cash flows. Employer contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investment purchases and sales are recorded on a trade-date basis. Administrative expenses are financed exclusively with investment income.

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

**H. 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, 2022.

	<b>Increase (Decrease)</b>		
	<b>Total OPEB Liability (a)</b>	<b>Fiduciary Net Position (b)</b>	<b>Net OPEB Liability (c) = (a) - (b)</b>
Balance at June 30, 2022	\$ 39,201,559	\$ 8,056,513	\$ 31,145,046
Changes recognized for the measurement period:			
Service Cost	386,120	-	386,120
Interest on the total pension liability	1,289,998	-	1,289,998
Changes in assumptions	(444,856)	-	(444,856)
Contributions - employer	-	852,289	(852,289)
Net investment income	-	(123,393)	123,393
Benefits payments	(594,722)	(594,722)	-
Administrative expenses	-	(510)	510
Differences between expected and actual experience	(1,745,310)	-	(1,745,310)
Other	-	1,661	(1,661)
Net changes during July 1, 2022 to June 30, 2023	(1,108,770)	135,325	(1,244,095)
Balance at June 30, 2023 (Measurement Date)	\$ 38,092,789	\$ 8,191,838	\$ 29,900,951

**I. 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 presents 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:

	<b>Discount Rate - 1 % (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>Discount Rate + 1 % (8.00%)</b>
OHA’s proportionate share of the net pension liability	\$ 37,030,781	\$ 29,900,951	\$ 24,234,214

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Notes to the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 13 – Postemployment Health Care and Life Insurance Benefits (Continued)**

***I. Sensitivity of OHA’s Proportionate Share of the State’s Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates (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:

	Discount Rate - 1% (6.00%)	Current Discount Rate (7.00%)	Discount Rate + 1% (8.00%)
OHA’s proportionate share of the net pension liability	\$ 23,926,309	\$ 29,900,951	\$ 37,540,248

***J. Payables to the OPEB Plan***

The OHA's employer contributions payable to the EUTF by fiscal year end was paid by June 30, 2023.

**Note 14 – Employee Benefits**

***A. 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 an 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.

***B. Hi‘ilei Aloha LLC Retirement Plan***

Hi‘ilei Aloha LLC offers a 401(k) profit sharing plan. Employees become eligible upon six months of employment and may contribute to the plan to the extent allowed by law. Hi‘ilei Aloha LLC matches employees’ contributions up to a specified percentage of salary. For the year ended December 31, 2022, contribution expense amounted to \$74,337.

***C. Sick Leave***

Accumulated sick leave amounted to approximately \$2,667,168 as of June 30, 2023. 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 the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 15 – Risk Management and Contingent Liabilities**

**A. *Workers’ Compensation and Other Self-Insurance Liabilities***

As a state agency, 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.

OHA’s insurance coverage with Hawaii Employers’ Mutual Insurance Company Inc. for its worker’s compensation and employers liability policy is as follows:

Bodily Injury by Accident	\$500,000	each accident
Bodily Injury by Disease	\$500,000	policy limit
Bodily Injury by Disease	\$500,000	each employee

OHA’s insurance coverage with Philadelphia Insurance Companies for its commercial general liability policy is as follows:

\$2,000,000	General Aggregate Limit (Other Than Products – Completed Operations)
\$2,000,000	Products/Completed Operations Aggregate Limit
\$1,000,000	Personal and Advertising Injury Limit (Any One Person or Organization)
\$1,000,000	Each Occurrence Limit
\$100,000	Rented To You Limit (Any One Premises)
\$5,000	Medical Expense Limit (Any One Person)

As of June 30, 2023, there are no outstanding claims for which OHA is liable.

**B. *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, 2023, 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 the Basic Financial Statements (Continued)**  
**For the Year Ended June 30, 2023**

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**Note 15 – Risk Management and Contingent Liabilities (Continued)**

**C. 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 believes 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 16 – Net Investment in Capital Assets**

The net investment in capital assets for the governmental activities, and business-type activities is calculated as follows:

	Governmental Activities	Business-Type Activities
Total capital assets, net	\$ 278,110,381	\$ 15,539,934
Capital related debt	60,234,646	-
Net investment in capital assets	<u>\$ 217,875,735</u>	<u>\$ 15,539,934</u>

**Note 17 – Related Party Transactions**

OHA receives a portion of Public Land Trust (PLT) revenues from various state agencies. In June 2006, Act 178 was passed which laid the foundation for a quarterly guaranteed PLT revenue stream of \$3,775,000, totaling \$15,100,000 per year. In June 2022, Act 226 was passed which established a new interim annual share of PLT revenues of \$21,500,000 beginning in fiscal year 2023; appropriated \$64,000,000 to OHA for fiscal year 2022, and established a working group to determine the pro rata share of the proceeds from the PLT due annually to OHA.

PLT revenue of \$21,500,000 is reported as of June 30, 2023, of which, \$5,375,000 is included in accounts receivable, net in the PLTF.

Besides property leased from DLNR, 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 the Department of Hawaiian Home Lands (“DHHL”) mutually agreed to a collaborative financing arrangement to provide funds for DHHL for 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, 2023, OHA has approximately \$27,000,000 in future payments committed to DHHL.

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## **REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

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**Office of Hawaiian Affairs, State of Hawai‘i**  
**Required Supplementary Information (Unaudited)**  
**Budgetary Comparison Schedule - General Fund**  
**For the Year Ended June 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Appropriations, net of lapses	\$ 2,254,400	\$ 2,254,400	\$ 2,254,400	\$ -
<b>Total revenues</b>	<u>2,254,400</u>	<u>2,254,400</u>	<u>2,254,400</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Beneficiary advocacy	2,254,400	3,087,826	5,254,678	(2,166,852)
Board of trustees	-	-	53,650	(53,650)
Support services	-	-	634,400	(634,400)
<b>Total expenditures</b>	<u>2,254,400</u>	<u>3,087,826</u>	<u>5,942,728</u>	<u>(2,854,902)</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>(833,426)</u>	<u>(3,688,328)</u>	<u>2,854,902</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	3,284,400	(3,284,400)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>3,284,400</u>	<u>(3,284,400)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (833,426)</u>	<u>(403,928)</u>	<u>\$ (429,498)</u>
<b>FUND BALANCE:</b>				
Beginning of Year			<u>1,764,829</u>	
End of Year			<u>\$ 1,360,901</u>	

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Required Supplementary Information (Unaudited)**  
**Budgetary Comparison Schedule - Public Land Trust Fund**  
**For the Year Ended June 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Charges for services	\$ 19,084,727	\$ 10,990,307	\$ 10,787,497	\$ (202,810)
Donations and other	-	-	275,746	275,746
Interest and investment gain (loss)	18,615,394	36,823,931	37,892,243	1,068,312
Public land trust revenue	15,100,000	21,500,000	21,500,000	-
<b>Total revenues</b>	<u>52,800,121</u>	<u>69,314,238</u>	<u>70,455,486</u>	<u>1,141,248</u>
<b>EXPENDITURES:</b>				
Current:				
Beneficiary advocacy	16,941,744	26,340,196	12,055,226	14,284,970
Board of trustees	2,739,809	3,045,848	2,676,507	369,341
Support services	22,999,700	37,413,305	19,635,285	17,778,020
Debt service:				
Principal retirement	-	-	206,973	(206,973)
Interest and fiscal charges	-	-	1,776,619	(1,776,619)
<b>Total expenditures</b>	<u>42,681,253</u>	<u>66,799,349</u>	<u>36,350,610</u>	<u>30,448,739</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>10,118,868</u>	<u>2,514,889</u>	<u>34,104,876</u>	<u>(29,307,491)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Inception of leases	-	-	396,657	(396,657)
Transfers out	-	-	(3,284,400)	
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(2,887,743)</u>	<u>2,887,743</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 10,118,868</u>	<u>\$ 2,514,889</u>	<u>31,217,133</u>	<u>\$ (26,419,748)</u>
<b>FUND BALANCE:</b>				
Beginning of Year			511,285,931	
End of Year			<u>\$ 542,503,064</u>	

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Required Supplementary Information (Unaudited)**  
**Budgetary Comparison Schedule - Federal Fund**  
**For the Year Ended June 30, 2023**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES:</b>				
Donations and other	\$ -	\$ 15,440	\$ 15,440	\$ -
Interest and investment gain (loss)	1,394,419	410,186	410,186	-
Intergovernmental revenue	266,358	421,680	421,680	-
<b>Total revenues</b>	<u>1,660,777</u>	<u>847,306</u>	<u>847,306</u>	<u>-</u>
<b>EXPENDITURES:</b>				
Beneficiary advocacy	1,660,777	3,025,737	954,921	2,070,816
Support services	-	231,045	143,001	88,044
<b>Total expenditures</b>	<u>1,660,777</u>	<u>3,256,782</u>	<u>1,097,922</u>	<u>2,158,860</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ -</u>	<u>\$ (2,409,476)</u>	<u>(250,616)</u>	<u>\$ (2,158,860)</u>
<b>FUND BALANCE:</b>				
Beginning of Year			24,589,699	
End of Year			<u>\$ 24,339,083</u>	

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Required Supplementary Information (Unaudited)**  
**Schedule of OHA's Proportionate Share of the Net Pension Liability**  
**For the Year Ended June 30, 2023**

Last Ten Fiscal Years					
Measurement Period End	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a % of Covered Payroll	Plan Fiduciary Net Position as a % of the Total Pension Liability
June 30, 2022	0.29%	\$ 33,444,702	\$ 8,316,230	402.16%	62.76%
June 30, 2021	0.32%	\$ 31,908,556	\$ 8,953,558	356.38%	64.25%
June 30, 2020	0.35%	\$ 37,039,176	\$ 8,362,878	442.90%	53.18%
June 30, 2019	0.37%	\$ 34,499,547	\$ 8,810,968	391.55%	54.87%
June 30, 2018	0.41%	\$ 32,698,545	\$ 9,008,205	362.99%	55.48%
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%

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Contributions - Pensions**  
**For the Year Ended June 30, 2023**

Last Ten Fiscal Years						
Year Ended	Statutorily Required Contribution	Contributions in Relation to Statutorily Required Contribution	Contribution Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll	
June 30, 2023	\$ 1,901,118	\$ 1,901,118	\$ -	\$ 8,316,230	22.86%	
June 30, 2022	\$ 1,933,747	\$ 1,933,747	\$ -	\$ 8,057,279	24.00%	
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%	

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Contributions - OPEB**  
**For the Year Ended June 30, 2023**

Last Ten Fiscal Years*						
Year Ended	Actuarially Determined Contribution (ADC)	Contributions in Relation to the ADC	Contribution Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll	
June 30, 2023	\$ 888,662	\$ 888,662	\$ -	\$ 8,316,230	10.69%	
June 30, 2022	\$ 852,290	\$ 852,290	\$ -	\$ 8,057,279	10.58%	
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.

**Actuarial Methods and Assumptions**

Actuarial cost method	Entry Age Normal
Inflation	2.50%
Investment rate of return	7.00%
Salary increases	3.75% to 6.75% including inflation
Demographic assumptions	Based on the 2022 actuarial experience study for the Employees' Retirement System of the State of Hawaii (the ERS), as conducted June 30, 2021
Mortality	System-specific mortality tables utilizing ultimate scale MP2021 to project generational mortality improvement.
Participation rates	98% healthcare participation assumption for retirees that receive 100% of the Base Monthly Contribution (the BMC). Healthcare participation rates of 25%, 65%, and 90% for retirees that receive 0%, 50%, or 75% of the BMC, respectively. 100% for life insurance and 98% for Medicare Part B
Healthcare cost trend rates:	
PPO*	Initial rate of 6.40%, declining to a rate of 4.25% after 22 years
HMO**	Initial rate of 6.40%, declining to a rate of 4.25% after 22 years
Contribution	Initial rate of 5.00%, declining to a rate of 4.25% after 22 years
Dental	4.00%
Vision	2.50%
Life insurance	0.00%

\* Blended rates for medical and prescription drugs.

\*\* Includes prescription drug assumptions.

**Office of Hawaiian Affairs, State of Hawai‘i**  
**Required Supplementary Information (Unaudited)**  
**Schedule of Changes in Net OPEB Liability and Related Ratios**  
**For the Year Ended June 30, 2023**

	Last Ten Fiscal Years*					
	2023	2022	2021	2020	2019	2018
<b>Total OPEB liability</b>						
Service cost	\$ 386,121	\$ 188,701	\$ 622,313	\$ 638,464	\$ 631,702	\$ 510,265
Interest on the total OPEB liability	1,289,998	626,402	1,998,401	2,012,496	1,955,895	1,549,389
Difference between expected and actual experience of the total OPEB liability	(1,745,310)	(265,870)	(1,829,616)	(16,757)	(578,349)	-
Change in assumptions	(444,856)		(149,804)	161,749	350,035	-
Benefit payments	(594,722)	(286,254)	(919,089)	(963,777)	(952,352)	(766,044)
<b>Net change in total OPEB liability</b>	(1,108,769)	262,979	(277,795)	1,832,175	1,406,931	1,293,610
<b>Total OPEB liability - beginning</b>	39,201,559	38,938,580	39,216,375	37,384,200	35,977,269	34,683,659
<b>Total OPEB liability - end</b>	<u>\$38,092,790</u>	<u>\$ 39,201,559</u>	<u>\$ 38,938,580</u>	<u>\$ 39,216,375</u>	<u>\$ 37,384,200</u>	<u>\$35,977,269</u>
<b>Plan fiduciary net position</b>						
Contributions - employer	\$ 852,290	\$ 983,690	\$ 2,053,803	\$ 2,125,953	\$ 1,881,695	\$ 1,523,372
Net investment income	(123,393)	515,666	109,657	193,288	216,804	152,522
Benefits payments	(594,722)	(286,254)	(919,089)	(963,777)	(952,352)	(766,044)
Administrative expense	(510)	(263)	(774)	(1,328)	(710)	(391)
Other	1,661	107	689	447,738	-	12,248
<b>Net Change in plan fiduciary net position</b>	135,326	1,212,946	1,244,286	1,801,874	1,145,437	921,707
<b>Plan fiduciary net position - beginning</b>	8,056,513	6,843,567	5,599,281	3,797,407	2,651,970	1,730,263
<b>Plan fiduciary net position - end</b>	<u>\$ 8,191,839</u>	<u>\$ 8,056,513</u>	<u>\$ 6,843,567</u>	<u>\$ 5,599,281</u>	<u>\$ 3,797,407</u>	<u>\$ 2,651,970</u>
<b>Plan net OPEB liability</b>	<u>\$29,900,951</u>	<u>\$ 31,145,046</u>	<u>\$ 32,095,013</u>	<u>\$ 33,617,094</u>	<u>\$ 33,586,793</u>	<u>\$33,325,299</u>
<b>Plan fiduciary net position as a %age of the total OPEB liability</b>	<u>21.50%</u>	<u>20.55%</u>	<u>17.58%</u>	<u>14.28%</u>	<u>10.16%</u>	<u>7.37%</u>
<b>Covered payroll</b>	<u>\$ 8,316,230</u>	<u>\$ 8,953,558</u>	<u>\$ 8,362,878</u>	<u>\$ 8,810,968</u>	<u>\$ 9,008,205</u>	<u>\$10,027,875</u>
<b>Plan net OPEB liability as a percentage of covered payroll</b>	<u>359.55%</u>	<u>347.85%</u>	<u>383.78%</u>	<u>381.54%</u>	<u>372.85%</u>	<u>332.33%</u>

\* 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.

**Notes to Schedule:**

Prior to the fiscal year ended June 30, 2023, there were no other factors, including the use of different assumptions that significantly affected trends in the amounts reported in the schedule of changes in the net OPEB liability and related ratios or the schedule of contributions (OPEB).

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

**Independent Auditors' Report**

To the Board of Trustees and management  
of the Office of Hawaiian Affairs  
Honolulu, Hawai'i

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"), the financial statements of the Office of Hawaiian Affairs ("OHA"), State of Hawai'i ("State"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, and have issued our report thereon dated March 29, 2024.

**Report on Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

To the Board of Trustees and management  
of the Office of Hawaiian Affairs  
Honolulu, Hawai'i  
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## **Report on Compliance and Other Matters**

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

## **Purpose of This Report**

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

*The Pw Group, LLP*

Santa Ana, California  
March 29, 2024