

Committee on Resource ManagementTrustee John Waihe'e IV, *At-Large* - ChairTrustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair**Members**Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brickwood Galuteria, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee J. Keoni Souza, *At-Large*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Wednesday March 27, 2024**TIME:** 1:30 p.m.

PLACE: Remote Meeting by Interactive Conference Technology
and in-person at OHA Maui Ola Boardroom
Nā Lama Kukui
560 N. Nimitz Hwy.
Honolulu, HI. 96817

viewable at <https://www.oha.org/livestream> OR

Listen by phone: (213) 338-8477, Webinar ID: 861 7259 5166

This virtual meeting can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listened to by phone at: (213) 338-8477, Webinar ID: 861 7259 5166. A physical meeting location, open to members of the public who would like to provide oral testimony or view the virtual meeting, will be available at 560 N. Nimitz Hwy., Suite 200, Honolulu HI 96817.

AGENDA**I. Call to Order****II. Approval of Minutes**

A. February 21, 2024

III. Unfinished Business – None**IV. New Business**

- A. Presentation by Auditors: Draft Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023, Sophia Kuo, Assurance Services Director, The Pun Group LLP
- B. **Action Item RM #24-06:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023
- C. **Action Item RM #24-07:** Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends
- D. **Action Item RM #24-08:** Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau
- E. **Action Item RM #24-09:** Reappointment of Roberts "Bob" Leinau as a Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027
- F. Consequent Capital Management (CCM) – Independent Board Investment Advisor
 - 1. re: Changes in CCM personnel, Ken Simon, CEO
 - 2. Discussion on a financial entity, Vijoy Chattergy, CIO (external)
 - 3. Discussion on private equity investment programs, Gerry Flintoft, Head of Private Markets

V. Adjournment



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

If you need an auxiliary aid/service or other accommodation due to a disability, please contact Everett Ohta at (808) 594-1988 or by email at everetto@oha.org as soon as possible. Requests made as early as possible have a greater likelihood of being fulfilled. Upon request, this notice is available in alternate/accessible formats.

Meeting materials for this meeting will be available for the public to view 48 hours prior to this meeting at OHA's main office located at 560 N. Nimitz Hwy., Suite 200, Honolulu, HI 96817. Meeting materials will also be available to view at OHA's neighbor island offices and will be posted to OHA's website at: www.oha.org/rm.

In the event that the livestream or the audiovisual connection is interrupted and cannot be restored, the meeting may continue as an audio-only meeting through the phone and Webinar ID listed at the beginning of this agenda. Meeting recordings and written meeting minutes are posted to OHA's website.

†**Notice: The 72 Hour rule, pursuant to OHA BOT Operations Manual, Section 49, shall be waived for distribution of new committee materials.**

Public Testimony will be called for each agenda item and must be limited to those matters listed on the meeting agenda.

Hawai'i Revised Statutes, Chapter 92, Public Agency Meetings and Records, prohibits Board members from discussing or taking action on matters not listed on the meeting agenda.

Testimony can be provided to the OHA Board of Trustees either as: (1) **written testimony emailed** at least 24 hours prior to the scheduled meeting, (2) **written testimony mailed** and received at least two business days prior to the scheduled meeting, or (3) live, **oral testimony online** or **at the physical meeting location** during the virtual meeting.

- (1) Persons wishing to provide **written testimony** on items listed on the agenda should submit testimony via **email** to BOTmeetings@oha.org at least **24 hours prior** to the scheduled meeting or via **postal mail** to Office of Hawaiian Affairs, Attn: Meeting Testimony, 560 N. Nimitz Hwy., Suite 200, Honolulu, HI 96817 **to be received at least two business days prior** to the scheduled meeting. Any testimony received after these deadlines will be 'late' testimony and will be distributed to the Board members after the scheduled meeting.
- (2) Persons wishing to provide **oral testimony online** during the virtual meeting must first register at:

https://us06web.zoom.us/webinar/register/WN_E19j2yxqSvSeD02ngM2otQ

You need to register if you would like to **orally testify online**. Once you have completed your registration, a confirmation email will be sent to you with a link to join the virtual meeting, along with further instructions on how to provide **oral testimony online** during the virtual meeting.

To provide **oral testimony online**, you will need:

- (a) a computer or mobile device to connect to the virtual meeting;
- (b) internet access; and
- (c) a microphone to provide oral testimony.

Once your **oral testimony online** is completed, you will be asked to disconnect from the meeting. If you do not sign off on your own, support staff will remove you from the Zoom meeting. You can continue to view the remainder of the meeting on the livestream or by telephone, as provided at the beginning of this agenda.

- (3) Persons wishing to provide **oral testimony at the physical meeting location** can sign up the day-of the meeting at the Nā Lama Kukui OHA lobby.

Oral testimony online or **at the physical meeting location** will be limited to five (5) minutes.

Oral testimony by telephone/landline **will not** be accepted at this time.

Trustee John Waihe'e, IV, Chair
Committee on Resource Management

03/21/2024

Date

March 27, 2024 - Continued

Committee on Resource ManagementTrustee John Waihe'e IV, *At-Large* - ChairTrustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair***Members***Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brickwood Galuteria, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee J. Keoni Souza, *At-Large*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Wednesday March 27, 2024**TIME:** 1:30 p.m.**PLACE:** Remote Meeting by Interactive Conference Technology
and in-person at OHA Maui Ola Boardroom

Nā Lama Kukui

560 N. Nimitz Hwy.

Honolulu, HI. 96817

viewable at <https://www.oha.org/livestream> OR

Listen by phone: (213) 338-8477, Webinar ID: 861 7259 5166

This virtual meeting can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listened to by phone at: (213) 338-8477, Webinar ID: 861 7259 5166. A physical meeting location, open to members of the public who would like to provide oral testimony or view the virtual meeting, will be available at 560 N. Nimitz Hwy., Suite 200, Honolulu HI 96817.

AGENDA**I. Call to Order****II. Approval of Minutes****A. February 21, 2024****III. Unfinished Business – None****IV. New Business**

- A. Presentation by Auditors: Draft Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023, Sophia Kuo, Assurance Services Director, The Pun Group LLP
- B. **Action Item RM #24-06:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023
- C. **Action Item RM #24-07:** Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends
- D. **Action Item RM #24-08:** Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau
- E. **Action Item RM #24-09:** Reappointment of Roberts "Bob" Leinau as a Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027
- F. Consequent Capital Management (CCM) – Independent Board Investment Advisor
 - 1. re: Changes in CCM personnel, Ken Simon, CEO
 - 2. Discussion on a financial entity, Vijoy Chattergy, CIO (external)
 - 3. Discussion on private equity investment programs, Gerry Flintoft, Head of Private Markets

V. Adjournment

**STATE OF HAWAI'I
OFFICE OF HAWAIIAN AFFAIRS
560 N. NIMITZ HIGHWAY, SUITE 200
(VIRTUAL MEETING - VIA ZOOM WEBINAR)
COMMITTEE ON RESOURCE MANAGEMENT
MINUTES**

February 21, 2024 1:30 p.m.

ATTENDANCE:

Chairperson John Waihe'e, IV
Vice-Chairperson Luana Alapa
Trustee Kaleihikina Akaka
Trustee Keli'i Akina
Trustee C. Hulu Lindsey
Trustee J. Keoni Souza
Trustee Mililani Trask

ATTENDANCE:

Trustee Dan Ahuna
Trustee Brickwood Galuteria

BOT STAFF:

Crayn Akina
Joyce Yang
Kanani Iaea
Kyla Hee
Melissa Wennihan
Morgan Kauai Robello

BOT STAFF (cont'd):

Richelle Kim
Sommer Soares

ADMINISTRATION STAFF:

Stacy Ferreira, CEO / Ka Pouhana
Casey Brown, COO / Ka Pou Nui
Arlene Aguinaldo, IT
Everett Ohta, Interim General Counsel
Grace Chen, Financial Analyst
Kevin Chak, IT
Nietzsche Ozawa, Interim Senior Legal Counsel
Ramona Hinck, CFO
Ryan Lee, Director of Endowment
Tiger Li, IT

GUESTS

Gerry Flintoft, Consequent Capital Management
Vijoy Chattergy, Consequent Capital Management

I. CALL TO ORDER

Chair Waihe'e calls the Committee on Resource Management meeting for Wednesday, February 21, 2024 to order at **1:31 p.m.**

Chair Waihe'e notes for the record that **PRESENT** are:

MEMBERS			AT CALL TO ORDER (1:31 p.m.)	TIME ARRIVED
CHAIR	JOHN	WAIHE'E, IV	PRESENT	
VICE-CHAIR	LUANA	ALAPA	PRESENT	
TRUSTEE	KALEIHIKINA	AKAKA	PRESENT	
TRUSTEE	KELI'I	AKINA	PRESENT	
TRUSTEE	C. HULU	LINDSEY	PRESENT	
TRUSTEE	J. KEONI	SOUZA	PRESENT	
TRUSTEE	MILILANI	TRASK	PRESENT	

At the Call to Order, **SEVEN (7) Trustees are PRESENT**, thereby constituting a quorum.

EXCUSED from the RM Meeting are:

MEMBERS			COMMENT
TRUSTEE	DAN	AHUNA	MEMO – REQUESTING TO BE EXCUSED
TRUSTEE	BRICKWOOD	GALUTERIA	MEMO – REQUESTING TO BE EXCUSED

II. APPROVAL OF MINUTES

A. January 31, 2024

Chair Waihe'e asks if there is anyone signed-up to testify on this agenda item.

RM Staffer Akina: No one has signed-up to testify on this agenda item nor for any other agenda item.

Trustee Lindsey moves to approve the minutes of January 31, 2024.

Trustee Souza seconds the motion.

Chair Waihe'e asks if there is any discussion.

There is no discussion.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

MOTION							Motion: 1:33 p.m. Vote: 1:33 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
DAN	AHUNA						EXCUSED
KALEIHIKINA	AKAKA			X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA			X			
BRICKWOOD	GALUTERIA						EXCUSED
CARMEN HULU	LINDSEY	1		X			
J. KEONI	SOUZA		2	X			
MILILANI	TRASK			X			
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				7	0	0	0

VOTE: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e notes for the record that all members present vote 'AE (YES) and the **MOTION PASSES**.

III. UNFINISHED BUSINESS

None

IV. NEW BUSINESS

A. Consequent Capital Management

1. Observations of the Native Hawaiian Trust Fund (NHTF)

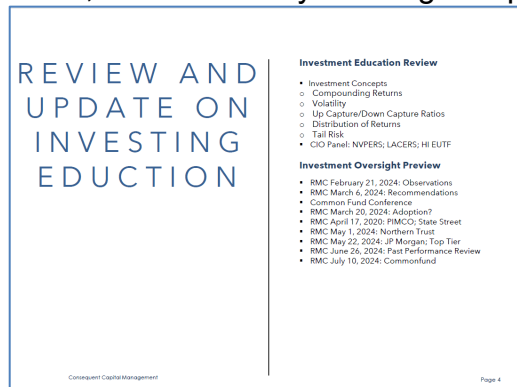
Chair Waihe'e asks if there is anyone signed-up to testify on this agenda item.

RM Staffer Akina: No one has signed-up to testify on this agenda item.

Chair Waihe'e turns it over to Independent Board Investment Advisor Vijoy Chattergy.

Independent Board Investment Advisor Chattergy: Aloha Trustees, staff, and other members and stakeholders that are present. It's nice to be back in front of all of you again at the RMC Meeting. Again, my name is Vijoy Chattergy, I'm with Consequent Capital Management. We don't have outside speakers today, but Gerry Flintoft is present, and he's focused in on private markets, so he's listening. Then we may have a number of other people listening in through the public live stream. Once again thank you for having us here, as people know, we are the Board Consultant on the Investment Program.

For today's material we don't have outside speakers, but we're going to go through as we do the format that we've established in order to communicate consistently and hopefully, comprehensively, with the Board. So, you have a presentation slide deck, which we'll have up on the screen for people to be able to refer to. On the document - there's a little bit of the background, and there's an investment glossary in the back for your reference as usual, but I will take you straight to page 4, if that's alright.



Independent Board Investment Advisor Chattergy: So, page 4, like we always do, we like to do a little bit of a review in terms of what we covered in the previous session - some of the Education pieces or speakers that we may have had. Then the second part of that we highlight some of the activities that we expect coming up over the next several months, and then we'll proceed into today's activities.

Independent Board Investment Advisor Chattergy: So, in terms of the last session, you'll recall that we introduced several investment concepts. I'm sure many of you have seen these terms and these ideas before; compound returns, volatility, up-capture, down-capture, distribution of returns, and tail risk. These ideas that we went into some detail last time, are used throughout investments and finance. But we tried to put it in the context of how it's relevant to you as fiduciary trustees. I'm happy to talk about these again, particularly if we have one-on-one meetings, or whenever you have questions - and that goes for the staff and aides as well; happy to continue that.

I would just mention that in terms of *the compounding returns* which we all learned in fifth grade, and we see at our bank accounts, when we buy a CD, or put our money into savings; we accept some kind of interest, and that interest makes interest on the interest. So, that's the compounding effect that I mentioned.

Like Benjamin Franklin and others thought was so nifty and important in terms of human development even. What I would point out to you as trustees managing a portfolio into perpetuity is that the compounding effect is tremendous, as we discussed. So as long-term investors, that's like your superpower. Not every investor / individual can take advantage of being long-term investors and being able to sit through markets that go up and down for different reasons and continue to grow using compounding returns over time.

Volatility is one of those things that can be very detrimental to a portfolio for a long-term investor. So, on the whole, there are many definitions and ways that volatility is used in the marketplace. It usually implies something like a frequent changing of prices. It is a measure of uncertainty in the market when you have a lot of volatility, but there are traders, and there are strategies that can trade volatility, and you can actually generate positive returns using volatility.

Independent Board Investment Advisor Chattergy: So, while I'll say you as long-term fiduciary investors tend to not like volatility, you want nice and steady returns over the long-term that are growing your portfolio. Volatility is something that you tend to shy away from, but that's just a generality. There are times in a portfolio of different types of assets where strategies that take advantage of higher volatility could be very effective and we'll talk more about that in time. I think, if we look at adding different types of strategies in the portfolio, but just as a rule of thumb you as Trustees, tend to, not like volatility, because you're long-term investors.

Traders and short-term investors, they tend to like the uncertainty in the market because they believe they can trade around that and make money at others' expense; so that's volatility.

The up-capture, down-capture was a percentage and even a ratio that we talked about. When you look at your manager's performance, that's one of the metrics you can ask for, and it sort of says, how do they do when the markets are going up. *Are they capturing 100% or more than 100% of the market?*

When markets are going down, let's measure and see. *Do they go down 100% with the market, or do they go down less than the market, or worse, maybe they go down more than the market?*

Independent Board Investment Advisor Chattergy: So, it's a tool. It's a way to look at how managers do in different types of markets, and of course, as long-term investors, while you want to generate as much as you can on the upside, it's really the downside where the payoff comes. Where, if you can lose less than others, or even not lose when the market is losing, over the long term, you're going to start compounding in that better position, and your portfolio will tend to grow better, and that's your advantage as a long-term investor.

Distribution of returns; had to do with, as you watch a strategy over time, or theoretically, what you expect a strategy to do. It should have times when it produces positive returns and negative returns, and the distribution of returns are generally presented as a chart or a graph that shows those possibilities over time. Many of us are familiar with the so-called bell chart, which is what they call a normal distribution, as investors. If possible, all investors - you want asymmetric returns.

Independent Board Investment Advisor Chattergy: What you want is that distribution is not normal, but if you can get a few more upside returns over time again, that'll lead to positive compounding and growth of your portfolio over time. So, we talk about trying to generate asymmetric returns. When you talk about your hedge funds and your alternative investments, that's kind of what they're pushing.

They're saying: *We're not just going to give you the expected return. Our investments are skewed to the upside, and we're going to produce more positive outcomes than normal or negative outcomes.*

If you have something that's skewed on the downside, that's something to be wary of, because that's saying that even if it doesn't happen a lot, there may be surprises.

That takes us to the *Tail Risk*, which are extreme returns - so that distribution of returns you'll see at the very extremes of those outcomes. There's a little blip in the chart, and that little blip doesn't look like much, but it could have a tremendous effect on your overall performance. We want it on the right side of the distribution curve because that implies positive returns. But when you have it on the negative side, and you're not really managing that downside risk, then that can be devastating to your long-term performance and outcomes.

So, these are just a few of the tools, and we'll develop more over time that you as trustees can use to oversee the portfolio. These are the kinds of questions and issues that you want to bring up when you see the performance of your portfolio, or a manager comes and tells you, *hey, I've got this great strategy.*

Well:

- *What does the strategy look like?*
- *What's the up-capture?*
- *What's the down-capture?*
- *Do you have a distribution of returns that we can look at, either based on historical or some proactive view of the future?*

So, these are the conversations that you, as trustees have, that staff can have, that your consultant should be having.

Independent Board Investment Advisor Chattergy: So that was the introduction of several concepts last time.

We also had a CIO panel; if you recall, we had CIOs from the Nevada Public Pension Plan, from LACERS, the Los Angeles City Pension Plan, and the former CIO of the Hawai'i EUTF group that also presented. They gave their perspective of how they manage institutional portfolios, how they work with their board, how they work with their staff, and they had different types of investments.

You recall the Nevada PERS had a lot of very passive, market exposure type investments.

LACERS was active in a lot of the alternative space, and they worked with their boards in different capacities.

I think, with the EUTF, they worked a lot with consultants, and they reported to their board. I think they still have their board approve a lot of the investments that go on there, as opposed to maybe LACERS, which has a very experienced team, as their CIO has been there a long time, and they are given more leeway to have discretion at some levels of making investments then reporting back to the board what they've done over time.

All of that is very dependent on those institutions. So, you as the trustees of the OHA portfolio, come to figure out exactly how you want to manage the portfolio going forward because you're managing it now and you have managed it historically. But what is going to be relevant going forward, and that's some of the things we will talk about. You may want to do it exactly the same way you do it now, you may want to change things. There are lots of options, but you collectively, as a board need to decide how it is you want to manage it. So, those CIOs that came in front of you gave you different examples of how they come to their solution. It's not going to necessarily be what OHA does, but we can always learn from watching what others are doing in the marketplace. And hopefully, maybe you generate conversations or a network of your peers like, remember, we had a trustee from the EUTF, come and speak, Christian Fern.

Independent Board Investment Advisor Chattergy: You know those sorts of people in the marketplace, they have a good understanding of what you're going through, and so they make a good sounding board or network.

- *How did you guys handle working with new investment opportunities?*
- *How do you bring yourself up to speed? ; and*
- *Where do you make decisions?*

These are all important things in terms of how to manage the overall portfolio. So that's the Education review.

Independent Board Investment Advisor Chattergy: If I can turn now and just talk a little bit about where we are in terms of the calendar of events or activities coming up.

So, you see, today is something that I'm calling *Observations*. So, I'll speak a little bit more about that, but we've kind of been looking at the portfolio. We've been talking to different trustees and staff and getting an idea of where things are, and the rest of this presentation is full of some of our *observations*.

On March 6, 2024 I have us coming back, and I'm calling it *Recommendations*.

That's where we'd actually like to come in with some red line versions or specific memos, saying,

- *This is what we think you could or should be doing, or*
- *Here are some options of how you might think about revising portfolio policy or procedures of how you oversee the portfolios, and*
- *What are the appropriate roles and responsibilities that you and trustees have, maybe what staff has, and so on.*

That may also get pushed a little bit into the March 20, 2024, because there's sort of high-level policies, and then there's things that get a little closer to operations or specific asset classes. And as we're going through some of the asset classes, there may be a lot more detail that we want to opine on, and so we'll try and do most of this in March.

Then really at your timetable chair and trustees, in terms of how you want to adopt that or the conversations you want to have around that can happen. I think the idea of having a *fully formed policy procedure way* to oversee the portfolio, going forward, maybe the target. To have that all in place by the end of the fiscal year, so you start off with a fresh foot going forward. But again, that's all up to you as a body to decide that. So, we make recommendations and give advice, but ultimately, it's your call.

Independent Board Investment Advisor Chattergy: The other meetings you see there are a number of your managers, as well as your Performance Report and Custodian - will come and speak in front of the trustees. There may also be some prospects that we might want to get in there, because they have particular expertise and certain strategies that might be helpful for the portfolio.

I'll note on the version that you're seeing here on the screen, I've already made a change to the May 22nd RM meeting, where you'll have Goldman Sachs come in and JP Morgan come in. So those are very important managers in your portfolio.

They have certain levels of discretion, and you see their portfolio. So, it is very important for you guys to have a direct understanding and dialogue with these managers and what they do for you and that's sort of the conversations that we'd like to have with them as they come in. Again, it's not that you need to oversee or micromanage what they do, once you've given them a mandate. It's more like making sure that they're doing what they said they're doing, that they're performing the results that you expect to have from them.

So, the reason why it's important to bring your investment managers in front of you, and actually take some of your precious time - there are many reasons, but I tend to think in three sometimes - *I think there's an accountability* that they have; they're investing your money.

Independent Board Investment Advisor Chattergy: We had the other week, Pantheon, come and speak to you. Even though you haven't made a new investment in Pantheon for several years now, they're still making investments based on your previous contracts. It's important that if they're investing money for you, that they are accountable for that, and they should come and explain what they're doing and why it makes sense for OHA going forward.

Independent Board Investment Advisor Chattergy: A second reason is that it's important for them to know you, to know OHA. They have a lot of clients.

Pantheon came and they have global clients, they have billions and billions of dollars that they invest. Someone at Pantheon should know:

- *Why is OHA different?*
- *What is it that you're trying to achieve?*
- *What are your visions and goals for this portfolio?*

They need to have a direct conversation and no one better than the trustees to articulate that.

Finally, by being in front of market participants and investors, OHA has an opportunity to brand themselves, to make sure that you're remembered in the marketplace.

As opportunities and ideas come to these market investors. who are out there always looking for opportunities, they remember - *oh yeah, I know OHA is interested in this sort of a strategy.*

You know there may be there five or six of their clients that might be interested in that, but if they know OHA - maybe you're on that list.

I do think those are reasons why we want to bring the managers in front of you, and it's not that they would necessarily come in every RMC Meeting. It seems like a lot right now, but that's because of the pandemic, and because of, certain issues. I think they haven't been in front of you recently, and there needs to be more reporting. It's typical of asset owners like yourself to bring these kinds of managers in front of them, maybe once every two years, unless there's some specific issue that you want to hear from them, then absolutely, they should come and present, because you have a reason for them to come.

So that's the preview of where we're going, and before I get into our *Observations* session, are there any questions or comments on anything that I've said up to this point? I want to be respectful of your time, but I also want to be responsive.

There are no questions or comments.

Independent Board Investment Advisor Chattergy: Okay, great, we can move on to page 5, and the next several pages are fairly dense with text and with ideas, and I hope to go through them fairly quickly, but it may take a little time. Feel free to stop me if you want to, at any point. Also, I'm looking forward to having follow-up conversations with everyone.

Independent Board Investment Advisor Chattergy: The idea of *Observations* before we get to *Recommendations* and before we get to actionable *Policy Changes*, is that collectively within OHA, you need to be having conversations about the best way to manage your portfolio. So, an idea that I come across in my work is that, if you look around the room, everyone that's here is a very successful, well-functioning person. If you compare yourself to just the humanity, you've done something right to be here and to be successful a lot of times, it's because you're able to provide solutions.

If someone has a problem, here's a solution, you give it to someone, and then we can move on. And a lot of successful people, that's how they sort of articulate and explain why they're successful, they're able to solve problems, they're able to give solutions. Part of where I am right now in terms of observations is, I don't want to go right to the solution, right to the recommendations, we need to spend time in something that I'm going to call problem space.

So, problem space is not, here's what you should do, it's more trying to define, what is it we're trying to solve here. Generally speaking, we're trying to build an institutional quality investment portfolio, but that's not a generic portfolio, that's the OHA portfolio. So, what does it mean to be investing for OHA's goals, missions, future, and how does that then get expressed. So, we're going to come to solutions, we're going to be in solution space, and we're all good at that, but we need to spend time in problem space.

Independent Board Investment Advisor Chattergy: So, there's a story that's attributed to Einstein, and it's not accurate, but people say this is what Einstein said, he never said it, but he could have said it. If the world were coming to an end, and he had to come up with a way to save the world, he would spend 55 minutes thinking about what's the problem, and then 5 minutes solving the problem.

So that's kind of the division of labor. Now, that's a nice story and you know he was a theoretical physicist, so maybe when you can think of ideas, and then the eclipse happens several years later and you get a lot of credit for that, that's fine, that's not actually where you are.

You have to solve the problems and deal with the investments today, you have an existing portfolio that you manage one way. You want to know, how should you manage it in the future. So, we can't stay in problem space forever and we can't spend 55 minutes of the hour figuring out why we should save the earth and then just 5 minutes saving it, we actually have to kind of do it at the same time.

But, if you humor me today, I'm saying, let's stay in problem space, and let's talk about these observations, then we can continue to have conversations between now and whenever Consequent comes back to you with actionable and concrete recommendations, so that that's kind of where we are.

Observations: Overview

Takeaways:

Best practice for an investment program of an asset owner is clear roles of **responsibilities and accountability** that allows for appropriate decision making at different levels of the organization with **transparency** that decisions are within governing policies and guidelines

- Current investment program, including governing policy documents, was inherited and is not congruent with similar asset owners

Execution of tasks from supervision to implementation needs to follow a defined process with confirmation and exemptions formally presented

- Current investment program conducted without clear rationale for decisions and without reporting through appropriate channels

Consequent Capital Management

- Investment program, particularly the Manager of Manager (MoM) approach, was designed at a time when different Trustees and staff worked at OHA
- Investment Policy Statement (IPS) has strong and clear statements regarding goals and objectives, but does not always show best practices for a public entity in terms of accountability and reporting
- Decisions related to investments appear to follow established procedures but accountability for the decisions in terms of rationale and reporting are not always clearly recorded
- Comprehensive and holistic management of the investment program is not possible in the current structure
- Appropriate resources are missing such in the case of an investment consultant(s) or internal dedicated staffing
- Governance and information sharing can be enhanced

Page 5

Independent Board Investment Advisor Chattergy: So, on page 5, these are just sort of general observations, and what we're going to see is on the left side of the page going forward is, we sort of have certain takeaways that we feel are to emphasize, and on the right side we just have a list of bullet points of different observations. I'm going to try and run through this fairly quickly, but again feel free to stop me.

Again, I'm hopefully not giving you any solutions or tipping into that direction. It's hard not to do, when I want to give solutions to everybody. It's hard not to get into that, but let's stay in problem space for now, and just make observations and figure out, does that make sense, and *is that really the problem?*

Generally speaking, we're trying to build an investment program of best practices. There needs to be responsibility and accountability and transparency that goes throughout the program, wherever we are in it. The current program has the appropriate governing documents, they're in there. They cover a lot of ground but it's been apparent to us at Consequent that a lot of this has been inherited, the regime, if you will, that was in charge or oversight and had responsibility. Many of those people, or maybe all of those people are no longer here. So, it is relevant to come back, and kind of say, okay, *is what is in place appropriate?*

Maybe it was appropriate before, but *what is going to work going forward?* So that's something that we note.

At the bottom of the half of the page, the idea of: you have to *execute*. You have the supervision, you have the oversight, and then you also have to implement, you have to implement the portfolio.

So, where and how is that being decided at the moment and what would be a best practice for us to do that going forward?

Independent Board Investment Advisor Chattergy: So, we need rationale for decision making and we need appropriate reporting channels. As trustees, no one expects you to be watching the markets or the portfolios every day, there's a lot on your plate clearly, but *where is that happening?*

Then *when is it appropriate, and what is appropriate to be reported back to the trustees?*

That, I think needs to be done in a more systematic manner than it is at the moment, maybe it was done that way before and changed for whatever reason. There were clearly, a lot of issues like the pandemic that have interfered with basic activities and we're all dealing with that, but now let's see what we think will work for the future.

On the right side, we look at the Manager of Managers approach, that's what you have now, and again, it was created under a different time. You have an investment policy statement with a lot of clear and distinct policy.

Vice-Chair Alapa: *In regard to the Manager of Managers, do you believe change is in order?*

Independent Board Investment Advisor Chattergy: What I'll say is that my personal observation is maybe it's not the ideal structure in terms of where you are, but that's getting a little bit to solution, and if I bring solutions to you, I'd like to give you options and different ideas as opposed to just outright, saying, it's not appropriate.

Independent Board Investment Advisor Chattergy: There may be other folks who aren't speaking or asking right now, who might think the Manager of Managers approach is appropriate. That's a conversation worth having, because it was put in place for some reason, and it maybe was very effective at one point, but it's worth exploring again.

I would say, you do want to explore that. You want to explore where decisions are made and discretion, because there is an incongruence about that at the moment, and the rationale, the transparency, I don't think, is getting back up to the trustees where you're comfortable or understand how decisions are necessarily being made, and what's appropriate. So that's a conversation I'll go into, maybe more later.

Vice-Chair Alapa: I truly appreciate that, because it gives us an idea of where we stand and the lack of information, so it leaves us hanging at times. So, if we have someone like you, in your professional opinion on having a money manager or not, or more current through today's times of what you're already observing and being successful at, I would appreciate to have that information from you.

Independent Board Investment Advisor Chattergy: I'm happy to have those conversations, and what I would encourage all the trustees to do, and staff, and others who are interested in the portfolio; if you have that sort of observation, or that concern, jot it down. Let's have a conversation about it, so we can put it appropriately where it needs to be in the ongoing conversation, because again, a lot of these observations that we're making, we would like to make them into actionable recommendations. Where you can vote and say, *yes, we'd like to rewrite this policy statement, or we'd like to create this process*, but again, that's a little bit down the road, not quite yet.

The third to the last bullet point there, I would just highlight, you do want to have a comprehensive, holistic approach. Maybe one thing with the Manager of Managers approach, it's a little more siloed, and again, if this were a family office or something, I've seen very successful family offices that have very siloed approaches to their investment opportunities, they make a lot of money.

Independent Board Investment Advisor Chattergy: But you're a different kind of entity. So, we have to ask, *is that appropriate the way decisions are made?* Silo is kind of like a lot of decisions made within a manager or an asset class versus someone who's holistically looking at the overall portfolio and thinking about risk and opportunities and how they impact each other.

So that's along the lines of, remember, we talked about building an aquarium, maybe you don't remember, but I did make a comment, like if you're trying to invest in opportunities around the world, it's like the ocean, you can never have the ocean, but you can build an aquarium. So, it's appropriate to ask, what are the opportunities, and how do you build something that creates the portfolio that's appropriate to you, the portfolio being the aquarium. But we don't have to spend too much time on that analogy.

Vice-Chair Alapa: I have question regarding one of the bullet points; *the decisions related to investments appear to follow established procedures but accountability for the decisions in terms of rationale and reporting are not always clearly recorded*. So, you're saying that is what you've observed?

Independent Board Investment Advisor Chattergy: So, in terms of recording, it's like reporting, and again, decision making is made, you have managers that are making investment decisions.

Independent Board Investment Advisor Chattergy: *So, where are the documents and procedures in terms of how they do things now?*

They assumed at one point, maybe when they were hired, they went through, this is our investment process, but a lot of times, you need to follow up, and you need to continue to understand, *how are they making decisions, and why?*

Those conversations need to happen, and you need to be set, even if you've hired someone and you're continuing to use them. That's why I said, in the beginning, when we have these managers come, maybe they come every 18 months or something to just re-inform you about how they're doing things and how the portfolio is performing as well as you also get investment reports that need to be explained and presented to board.

Vice-Chair Alapa: But is 18 months the average, that sounds like quite a while.

Independent Board Investment Advisor Chattergy: It depends, again how you structure it. A lot of institutional investors, because they're long-term investors, it might be two years before they hear from a particular manager. A lot of times institutional investors when they do decide to invest with a particular manager whether it's the public side of the private side, you need time to see how they're doing. So, they don't want to be changing managers every year or every six months.

If you're in the portfolio, you need to be in the portfolio for at least five years for us to have any idea of whether you're doing well or not, and then beyond that. We can come back and talk about these sorts of things going forward.

Chair Waihe'e recognizes Trustee Trask.

Trustee Trask: I'm very thankful to see this, Vijoy, but when I look at the materials commencing at page five, the way I'm reading it is first overview advisory to us. You're flagging areas that we need to focus on and now supplement is how I'm looking at it.

In terms of page number 5, everything that follows will give me the detail of these kinds of corrective measures, is what I'm looking at now.

The other thing I wanted to ask, though, is that as we go forward, the advisories that I get from you, Vijoy, from you and your folks that are advising us now, I would like to put a little more flesh on the detail when we go through it. Page number 5 is the overview of some of the things that we need to look at, but one of the things, for instance, that Trustee Alapa just raised is, decisions are being made, but they're supposed to be an established procedure, but it's not being recorded.

Trustee Trask: You don't record it, you don't have it. The decisions are supposed to come from the Board and not from the staff. The Board is the one that is carrying the liability. So, the training that we need to get from yourself and others this coming year is going to help us to correct that problem.

On page number 4, you gave me month by month overview for our investment; training and the oversight, and you put in Goldman Sachs I guess coming in May or June, but I need to have something for the pages that follow page 5, because we're going to need to follow up on this with you.

Trustee Trask: So, I just want to make sure we include that.

The last point is, when trustees come into OHA, we have a couple of weeks of what's called onboarding orientation, nothing on portfolio management, nothing. So, when you take a look at future services, training and education we need, think about that for what we could put in to do a better job for onboarding for our Trustees. Thank you.

Independent Board Investment Advisor Chattergy: Yeah, thank you Trustee Trask. Those were terrific comments, and in fact, one point I want to clarify is that some of the subsequent pages and the details, they're not meant to be necessarily answering anything that was on page 5. We're trying to observe the things that we've seen in different aspects of the portfolio.

So, page 5 is just an overview, then when we talk about how frequently should a manager present in front of the board. That's a little bit getting into solution space, and there's more than one solution. Maybe 18 months or 2 years is too long for OHA to hear from a manager, maybe it's too soon. It just depends on the frequency, and that you have a defined process.

So, there are different ways you're going to be able to define that. I just put that as an example, at the risk of getting into the solution space, when I really want to stay in the problem space.

The problem is essentially, you're not hearing enough from what's going on in the portfolio at different levels, different ways, maybe, from the manager, maybe from your performance reports.

So, how do we go about solving that?

That's what we want to come back with in terms of recommendations, but we'd also like to have that conversation. That's the purpose of having the *observations* and then the *recommendations*, and then eventually, you take action, so let's start to have those conversations. They don't all have to happen right here and now, but they need to happen, because ultimately you should all be comfortable and be willing to get behind whatever the policies and procedures are and understand how the portfolio is being managed. So, hopefully that was helpful and thank you again, Trustee Trask for your comments.

Trustee Trask: I just have one other point Vijoy, extremely concerned with the second column, third to the last point; *Comprehensive and holistic management of the investment program is not possible in the current structure*, that is like a hammer falling down on a Trustee's fiduciary obligation.

Trustees, we need to take a look at that, but it is going to take me a year, Vijoy, to get this thing in a better structure; that's a long time. *What's the quickest we can do with your folks' assistance to get this thing into a more holistic and comprehensive management format?*

Independent Board Investment Advisor Chattergy: Yeah, thank you Trustee Trask. That will be driven by you as trustees in terms of how quickly you want to adopt any recommendations that we bring in front of you. We're trying to get to the recommendations portion, maybe in March. There's a couple of meetings that you have in March, so we should have various recommendations, but the observation is just the structure that you have tends to force decisions and oversight into what we call kind of a silo approach.

Independent Board Investment Advisor Chattergy: Again, I'm not saying that under certain circumstances, with certain types of investors, that isn't necessarily a bad thing, but *is that appropriate for OHA?*

What I'm hearing you say is that *that's not the way that you would like it to be overseen and managed*, and I think that's fair. So now let's have that conversation, and then let's have Consequent come back with the recommendations that reflect a consensus, so that there's an ability to adopt it and to get behind it. So, thank you.



Independent Board Investment Advisor Chattergy: If I can move on to page 6, these are governance observations, and again, things to take away. So, we want to have follow up discussions. I do think that currently, your Resource Management Committee (RMC) is where you essentially have your, what other organizations might call the Investment Committee, and it does seem appropriate, because I know that there's like the direct investments, and there's other activities.

So, I think it is an appropriate place, where you can coordinate conversations and reporting, and then move it up to the other committees or the Board when you need input or decision making or ratification of activities that you decide here.

Now, even if the Board is making final decisions and getting information funneled through the RMC, and I do understand that all the trustees are on the RMC are also on the Board.

In terms of being able to get work done, you may consider:

- *Does it make sense for maybe the Chair and the Vice Chair to get a little more information or involved with the portfolio between meetings or on an ongoing basis? ; or*
- *Are there other trustees that you would want to have delegate those responsibilities to?*
- *Then - how do you prevent it so that it doesn't end up just being with a couple of trustees, when it really needs to be a shared responsibility, so do you rotate responsibilities over some?*

Those are solutions, but I just highlight them in the sense of - that's the direction you can go. The observation is that the RMC is an appropriate place to have these presentations and the meetings and issues brought up, and then the question is, the way it functions, *is it optimal for everyone to get the most out of the experience of overseeing this institutional portfolio?*

Independent Board Investment Advisor Chattergy: Again, there's no one right answer, and I'm not getting to answers now, but I want to put that out there because that needs to be the conversation that you have amongst yourselves, that you have with me, that you have with staff, so that we can come back and make a recommendation that you believe in, that you think you can execute.

Going to the observations on the right side, I think I've highlighted some of that already in terms of the takeaways. For example, the portfolio performance, there should be a regular schedule of reporting that, it doesn't have to be every meeting. It doesn't have to be every day, you're a long-term investor, but maybe quarterly at the very least.

Some investment asset classes might not need quarterly reporting, maybe they need annual reporting. It really depends on the investor and the level of oversight and involvement that the trustees want to have in sort of the day-to-day activities of the portfolio, but again, we can have those conversations and get to something. I do think that this is an appropriate meeting space with RMC, to have, for example, a quarterly presentation of the performance of the portfolio, and presumably you would have a consultant or staff present the portfolio.

Independent Board Investment Advisor Chattergy: We can still have the managers come in as we spoke before, and talk about their mandate and portfolios on a given schedule, but beyond that there should be a schedule where everyone has an idea, at year end or at the quarter-end:

- *How is the portfolio doing? Are there any concerns?*
- *Are there any issues that should be brought up?*
- *Do we need to have someone go out and investigate, why is our manager not performing well, or is this a new asset class that we should consider putting into the portfolio?*

This body not only has that oversight, but can then delegate and expect accountability back, so that you can make a decision. *Yes, let's go into this new opportunity set, or let's not invest in that opportunity.*

Those sorts of conversations need to be happening, but it's a question of where is it appropriate to have the conversation. Then how do you want that executed and then reported back. So those are actionable items that we're not getting into today, but that are out here. We want to be able to talk about that and have this conversation going forward.

Trustee Akina: Vijoy, you mentioned an Investment Committee.

- *How would you define an Investment Committee?*
- *What are its functions? ; and*
- *What competencies does it need to have?*

Independent Board Investment Advisor Chattergy: Investment committees generally are the final sort of policy and oversight for any investments that are going on in the portfolio. Different investment committees depending on the level of experience and expertise and the desire to be involved will make decisions or delegate decision-making to either service providers, or staff, or others, or they'll keep it to themselves, but there's a process for doing that.

It's really again, I hate to repeat saying, there's no one answer, there's no one idea, but ultimately, the Investment Committee, which are generally subordinate and report into a higher, like a full board, let's say, but it's focused in on the investments of an organization and decision making and oversight, and then reporting.

Independent Board Investment Advisor Chattergy: They report into the larger body which in some cases, like with yourselves, or like ERS and others, the Investment Committee is the same people that are on the board, so just a different focus at those meetings than the General meeting.

I know you have other agenda items and topics that you talk about at this meeting, so that's why it's not just an Investment Committee meeting, although you play that role.

Trustee Akina:

- *How frequently is it the case that investment committees are not the final board?*
- *Are there institutions that establish expert committees, one of which is the investment committee, consisting of people who are professionals with knowledge?*

Independent Board Investment Advisor Chattergy: So, a lot of like corporate boards; what they'll do is; they have an audit committee, they have an investment committee, they have maybe a human resources or personnel type committees. So, they do that, and they might have a sub sector of the board that'll be involved. Maybe those people have particular expertise, like they're an accountant or an auditor, or something that, that they bring to bear, and they are given some level of discretion and ability to make decisions. But even if they are making decisions, they always report into the higher board, even if the subgroup, is a member of that board, they'll have a presentation. So, there are different ways that you can organize it.

Trustee Akina: I have 2 concerns when you mentioned that this RM Committee could be the investment committee. So, this is something hopefully we can address later on. One concern is that you already note that discussions take place at the RM Committee and at the board level without finality, and that's an observation that could raise some concerns about how well in this venue we can actually do the work that an investment committee needs to do.

Trustee Akina: The other concern that I have is that our meetings of the RM Committee are public, so the discussions are limited to those things which can be discussed in public. So, I just hope that we'll take a look at whether or not the Committee should be regarded as the Investment Committee and have a real, clear idea as to what the role of the Investment Committee is and where its functions can be best performed.

Independent Board Investment Advisor Chattergy: Those are very good points, very important insights. I have somewhere in here in terms of the way OHA as an entity has a public component to it. But then there's also that you are maybe learning trade secrets and confidential information from, say, your managers, if they come and report and they want to tell you about their strategy. They might say, *Hey, there's certain things here that we don't want to be in the public record, because it takes away our advantage in the marketplace.* If that's your investor, you don't want them to lose that advantage because they're presumably making those investments on your behalf. So, in this document I talk a little bit about some of those challenges, and the observation is the RMC actually is a de facto sort of investment committee. Whether it's appropriate going forward, or you need to create something else that could be in the solution space, but it is relevant and important to consider the idea of, what has to be done in public because you're a public entity, and then what can be done outside of the public arena because, you have to protect information on behalf of your service providers. Otherwise, you lose their service, *I don't want to make investments, because OHA's gonna make it all public, and then I'm going to lose my competitive advantage.*

Independent Board Investment Advisor Chattergy: So, the ERS, the EUTF, all the public plans, including the Nevada plan that came, they all have ways to deal with that so it is appropriate. It's probably something that you have to consider with your legal counsel and the way entities in Hawai'i deal with Sunshine Law, and the need to sometimes protect certain kinds of information.

There may be certain decisions, there may be certain information that you can protect for so long, but not forever, and that happens all the time in this industry. Investment managers who want to do business with public entities recognize that at some point their information may have to become public because your duty is not to the manager, it's to the State and to the people, but if there's a clear understanding of when and how that happens, and when things can be, that can all be dealt with suitably enough so that they're comfortable to work with you. But again, that's kind of beyond an investment consultant or board consultants' ability to give you sound advice. You need legal counsel, and people who understand the laws of the State clearly.

Trustee Akina: Thank you.

Independent Board Investment Advisor Chattergy: Thank you. Okay, so we talked about the reporting. I have a comment there that you have trustee aides that have a lot of institutional knowledge in the organization, somewhere here on another page. I'm sorry I don't have it at my fingertip, but I do talk a little bit about the idea that trustees, you as elected officials, there's sometimes turnover, so you have to consider that in the way decisions are made and how you do that. Even for the administrative staff, there seems to be turnover there at times, but you do need to manage this portfolio for the long term, so how best to do that, that's just an observation.

If we go on to page 7, because I do want to move things along, *Resourcing*. Maybe it's this page in terms of resourcing, yeah, so all investors, not just OHA, you're resource constrained. There are never enough people, there are never enough opportunities, but how do you deal with that as OHA is a public entity, but with a very unique mandate and an obligation. You have election cycles, you have civil servants, so those are things that you want to consider.



Independent Board Investment Advisor Chattergy: When we look at the second bullet point there on the left; *Persons, things, and intangibles*, I just generally categorize those as the resources at your disposal. So, you have human resources, the persons, you have trustees, you have the aides, you have administrative staff, and then you have all the service providers.

Independent Board Investment Advisor Chattergy: So, I just make some observations here in terms of the challenges and the strengths of that. You have elected officials who are ultimately responsible to your constituents, to the Hawaiian people, but you also have election cycles. So, there's the risk that people turn over more frequently than if they were say, certain appointed board positions where people can be on boards for a long time; 10 years or more.

You also have a little bit of turnover for different reasons with administrative staff. Sometimes the aides have Civil Service career paths, but they might not have as much experience in capital markets other than maybe institutional memory. So, there are trade-offs here.

I talk a little bit again about the service providers and the need to have a more holistic view of the portfolio. Then you have to understand your service providers all operate on a business model that they're trying to maximize that may or may not coincide with the objectives of OHA.

How do you hold your service providers accountable? There are different ways to do that, whether you're doing RFPs or you're requiring reporting and what have you.

Material resources, I think they're mostly adequate. The only thing I note here is if you wanted to have a conference or your own version of bringing in the managers and talking about the portfolio over a day or two. I wasn't sure if, the facilities you have here, or somewhere on island, would be appropriate, but you might think about that in the future. It is a way to articulate to managers and service providers who OHA is, who you are as a brand, what your interest is in terms of the market, and achieving your larger goals and objectives that you have in your vision.

Then, I also define *intangible resources*. So, networks - I note that there are other indigenous groups, there are also other state agencies that are not pension plans or OPEB plans that are similar to yourselves, that generate their corpus and their wealth from the wealth of the State; that's a network there. I understand, they meet fairly frequently and that could be a resource for you to hear and to understand how they tackle investment needs.

Also:

- *How are you seen in the marketplace?*
- *What's your brand?*
- *Do you have mind space in your investors brain, so when they come across an idea, they think, this would be perfect for OHA?*

That's challenging, even when I was at a large public pension plan, we'd bring in managers that have been in the portfolio for years, and we said, *how big do you think we are?* They would be off by billions and billions of dollars. Which makes you think - you're not really thinking about us.

Independent Board Investment Advisor Chattergy: I don't expect you to live and breathe it the way someone on the staff might, because they have real, kind of skin in the game, but, I expect you to know something about who we are and what we're trying to do. That's an intangible resource that you can build up, and again leveraging the fund managers that way.

Independent Board Investment Advisor Chattergy: The other thing I throw in here, which is maybe a little bit, on the side, or maybe it's controversial, but, *are there Hawaiian investment ideas, or values that you want to have expressed in the portfolio?* So, *what does that mean?*

This is my observation; I'm not looking for answers or feedback. I'm just saying, *are there certain kinds of investments that you, as OHA, as Hawaiians, want to pay particular attention to?* ;or *Is there a Hawaiian way of investing that we can express in the portfolio?*

I don't know the answer to that, but I put that out there. It's not so far-fetched in that there are religious organizations that will say we want portfolios that reflect our values, that show how we invest. So, it's not far-fetched to say, OHA as a unique entity in the world has a Hawaiian way of investing or a value. We have to think carefully about that, there are certain rules as fiduciaries about generating returns and focusing on that. You can't just be only about trying to express views and values, that has to be checked. But still, like I said, there are groups there that will say we don't invest in certain things because it doesn't reflect our values. So that's another aspect in terms of intangibles, an *intangible resource* and way to impress on the marketplace who you are as an organization, and that, I think, is important for every organization to do.

Observations: Investment Program

Takeaways:

IPS and **proper documentation** for the investment program and direct investments exist with appropriate language governing activities. Material investment program MoM and **reporting/responsibilities** language often reports into CEO without further accountability

- Limited communication between full RMC and Administrative staff
- Decisions not always sufficiently articulated by Trustees and staff or to a limited extent
- Process for discussing policy and procedure changes not explicit

Best practice of service providers not implemented

- Investment consultant, specialty consultant, OCIO not used

Consequent Capital Management

- Investment Policy Statement
 - Covers necessary elements of a solid IPS
 - Written for a program structure not best practice and evolving
 - Discretion for investment decisions siloed with MoM service providers
 - Reporting and accountability inadequate given fiduciary role of the Board of Trustees
- Role of Consultants
 - Service of investment consultants with different expertise not utilized; for example, an alternative consultant
 - Specialty reports such as liquidity, asset allocation, private market pacing possible
 - Northern Trust (NTRS) fulfills the role of custodian and performance reporting
 - Commonfund plays a role in private markets calls and distributions
- Roles and responsibilities with the primacy of the RMC and Board for the investment program can be more explicitly stated

Page 6

Independent Board Investment Advisor Chattergy: Moving on to page 8. This is on the investment program in terms of you do have proper documentation, I talk a little bit about the manager of managers (MoM) approach. There may be some limitation in terms of communication between the RMC and your staff. There are decisions that are maybe not always articulated either by staff or trustees, and that process needs to be made explicit and probably put into a document that you can refer to, to make sure we're adhering to what we said we wanted to do.

Then, of course, there should be a process for changing that procedure. If that becomes the case, either for some reason now or in the future another group comes in and wants to do things slightly differently, but it should be driven by those sorts of discussions and then documentation.

The other thing is your investment program, you can have different kinds of service providers. You don't have an investment consultant, really, at the moment. The board consultant is different than an investment consultant the way we've defined it, although there's some overlap.

I think that Mr. June, the CIO of LACERS talked about working with specialty consultants, or maybe was Kuan from EUTF. They have consultants that focus just on private markets or just on real estate, or something like that. Investment real estate, not your direct investments.

Independent Board Investment Advisor Chattergy: There's also the opportunity to work with an OCIO, which is in some ways, farming out the portfolio management, day in, day out, but yet keeping the control in terms of the policy and the oversight and the big decisions. So those are things that we can talk some more about.

Independent Board Investment Advisor Chattergy: On the right-hand side again, I highlight in some of the bullet points, the investment policy statement, the program structure was written at a different time, and I don't know if it's best practice or best practice for where you need to go given how you're growing, it's kind of siloed and not holistic. The role of the consultants, again, the need for an investment consultant or someone who's supporting staff and supporting the trustees day in, day out. You may need specialty reports, liquidity, or, in the case of the private markets investments, there's something called a pacing study.

- *How much should you invest every year in order to get to your targets? ; and*
- *How do you go about that, the kinds of strategies?*

That's something that we may come back with and give you, at least in this illustrative example of what a pacing study might do, assuming you want to do more in private markets.

Vice-Chair Alapa: You mentioned where we'd like to be at, financially speaking. *Who determines that, do we as a Board?* Because I'd like to see us at a billion dollars. That's where I see our portfolio at, we should have been there a long time ago.

Now that we're moving forward, and all of these observations you've made are to the T exactly what we need in order to make the changes, in order for us to get to the place where we should have been or should be. So, on that note is there anyone that will be able to guide us in that direction, as far as, what are we shooting for. If we want to get to 1 billion dollars, *what does it take for us to get there, as an example?*

Independent Board Investment Advisor Chattergy: Sure, I think a way to think about that is that you have an overall strategic plan, that you're implementing, and you want to support that, and the portfolio should support that strategic plan. I believe your CEO, Stacy is very good about articulating that plan in public.

I've seen her interviewed, and she is very strong and makes that very clear; that's a good thing. The portfolio should support that effort, the ultimate goals. Now, you might not go and talk about the portfolio every day, about how does that improve housing opportunities, but it ultimately serves the purpose, and you define that purpose, as trustees. You define the strategic plan and goal, the portfolio and how you get to whether that's 1 billion or 10 billion, whatever.

What you need to understand is it's not so much like, we need to be at a billion, or we need to be at 3 billion, but there is some idea of over so much time, based on investments and the returns, you will be at a billion, you will be at 3 billion.

You should have those sorts of expectations.

- *Are we on the path? and*
- *Is it probable that we will reach our goals with the given portfolio that you have, for now, for whatever reason?*

Independent Board Investment Advisor Chattergy: Capital market expectations have changed so now we think we won't be able to reach that goal in two or three years.

So now,

- *Should we change the way we invest?* or
- Do we keep holding what we're doing?

Those are questions you can ask and that's the support that you should be getting from your consultants and your staff to say we're on target or we're not on target, we need to make decisions to get there.

So that all comes into some of these kinds of reports that project out. Usually like in a pension plan, they use an actuary, so you can see, the negative cash flow for the public plans here in Hawai'i is something that's projected out over time.

So, they're taking on more risk because they need to generate better returns. So that's a clear reaction to the reality of where they are and the boards there are provided that information by the actuaries, by the consultants. You don't have actuaries, because you don't have those kinds of obligations, but you have different obligations to your community.

You have different ways that you want to get there, and how you want the portfolio to support that, so that's a conversation that you should have, and that your service providers and your helpers should have with you. Then, you can decide:

- *Should we do more in private equity?, or*
- *Should we do less in fixed income?*

Whatever the case might be, but you're on the right track, I think, in terms of that observation.

Independent Board Investment Advisor Chattergy: One thing you should observe about your portfolio, and where you are is that you're a little bit unique for a lot of institutional investors in the US. Not all, but unique in the sense that you actually have a growing corpus based on the fact that you have positive cash flow.

I mentioned just a second ago that there are other groups and plans like public plans that are under a lot of constraint because people are retiring. So, the money is going out the door, as opposed to the new employees, being able to contribute to the plan the way they traditionally have, but that's not the case with OHA, so that puts you in a unique position.

It's great as a portfolio manager or CIO, being in a position where you have money coming into your portfolio every year that you have to figure out, *how am I gonna invest this?* That's a much better problem to have than *oh, my God, we're paying out so much and now, what do I have to sell to cover expenses, or operations.* I think that's the case that you have that, so take advantage of that. That is a superpower. That's a strength that you should take advantage of.

Trustee Lindsey: Vijoy, I just want to encourage my colleague across the street from me that when I came in office 11 years ago, our corpus was 350 million and today it's over 500 million. So, we have progressed. Progressing by speed is not necessarily always the right thing to do, because if we earn fast money, we could be taking more risks. So, I think we've been doing pretty good and now that we have you, I think we're going to do better.

Independent Board Investment Advisor Chattergy: I hope so, thank you for that. I don't control outcomes, but I'm trying to produce process and report. That's very helpful, I think it's important to remember that. If you don't mind me saying, ultimately you have goals and visions and programs that you're trying to impact your community with, and the portfolio again should support that, as opposed to just focusing on how can we generate the highest returns or get to certain levels. That's important. That will happen, but it should happen as a byproduct of your effort to reach your bigger mission, which is much more important than how much money any investor or strategy makes.

I know it's related, but I just want to emphasize that the approach or the attitude is really that you want to continue to be significant to your community and provide the kinds of resources that they need, and the portfolio should support that as opposed to, let's generate a return and then let's figure out what to do with it.

Anyway, that's my view, you can disregard it completely because I'm not a trustee. I'm just a guy that you're hiring to do a little bit of work for.

Chair Waihe'e recognizes Trustee Trask.

Trustee Trask: Thank you, I'm very interested in where we are at page number 8. I really couldn't agree more, the conclusion on the bottom of the first column best practices of service providers is not being implemented, **is not**. I think that the recommendation there, Investment Consultant, Specialty Consultant or OCIO is not being used. I think we need to right at this time talk about the fact that we need to have an Investment Consultant on-line, not in Administration. We don't have some of the expertise and if you take a look at what the State requires for trustees to run, you'll see that there's no criteria at all required that any trustee have financial investment or other capacity.

The same is true for the positions in Admin., when I look at this, it's telling me that we need an Investment Consultant to assist us in the future. I'm so glad we have you folks on-line now to give us this advisory. When I looked, though, at the second paragraph, Northern Trust is fulfilling role of custodian, Commonfund is in the role on the private market and distributions. *Are you telling me here, Vijoy, that they're doing good, or are you just informing me of what I have on-line?* Because when I looked at this page, I was thinking we're a state agency with the fiduciary obligation, handling native and public trust money.

Trustee Trask: I haven't had a single person that came in, and I very much benefited from the training, but not a single one of them Vijoy have the kind of trust obligation I have. When I look at your advisory, page 8, we need an Investment Consultant **Investment Consultant**. So when we go forward with the implementation the next several months, don't let this fall through the crack, and let's put a star because we're not following best practices of Service Providers **are not**, and we have a fiduciary obligation to do it, or we're liable.

Same thing with the Role of Consultants, the service of investment consultants with different expertise not utilized, **not utilized**. These are the things I would have corrected by the Board, and that is the reason why we have a RM Committee, and that is to look at what our resources are for management. I am very opposed to trying to bifurcate the committees. RM is a committee of the whole, and it should be. There's no excuse for staff, not knowing investment or trustees, that's what we're trying to correct now.

Trustee Trask: RM committee is correctly comprised, and I would oppose any effort being suggested that somehow we bifurcate the assets of our people and put the portfolio into another asset class. *No Way Trustees*, we have a fiduciary obligation, one with regards to our oversight of our people's assets, and we need to do it in one unified way. We're not going to make a small committee and pull off the portfolio, and give it to a subcommittee. No, it's Resource Management, it stays here, and that's why we have the training. Let's proceed.

Chair Waihe'e recognizes Ka Pouhana Ferreira.

Ka Pouhana Ferreira: Aloha, e kala mai for not having my camera on. I'm working from home today, I'm actually sick, but I wanted to make sure that I didn't miss this important meeting.

Vijoy, I just want to make sure that we're clear in what that recommendation was. My understanding is that we do have expertise currently with our Endowment Director, and that there were previous decisions made by this board or previous board actions that did not allow for external investment consultation. So, I wanted COO, Casey Brown to speak to that, because again, I don't want to leave this meeting with the impression that we don't have the expertise with our Administration, or with the request that was put before the board, that external consultation was requested by administration. Mahalo.

Ka Pou Nui Brown: Yeah, I think what KP is referring to, there was an intention to bring onboard an Independent Investment Consultant which would work in coordination with our internal expertise, so someone like Ryan (Dir. of Endowment). That effort was aimed at that type of a consultant, but at the time I believe the Board decided that they wanted a different kind of consultant, someone that gave them what Vijoy is giving them now, to first look at things from the broader perspective. But what KP is noting, and CFO and Ryan, who were around was that there was an effort to procure an Investment Consultant at the time, which was then redirected to a different type of consultant. Mahalo.

Vice-Chair Alapa recognizes CFO Ramona Hinck.

CFO Hinck: Aloha Trustees. For the record, I'd just like to comment that Ryan Lee was the so-called Investment Endowment Director, and then his appointment was suspended, so this was about a year and a half ago. It's only been this past January, that he has been reinstated as the Investment Director. So, for about a year and a half, we were just on maintenance mode, because we are under the impression that the Investment Consultant, Consequent, was going to be the so-called Investment Consultant for the Board.

Vice-Chair Alapa: Thank you.

Vice-Chair Alapa recognizes Trustee Trask.

Trustee Trask: I don't understand the conversations that we're having. At one point I was told that we had the Investment Consultant, that was hired by the office. Later I found out we didn't have an Investment Consultant, we had an endowment advisor. We don't have an endowment folks, we have stocks, bonds, cash money, and what we need is an investment consultant. An investment consultant is not the same thing as an endowment manager. That is why we need to have and look to how we can define, Vijoy, the correct definition for Investment Consultant, their duties, their obligations to report quarterly to the board, **to the board**. This is not something that is adjusting the Admin.

Trustee Trask: I am liable for what happens with the portfolio, not Casey, not Mona, and I would like to have an Investment Consultant that is independent, to come in on a quarterly basis, advise me, and present a report. I don't want this to fall through the cracks, Vijoy. That's why you all are here. But if we're gonna bring on-line an Investment Consultant, I need somebody with professional expertise so that I can post for that job because I don't have one on-line, and I don't think it's fair to dump a lot of work on the staff we have. That's not their job either. Thank you.

**Observations:
Portfolio
Design**

Takeaways:

Portfolio designed under an **OHA regime** that no longer exists

- Accountability evolved from Trustees to staff to somewhat unclear structure
- Asset classes are reasonable but limited insight to portfolio risks and management
- Advisory Committee no longer functional and never a best practice

Manager of Manager approach never a **best practice** with discretion siloed and unintended exposure overlaps

- MoM permitted with limited communication and accountability
- Mandates designed without an investment consultant or staff to coordinate and communicate

- Portfolio asset classes and structure are reasonable
- Review of portfolio design warranted, given that the portfolio was designed and executed under previous OHA leadership that is no longer represented
- Asset allocation study and rebalance should be on a regular schedule and conducted by staff or a consultant
- MoM should be further justified or considered for an alternative structure
- Discretion of decisions needs to be coordinated and potentially centralized
- Review of investment opportunities and strategies should be conducted through an established process and ongoing with clear communication to the RMC and Board for review and possible approval
- Risk assessment and management is not a primary aspect of portfolio design and management to reach OHA goals

Consequent Capital Management

Page 7

Independent Board Investment Advisor Chattergy: Okay, I'm going to continue on to page 9, which is just some observations related to the portfolio design, and we already discussed a little bit about the idea that some of the documentation which is the necessary, documents that you have were created previously.

So, some of the accountability and the asset classes were created in a previous regime, and probably need to be evaluated. I think they're still on some of the charts and the advisory committee which no longer functions, and that can easily be moved aside.

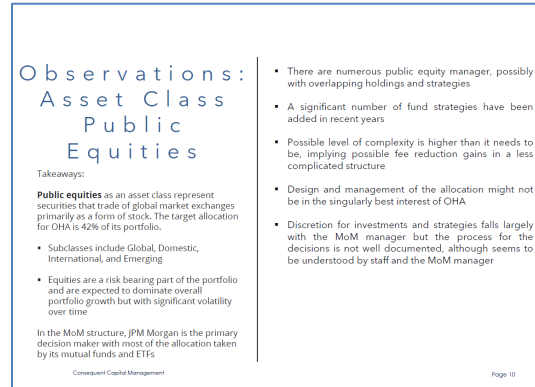
We talked a little bit about the manager of manager approach, and again the design of those mandates aren't truly coordinated and accountable, the way things are executed at the moment. So, we would look to understand that more, and come back with recommendations or advice there.

On the right side, again, we're talking about review of the portfolio, how it's designed, potentially considering alternative structure to the manager of managers, but again, maybe there are folks that, like the manager of managers approach. So, we can talk about that discretion and decision making happening in the portfolio. *Is it at the right level and is it with the right accountability?* - is sort of where we want to make more explicit.

The last bullet point on this page that I would note is that also risk assessment and management does not seem to be a primary design of the portfolio, the way it's structured or reported now. That's something that I think has to be more prominent. It's not that there isn't any risk management, or concern, it's just in a way that doesn't make it as one of the primary drivers of the design and I think that's something that portfolio should have.

The next several pages starting on page 10, and maybe we don't spend as much time kind of going through each of these, they are a little more self-explanatory. These are the different asset classes as they are in your current investment portfolio reports.

Independent Board Investment Advisor Chattergy: What I would suggest is over on the left side. Here lies all of the asset classes that are defined or sort of structured where it describes: what is that as an asset class, what is the target portfolio as it's in your current reports, and then what are the sub classes, and what is the purpose of having that investment in the portfolio.



Independent Board Investment Advisor Chattergy: So, that little section that we've kind of written here on the left side of all these asset class pages is something that I encourage the trustees to take a look at, if you agree that it's accurate or not. But those are the sort of talking points that you should have to understand the portfolio to be able to explain it.

When I was taking chemistry in high school, Ben Lagasse said, you have to know what a mole is, you have to be able to wake up in the middle of night, and someone asks you what is a mole, and you answer, it's whatever 6 times 10 to the twenty-third, and for whatever reason, I might not remember anything else about chemistry class, but I still remember what a mole is.

As overseers of the portfolio, you should have some understanding at some level, and you can expand on this and get deeper to be able to answer:

- *Why do you own public equities?*
- *What are public equities?*

So, what I try to put here is maybe a little cheat sheet. Maybe you have your aides put it all into a single document, and so if you're ever asked, or if you're in conversation, you can say *yes, I understand we have, public equities or securities that trade on exchanges.*

Independent Board Investment Advisor Chattergy: It's supposed to be 42% of the portfolio, it includes global investments, domestic investments, international merging. Then *what do equities do for you?* Well, they're risk bearing, so you're taking risk. You're not necessarily, not wanting risk in the portfolio, you need to take some risk in order to generate returns. Equities play that role, and over the long term they oftentimes, and possibly in the case of the OHA portfolio, are drivers of your overall growth, and that's why you own equities.

So, I think, at the very least, every trustee depending on their level and experience should be able to articulate something like that. So, I've done that for each of the asset classes, and again, I encourage you to go back, and if there's something you disagree with, or we should rewrite it, that's fine. This is just sort of a thumbnail sketch that hopefully can help you to be able to articulate and describe why your portfolio is designed the way it is, and maybe over time, we'll talk about how that changes.

Independent Board Investment Advisor Chattergy: At the bottom of the page, we also talk a little bit about the current primary managers that are overseeing that asset class for you. So, in Public Equities it's primarily JP Morgan, then I have some observations about the asset class. I kind of observe, maybe there are numerous public equity managers:

- *Are there too many?*
- *Are they overlapping in terms of their investments, securities?*

They may have slightly different strategies, but if everybody owns Apple, we need to have some true accounting and risk understanding of like, *Hey, you've got a lot of Apple and in your portfolio, and even if different strategies are implementing it at the end of the day, you own a lot of Apple, and if the next iPhone doesn't work out, that's going to be very negative.* That may be a risk you're willing to take, you may want to hold that much Apple in the portfolio, but maybe you could hold that with a single manager as opposed to many managers. So that's an observation there.

Independent Board Investment Advisor Chattergy: There's perhaps a little higher complexity than maybe you need to have in this part of the portfolio. If that's the case, *does that mean you want to invest in passive or you want to invest in more systematic strategies?*

We're getting a little bit into solution space here, and also into details that maybe as trustees, you don't have to know every move and aspect of a strategy, but you need to have some accountability back to you to understand:

- *Why do I own this particular manager?*
- *Why is this passive manager in the Portfolio versus this active manager?*

That should be explained to you, and that's why the left side of the page there gets a little bit in that direction. So, again as a tool, I think that as trustees, you should be able to go through each of these asset classes, and at least that section be able to understand, you know the next page, 11, fixed income.

Observations: Asset Class Fixed Income

Takeaways:

Fixed Income as an asset class represent securities that trade on primary and secondary markets, often over the counter (direct), primarily as a form of debt obligations. The target allocation for OHA is 18% of its portfolio.

- Subclasses can include government, corporates, high yield, structured, international, and emerging bonds
- Fixed income are generally a risk diversifying and income generating part of the portfolio and is expected to dampen portfolio volatility over time, although recent experience suggests material risk are embedded

In the MoM structure, JP Morgan and State Street is the primary manager with most of the allocation taken by its funds

Page 11

- There are a limited number of fixed income managers, including State Street, JP Morgan, and WAMCO
- Strategies include different bond segments and durations
- Fund have reasonable longevity with the most recently added in 2017
- Due to the MoM discretion policy, design and management of the allocation might not be in the singularly best interest of OHA
- Discretion for investments and strategies falls largely with the MoM manager but the process for the decisions is not well documented, although seems to be understood by staff and the MoM manager

Observations: Asset Class Private Markets

Takeaways:

Private markets as an asset class represented by securities that are privately held with infrequent transaction making the holdings relatively illiquid and valuations opaque. The target allocation for OHA is 24% of its portfolio.

- Subclasses include real assets, private equity (primary, secondary, and co-investments), venture capital, distressed, infrastructure, opportunistic credit and real estate
- Private markets are generally a risk bearing and expected to generate excess returns to the portfolio and is expected to dampen portfolio volatility over time, due primarily to the smoothing of valuations over time

In the MoM structure, Commonfund and Pantheon is the primary manager with most of the allocation taken by its funds

Page 12

- There are a limited number of private market managers and strategies, largely with Commonfund and Pantheon
- Strategies appear to represent a diverse set of strategies, but there is no current pacing program
- Real assets are the most sophisticated and diverse of the private market allocations; Opportunistic credit appears to be relatively small and not significant
- Certain funds like venture capital appear to have returned reasonable results, but shorter term returns and vintage year appear to be in the so-called J-curve
- Metrics in the NTRS report don't seem to be informative about performance or risk
- Due to the MoM discretion policy, design and management of the allocation might not be in the singularly best interest of OHA
- Discretion for investments and strategies falls largely with the MoM manager but the process for the decisions is not well documented, although seems to be understood by staff and the MoM manager

Independent Board Investment Advisor Chattergy: So, as an asset class, *what is fixed income?* It primarily trades on primary or secondary markets. You may or may not know that primary market in fixed income, is probably an auction related market, or something that's underwritten by like, in a municipal security. It would be underwritten by some investment banks and sold on a syndicate to particular investors. It doesn't trade on an exchange necessarily the way stocks do.

Independent Board Investment Advisor Chattergy: That's an important distinction in terms of stocks versus bonds, but then we have again, *what's the OHA target for fixed income?* It's 18%.

That's something you should know, and that's a conversation piece, too. *Is that appropriate?* And that's where you're getting advice, whether it's from your staff or from your consultants in terms of what's the appropriate allocation, and that's a fair question for you to ask.

So, there are the sub classes, and then also, why do you have fixed income in the portfolio. Generally, it's thought as a diversifying asset, if equities are driving your returns and growth over the long term. People hold fixed income to diversify some of that risk, so it's not as volatile. Although a couple of years ago, 2022, we saw that both stocks and bonds sold off at the same time in double digits, very unusual, but it happened.

So, it's not that fixed income has less risk, or maybe it does have less risk, *but that it doesn't have risk?* It has different kinds of risk and sort of *why do you want to hold what you're holding in the portfolio?* Again, more observations in terms of the managers there, the different kinds of segments. The bond portfolio is actually pretty well diversified, but again, you want to have an overall view.

Next, the private markets on page 12, we go into the same thing:

- *What's the allocation?*
- *What are private markets?*

The way it's been reclassified, you had a lot more private equity, and for some reason it seems like you have less, and you have more infrastructure investments and managers now, but that's different types of private equity managers.

Independent Board Investment Advisor Chattergy: So, we saw Pantheon came in, Commonfund, JP Morgan and Goldman Sachs in that category as well. Then again, some observations on the right side, in terms of the strategies, in terms of real assets.

Opportunistic credit is something I think that is a fairly small and maybe has come into the portfolio through kind of a legacy. We do note that some of the reports, particularly in the private markets by Northern Trust, it could be enhanced or improved in terms of transparency or the kinds of information they're reporting. Again, that would be relevant to you to get advice on whether the program is functioning the way you might hope it to. That's also the case in the hedge funds, which is the next page.

Observations:
Asset Class
Hedge Funds

Takeaways:

Diversifying strategies in the OHA portfolio are essentially hedge funds, which is not always viewed as a separate asset class by some investors. Underlying investments can technically be represented by any investment. The target allocation for OHA is 13% of its portfolio.

- Subclasses can include most any investments, but for OHA appear to include equities, credit, loans, and other opportunities
- Diversifying strategies are meant to provide a different source of return from equities, but hedge funds can amplify volatility and returns.

In the MoM structure, JP Morgan and PIMCO is the primary manager with most of the allocation taken by its funds

- There are five hedge fund managers and strategies, largely with JP Morgan and PIMCO
- Strategies appear to be largely opportunistic and absolute return in design
- Transparency into the strategies and holdings in poor with some understanding revealed through choice of the benchmark
- Metrics in the NTRS report don't seem to be informative about performance or risk
- Due to the MoM discretion policy, design and management of the allocation might not be in the singularly best interest of OHA
- Discretion for investments and strategies falls largely with the MoM manager but the process for the decisions is not well documented, although seems to be understood by staff and the MoM manager

Consequent Capital Management
Page 12

Observations:
Asset Class
Enhanced
Liquidity and
Cash

Takeaways:

Enhanced liquidity and cash in the OHA portfolio are liquidity holdings to facilitate portfolio and OHA operational needs. Underlying investments can technically be represented by any short-term liquid investment into cash and cash-equivalents. The target allocation for OHA is 3% of its portfolio.

- Subclasses can include short duration bonds, bank CDs, and cash
- Enhanced liquidity and cash are seen as drags on portfolio performance and should have zero expected returns for the portfolio.

In the MoM structure, State Street is the primary manager with most of the allocation taken by its fund without any discretion

- Only State Street holds liquidity for OHA and a couple of cash account with a local bank
- Strategies appear to be largely placeholders
- Metrics in the NTRS report don't seem to be informative about performance or risk

Consequent Capital Management
Page 14

Independent Board Investment Advisor Chattergy: Page 13, I'll note that hedge funds as an asset class isn't always so straightforward. Not every investor actually considers it as a separate asset class, because a lot of the underlying investments are in equities and fixed income and commodities, and therefore just calling it a hedge fund doesn't necessarily mean that you are diversifying.

Sometimes it's called diversifying strategies, you may actually be ending up doubling up again. There's nothing wrong necessarily with having a hedge fund, but the only way to kind of differentiate hedge funds usually is that they have a higher fee structure than other strategies. If they truly do things like shorting, which is a type of betting on the stock will go down over time, or the asset will go down. If they can do that well, that might be a skill worth paying for, but you have it as a separate asset class, which is fine.

It's the way you've defined it, but not every investor does that. In fact, different ways they might define so-called hedge fund strategies are absolute return or diversifying strategies, and absolute return doesn't mean that they never lose money, but they are risk-focused, which we talked a little bit about. Which means that they want to lose less than when the markets lose a lot, so they don't want to follow market. We talk about that, up-capture, down-capture on the down-capture. They capture less of the market, which is a very good thing when you're trying to build a portfolio over a long time period, but you do deal with transparency issues here.

I think the reporting in the Northern Trust Report isn't that clear what these strategies do, at some point, maybe when they were hired, someone came in and talked about what this hedge fund does and why it's important, and that's fine, but there needs to be that ongoing accountability and transparency over time. Just looking at the report, it's hard for me to be on the outside and sort of say, *what are they doing?* Unless maybe I look at their benchmark, and I have to assume their benchmark is correct. Then maybe I have some idea of the kinds of risks that they're taking, but for me it's not so easy.

Vice-Chair Alapa: Really quick, I'm sorry. May I ask a question regarding the benchmarks, you've observed that, correct. *Have we met them?*

Independent Board Investment Advisor Chattergy: The benchmarks are just sort of you put it together, it's not a manager necessarily, it's different types of strategies, hey, could be indexes. Your consultant or your staff will kind of say, *Hey, this is an appropriate way to measure.* So, a lot of relative return strategies which most people say we don't know for how we're doing unless we can measure it. So, people put 'benchmarks.'

The thing with hedge funds is, they kind of say, *Hey, we're absolute return, there is no benchmark.* We still put benchmarks there in order to have some idea, because that's the only way we can kind of understand what they're doing, but that is a distinction between absolute return or hedge fund type strategies versus traditional benchmarks. There are all kinds of implications for the way risk is managed in those different types of broad strategies - relative returns versus absolute returns, but the benchmark is something that is designated in advance.

There are certain criteria for what is an appropriate benchmark to measure yourself against in terms of it being investable and transparent and low cost, and these are defined by like the CFA Institute and other industry groups that will say, this is an appropriate benchmark.

Independent Board Investment Advisor Chattergy: Now, whether a consultant uses that as the benchmark or not is where they're sometimes discretion. They may meet the criteria, or they may design a benchmark just for you, and they might put something in there that doesn't meet those criteria. But if they want to be CFA compliant, then they try to meet that. So, the joke in the industry is, *what do you call the old benchmark?* and that's the benchmark that you couldn't outperform. So, that's a bad joke, but that's something, we're not comedians, we're investors.

Let me just finish up here, last page is really the enhanced liquidity and cash. This is where you've got mostly a State Street strategy, which is kind of cash equivalent, and I think you have a bank, and it's more for operations and activities. The main thing when it comes to liquidity, there are different ways. So, you, as a long-term investor, asset owner, cash we think of is what we call a cash drag. The more cash you hold, the less you invest in the market, and over time that's seen as negative for your returns.

If you were a hedge fund, or an individual, sometimes they seek cash as an asset class, or I go into cash when I don't know what's going on in the market, and I don't mind sitting out of the market. But as a fiduciary, as an institutional investor, you should try to be fully invested at all times. Now maybe you'll say, *Hey, I'm worried that the stock market's gonna go down.* But instead of going to cash, maybe you reallocate or rebalance to another strategy. Again, best practice would be to have that defined in advance, saying, *Hey, for some reason, the stock market is above some average or some historical levels.* Or you know, *the different ways that we measure value is too rich, too high, and therefore we should rebalance to something else.* So, we should have other strategies in there that achieve returns and growth in a different way, so we're more diversified.

But the main point when it comes to holding cash is, unless you need that cash as an institution, like for your spending policy, or for some other need as an institution, you should try to keep that under 2% at any given time. You should really try to be what we call fully invested.

So that concludes my observations, and they weren't meant to be necessary as controversial or as fired up as maybe some points might be, but these are good conversations to have. And again, remember, we're in sort of our problem space right now, we need to have these conversations for you to manage this portfolio as a group going forward. When we come back we're gonna make recommendations, and we're gonna have options for you to make choices, but you need to vet that, and it needs to be something that as a group you can live with.

Then, you start to implement, you start to build a portfolio that you deserve, that OHA needs to be successful into the future. So that's kind of where we are and I'm looking forward to having conversations off line. I'm looking forward to being back in front of you in this session in the future, to be able to find something that is actually not an observation, but actionable, that is, actually going to be in your policy, and that you can use to govern and oversee the assets of OHA now and into the future.

Independent Board Investment Advisor Chattergy: So happy to take questions, but thank you very much for your time.

Chair Waihe'e recognizes Trustee Akina.

Trustee Akina: Thank you, Chair. Vijoy, I just want to say, thank you very much. This has been extremely helpful, the observations you presented to us are comprehensive. Some of them resonate very well, they're intuitive. Other ones catch our blind spots, which they're intended to do. But I also like the fact that you're very measured about this, you don't jump from observation to action. You're telling us we're going to have to analyze this deeper because some of the observations are things that we're doing that once worked, but will not work in the future, such as the manager of managers. But I really appreciate the fact that we're going to take a deeper look at anything that we've observed and vet it. So, thank you very much.

I'd also like to say one other thing, Chair. I appreciate our CEO and CFO and their comments they made earlier of the information given to us by the Administration is absolutely essential for us to know our condition and our process. So, I want to thank them and continue to invite their input. Thank you. Chair.

Independent Board Investment Advisor Chattergy: Thank you.

Chair Waihe'e: Okay, Thank you again, Vijoy.

IV. NEW BUSINESS

**B. Action Item RM #24-05: OHA's August 2023 Maui Wildfire Disaster Aid
Response: Approval of Maui Wildfire Disaster Aid
Deployment Grants framework and delegation of
grant authority**

Chair Waihe'e asks if there is anyone signed-up to testify on this agenda item.

RM Staffer Akina: No one has signed-up to testify on this agenda item.

Chair Waihe'e turns it over to Ka Pou Nui Casey Brown.

Ka Pou Nui Brown: Mahalo Chair Waihe'e and trustees. This action item relates to the Maui disaster deployment. You folks approved the 5 million and the proposal, which was deploying those funds directly to those impacted on Maui. The presentation of the framework and structure of the deployment of those funds was presented to you folks in a presentation to the RM Committee. What we're here to get an action done for is, Administration needs you folks to delegate the authority to disburse the funds to individuals. So being that this is the first time OHA is going to disburse funds to individuals, we need that authority delegated to the Administration. I turn your attention specifically to page 73 in the entire meeting folder for RM, and Roman numeral 3 on the action item, that's where we explain what the delegation of authority technically is and why we're asking for it.

Pou Nui Brown: So, while OHA is currently set up by framework, by process, and by current delegation, we're currently set up that Administration can grant monies to large organizations, 501(c)3s and when we evaluate the applicants, we bring them to the board to approve those final dollars, those Grant dollars. That's the process in place, but we are also allowed, OHA is also allowed to give this money to individuals, which is what you folks are wanting to do now. We're currently not set up to do that, so we are coming back here to ask for the delegation so that the Administration can award individuals.

Chair Waihe'e: Casey, why does it require two motions?

Pou Nui Brown: So, we took this based on maná'o from our Corp Counsel. We definitely need one motion which delegates the authority. The suggestion to have the second motion was to specifically point out that there is a framework in place, and there's dollar amounts that we want to use, that you folks already looked at and saw, and those amounts are \$4,000 and \$9,000, so we don't want to exceed 9,000.

Chair Waihe'e: I understand the first one delegates the authority, and the second one approves the delegated authority to do that, I get it.

MOTION #1

Vice-Chair Alapa moves to approve the delegation of authority to OHA's CEO to determine whether a Maui Wildfire Disaster Aid Deployment Grant applicant is able to provide the activities proposed in their application for the grant, in accordance with HRS §10-17(c)(1)(D). The CEO may further delegate this authority to a designee from Administration.

Trustee Akina seconds the motion.

Chair Waihe'e asks if there is any further discussion.

Chair Waihe'e recognizes Trustee Akina

Trustee Akina: Just a quick clarification beyond the action item description. *What does to provide the activities proposed refer to?*

Pou Nui Brown: I think that's language taken straight from the rules or *what is that, Everett?* I know that language is coming straight out of chapter 10. I believe, and essentially because we're relying on that language it's my understanding that that language is going to be used for administration, to determine whether each applicant is indeed meeting its eligibility requirements in this case. I'll ask Everett to clarify further if I missed something.

Interim General Counsel Ohta: Good afternoon, Chair Waihe'e and Trustees. To specify a little bit more, our grant statute provided under HRS §10-17 provides that there are certain types of eligible recipients of OHA grants, and that includes applicants who are an individual who in the Board's determination, is able to provide the services or activities proposed in the application for a grant. So, in this case, because these are individuals who would be receiving OHA Grant funds, we just want to be clear that that determination as provided by statute, has been properly delegated from the Board to Administration in the administration of this grant.

Trustee Akina: So, *motion one is conferring upon our CEO the purview of determining whether an applicant qualifies can fulfill what is required?*

Interim General Counsel Ohta: Correct, and again, because that's language that's very specific to individuals. Whereas the board, normally, one approves grants at the board level, and then two doesn't usually deal with individuals. So, we just want to make sure that again that that delegation is clear.

Trustee Akina: Thank you very much.

Chair Waihe'e recognizes Trustee Trask.

Trustee Trask: Let me ask about this, the quote you're giving me and the law, does give us some authority, but it's for services, *isn't it, Everett, what you just read? HRS 10-17?*

Interim General Counsel Ohta: Yes, Chair Waihe'e to Trustee Trask's point the statute states that who in the board's determination, is able to provide the services or activities proposed in the application for a grant. So, it's services or activities, and we're interpreting that activities are the types of things that those Grant funds will be spent on by the persons or 'ohana affected by the West Maui fires.

Trustee Trask: And your legal opinion is that we can give away 5 million in trust dollars to people who are saying, generally under HRS 10, that they're using it for services...

Interim General Counsel Ohta: or the certain activities provide for...

Trustee Trask: *What are the activities?*

Pou Nui Brown: Trustee Trask, we have an eligibility requirement, and we have criteria that this program is framed around. That was presented to the board. That's the framework we're gonna follow. So, it's not, terminology wise, it's not necessarily services.

Trustee Trask: *That's correct.*

Pou Nui Brown: It's going to be more activities that...

Trustee Trask: No, no, I want that to be noted on the record, because you're citing HRS and you're using the term *activities*, and I'm telling you it is incorrectly applied here. *I want it on the record.*

The second thing is that we did approve the 5 million, it was sent back to Admin. to come up with a process so that we could award the Grants, but I still don't see what the process is. *Is there any kind of priority?* For instance, we know that many of those lost homes were insured, we know some were not, we know some were underinsured, we know that some people died and their family didn't have funeral coverage.

So, where's the purpose of the grant. *Where's the priority?* The administration is going to implement a new process, I agreed to it. *Can I see what the process is?* And we're going to give grants to individuals, I know that we can slide by, *but for what purposes?*

Pou Nui Brown: Trustee Trask, we're happy to provide you with the presentation that was given on February seventh, there's a couple of slides in this action item...

Trustee Trask: I saw it Casey, I saw it... What I'm saying is that you're coming back with grants, and I'm looking for the Grant criteria, and I'm noticing also that our Grant Department is very, very limited. I have people in my office in Hilo burdened with trying to carry the grants we got. So, while we're giving this to Admin. to give to grants, *are we gonna beef up our staff there? Who in Grants is doing this work?*

I feel like, when I look at this, the CEO may further delegate the authority to a designee from administration. I would like to have something here, so that I will know what the Grant process is, and *who do we have to do it?* Because the few grant people you have in my office in Hilo are up to their neck in work. *Who's going to do this, and what is the criteria that we're gonna give away the 5 million? How are we ensuring that these folks are even Hawaiians?*

Pou Nui Brown: Trustee, we're happy to present to you or the full board an overview of the presentation that does cover some of those points you're pointing out in what was presented, we're happy to go through even more of it. The Grant's team is not gonna carry this alone. Actually, the primary people who are gonna be helping to deliver this are our beneficiary service agents. So, it's going to be our community engagement division folks.

Chair Waihe'e recognizes Ka Pouhana Ferreira.

Pouhana Ferreira: Mahalo, Chair. Thank you. Trustee Trask, I always appreciate the diligence in which you approach these big decisions. I do want to echo what Casey just said, it is going to be our beneficiary services, specifically, Roy Newton in our Maui office, who will be helping to lead this effort.

We will be providing him with extra support, we will be bringing on temporary hires from Maui, so that we have people from the community helping to take in applications and be able to disburse the funding. I do want to let you know that there is a very detailed process, of course, when we come in front of Trustees we have very limited time, so we try to summarize as best we can a very detailed process that does have criteria. I will make sure that Casey gets you the detailed description of the criteria and the process that we will follow in intake of applications, in determining funding awards and distribution of funding.

Trustee Trask: You know I've kept up with it, Stacy. I am tracking you folks, so I know what is happening. Now, Niniau as I understand it has the oversight of this with grants and beneficiary services. I am aware of that. What I'm asking you is that when you take a look at it with all the authority going to you, *I'd like to know what the priority is for disbursements, and I would like to know who is implementing this, not admin., who?*

Pouhana Ferreira: Yes, so it will be Niniau Kawaihae as our Community Engagement Director, it will be under her oversight. Then, in terms of prioritization, we did keep it general in terms of \$9,000 for those who are homeowners, and \$4,000 for renters. There's a lot of complexity, Trustee when we get to determining different types of and expenditures that these victims are having to pay for. So, we didn't want to make those determinations, we want to be able to give them lump sums and give them the freedom to determine what are their highest priorities in terms of paying off either debts or expenses that were unforeseeable.

Chair Waihe'e recognizes Ka Pou Nui Brown.

Pou Nui Brown: Mahalo, Chair Waihe'e, and to add a little more for Trustee Trask, for Native Hawaiian verification, we will absolutely be doing that Trustee Trask, and we'll be using all the known and accepted forms, such as DHHL, KS Hóoulu data center, we have our own accessory verification process, we are slapping on eligibility requirements. Normally with our grants, we usually have evaluated scorers, in this case we're going to set in place eligibility requirements, and those requirements will be followed very stringently, including client verification.

Trustee Trask: Why is this not coming back to the board. We're talking about 5 million dollars here. I don't mind deferring to the staff to put together a Grant program and other things, but this paragraph, motion one and Motion two, you're asking me to approve it, a standard, I don't even know what the \$9,000 is based on. The statute that you're citing, HRS 10-17, in my estimation, does not apply. You know what I'm saying, and in terms of the Grant, I just would like to know who's doing it, and the overburdened and understaffed Grant section that we have now.

I would prefer it to say motion one, *CEO may further delegate the authority to designate from administration*. But where does this ever return to the Board. We just take the 5 million pass it to Admin., we don't ask for anything on the record with regards to priorities for grant awards, verification of blood quantum. I'm not here to take your word for it, Casey, we're a State agency, and I have yet to see what your and Stacy's criteria are. Starting with one, you will ensure that recipients are Native Hawaiians with a capital or small N, we're liable for it, and I would like to see some detail. If not, you want to move this now, I could vote for it now, but you put it the end of your paragraph, this authority to the designation to a designate from administration, but it has to be subject to the approval of the board. I mean at least that, put some flesh on the bones, instead of saying, we turn it over to some unnamed people, Admin. can give it to any other designee, we don't even know their name. We don't even get to see what the criteria of the Grants are for our people. Come on, I'm a Trustee.

Pou Nui Brown: Trustee Trask, we're happy to start with the presentation, which has a lot of information, and we'll give you more.

Trustee Trask: I don't need you to start with anything, Casey. It should've been sent to me before this thing came on the board. Send me the data, send me the data. I don't mind working with Stacy, I don't mind giving this to Admin., but for goodness sakes, 5 million! We're delegating authority to anybody in the Admin., we didn't even look at the Grant criteria. You know we did have further meetings, but the Board did not approve total authority to unidentified staff of 5 million. Come on.

Chair Waihe'e asks if there is any further discussion.

There is no further discussion.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

MOTION #1						MOTION 1: 3:09 p.m. VOTE 1: 3:24 p.m.
TRUSTEE	1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
DAN AHUNA						EXCUSED
KALEIHIKINA AKAKA			X			
KELI'I AKINA		2	X			
VICE-CHAIR LUANA ALAPA	1					Departed at 3:23PM
BRICKWOOD GALUTERIA						EXCUSED
CARMEN HULU LINDSEY			X			
J. KEONI SOUZA			X			
MILILANI TRASK				X		
CHAIR JOHN WAIHE'E			X			
TOTAL VOTE COUNT			5	1	0	3

VOTE: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED

MOTION #2

Trustee Souza moves to approve the delegation of authority to OHA's CEO to award Maui Wildfire Disaster Aid Deployment Grants, with tiered funding disbursements not to exceed \$9,000.00 per grant. The CEO may further delegate this authority to a designee from Administration.

Trustee Lindsey seconds the motion.

Trustee Akina: Just a question for clarification. *Will the deployment of the disaster aid be performed by an OHA grantee, and if so, what will we be paying this grantee for that service?*

Pou Nui Brown: No, this is the whole point of this, for OHA to do this work itself. So, we're not going to give it to another grantee to then deploy and pay an admin. fee. We're setting up our own infrastructure in-house with the help of our beneficiary services and our grants to deliver this ourselves, Trustee Akina.

Trustee Akina: Casey, thank you for confirming that.

Chair Waihe'e: Casey, I guess my question is *why is it only \$9,000 as the limit?*

Pou Nui Brown: That's what was proposed for us to go with; the team who's pulling this together to deliver the disbursements here at OHA. One thing we can do is when we open this window and we start to look at applicants and engage them, we're gonna hear more about their situations and we're gonna learn more about different needs that might be beyond just a homeowner and a renter, or 9,000 to 4,000. So that's something that we plan to collect the info. bring it back to the board, and then have you guys decide if there's more you want to do. But this was given to Administration to propose, so this is what we're working with.

Chair Waihe'e: Okay, if it was 10 it'd be easier to count it, but anyway.

Chair Waihe'e recognizes Trustee Akaka.

Trustee Akaka: Pouhana or Casey, *is it possible for you folks to give us a monthly update?*

Pouhana Ferreira: Absolutely.

Pou Nui Brown: Sure.

Trustee Akaka: Thank you. I think that will give Trustees more peace of mind on the process and be able to give input and feedback on what we're hearing from our beneficiaries on what's working and what's not working.

Chair Waihe'e recognizes CFO Hinck.

CFO Hinck: We can also send you a report every week of the checks that we cut, so that you know how much.

Trustee Akaka: Thank you. *Is there any other information that would be important for us to know before we vote on this?*

Pou Nui Brown: I would just say to continue to keep an open mind on the new intelligence that we learned from the Maui community like I mentioned. I'm glad I got a chance to mention the fact that this is a start, and we may learn more needs as they come. So, you guys may choose to deploy more money in a different way, you know, that would be all I have to add.

CFO Hinck: I'd just like to add also that this is the exact same grant process that we always follow. The only difference is that OHA is the grantor and the grantee, it's self-administered, and the checks are coming from OHA. But the rest of the Grant process is exactly the same as if we were giving it to a grantee to administer.

Trustee Akaka: Thank you, and how are we letting our beneficiaries know about this option for them to have.

Pou Nui Brown: The same way we promote our normal Grants, Trustee. We have the plans in place ready to launch, once we have the delegated authority, and once we stand this up.

Trustee Akaka: Mahalo, I look forward to the updates.

Chair Waihe'e recognizes Trustee Lindsey.

Trustee Lindsey: Thank you. I just want to share a little bit more how we arrived at that 9,000 and 4,000. We estimated the numbers of homes that were lost by our Hawaiians, and it's an estimate, and there were renters that were renting homes that lost all their goods, and that was an estimate. So, we added the two, and we divided the 5 million dollars, that's how we came up with 9,000 per home lost and 4,000 for goods lost. Maybe, as our administration work to disburse these monies, our people may not come forth to get the monies, we don't really know.

So, the question that Trustee Akaka asks about how we're going to let our people know, we're going to be extensive in letting them know, we may do radio, we may do television, just to let them know that this is available for them. We have Ka Wai Ola, and we anticipate that this may take up to, and maybe more, 6 months of disbursement. Some of our people have moved away, and if they hear about it, they may contact our office and come back to apply, so all that kind of consideration is gonna be given to the people that suffered in these wildfires. Thank you.

Chair Waihe'e asks if there is any further discussion.

There is no further discussion.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

MOTION #2							MOTION 2: 3:25 p.m. VOTE 2: 3:31 p.m.
TRUSTEE		1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
DAN	AHUNA						EXCUSED
KALEIHIKINA	AKAKA			X			
KELI'I	AKINA			X			
VICE-CHAIR LUANA	ALAPA						<i>Departed at 3:23PM</i>
BRICKWOOD	GALUTERIA						EXCUSED
CARMEN HULU	LINDSEY		2	X			
J. KEONI	SOUZA	1		X			
MILILANI	TRASK				X		
CHAIR JOHN	WAIHE'E			X			
TOTAL VOTE COUNT				5	1	0	3

VOTE: [] UNANIMOUS [X] PASSED [] DEFERRED [] FAILED

V. ANNOUNCEMENTS

None

VI. ADJOURNMENT

Trustee Souza moves to adjourn the RM meeting.

Trustee Lindsey seconds the motion.

Chair Waihe'e asks if there is any discussion.

There is zero discussion.

Chair Waihe'e calls for a **ROLL CALL VOTE**.

						3:32 p.m.
TRUSTEE	1	2	'AE (YES)	A'OLE (NO)	KANALUA (ABSTAIN)	EXCUSED
DAN AHUNA						EXCUSED
KALEIHIKINA AKAKA			X			
KELI'I AKINA			X			
VICE-CHAIR LUANA ALAPA						<i>Departed at 3:23PM</i>
BRICKWOOD GALUTERIA						EXCUSED
CARMEN HULU LINDSEY		2	X			
J. KEONI SOUZA	1		X			
MILILANI TRASK			X			
CHAIR JOHN WAIHE'E			X			
TOTAL VOTE COUNT			6	0	0	3

VOTE: [X] UNANIMOUS [] PASSED [] DEFERRED [] FAILED

Chair Waihe'e adjourns the RM meeting at 3:32 p.m.

Respectfully submitted,

Melissa Wennihan
Trustee Aide
Committee on Resource Management

As approved by the Committee on Resource Management (RM) on March 27, 2024

Trustee John Waihe'e, IV
Chair
Committee on Resource Management

Committee on Resource ManagementTrustee John Waihe'e IV, *At-Large - Chair*Trustee Luana Alapa, *Moloka'i / Lāna'i - Vice Chair***Members**Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brickwood Galuteria, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee J. Keoni Souza, *At-Large*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Wednesday March 27, 2024**TIME:** 1:30 p.m.

PLACE: Remote Meeting by Interactive Conference Technology
and in-person at OHA Maui Ola Boardroom
Nā Lama Kukui
560 N. Nimitz Hwy.
Honolulu, HI. 96817

viewable at <https://www.oha.org/livestream> OR

Listen by phone: (213) 338-8477, Webinar ID: 861 7259 5166

This virtual meeting can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listened to by phone at: (213) 338-8477, Webinar ID: 861 7259 5166. A physical meeting location, open to members of the public who would like to provide oral testimony or view the virtual meeting, will be available at 560 N. Nimitz Hwy., Suite 200, Honolulu HI 96817.

AGENDA**I. Call to Order****II. Approval of Minutes**

A. February 21, 2024

III. Unfinished Business – None**IV. New Business**

- A. **Presentation by Auditors:** Draft Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023, Sophia Kuo, Assurance Services Director, The Pun Group LLP
- B. **Action Item RM #24-06:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023
- C. **Action Item RM #24-07:** Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends
- D. **Action Item RM #24-08:** Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau
- E. **Action Item RM #24-09:** Reappointment of Roberts "Bob" Leinau as a Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027
- F. **Consequent Capital Management (CCM) – Independent Board Investment Advisor**
 - 1. re: Changes in CCM personnel, Ken Simon, CEO
 - 2. Discussion on a financial entity, Vijoy Chattergy, CIO (external)
 - 3. Discussion on private equity investment programs, Gerry Flintoft, Head of Private Markets

V. Adjournment

Committee on Resource ManagementTrustee John Waihe'e IV, *At-Large* - ChairTrustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair**Members**Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brickwood Galuteria, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee J. Keoni Souza, *At-Large*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Wednesday March 27, 2024**TIME:** 1:30 p.m.

PLACE: Remote Meeting by Interactive Conference Technology
and in-person at OHA Maui Ola Boardroom
Nā Lama Kukui

560 N. Nimitz Hwy.

Honolulu, HI. 96817

viewable at <https://www.oha.org/livestream> OR

Listen by phone: (213) 338-8477, Webinar ID: 861 7259 5166

This virtual meeting can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listened to by phone at: (213) 338-8477, Webinar ID: 861 7259 5166. A physical meeting location, open to members of the public who would like to provide oral testimony or view the virtual meeting, will be available at 560 N. Nimitz Hwy., Suite 200, Honolulu HI 96817.

AGENDA**I. Call to Order****II. Approval of Minutes**

A. February 21, 2024

III. Unfinished Business – None**IV. New Business**

A. Presentation by Auditors: Draft Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023, Sophia Kuo, Assurance Services Director, The Pun Group LLP

B. Action Item RM #24-06: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023

C. **Action Item RM #24-07:** Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends

D. **Action Item RM #24-08:** Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau

E. **Action Item RM #24-09:** Reappointment of Roberts "Bob" Leinau as a Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027

F. Consequent Capital Management (CCM) – Independent Board Investment Advisor

1. re: Changes in CCM personnel, Ken Simon, CEO

2. Discussion on a financial entity, Vijoy Chattergy, CIO (external)

3. Discussion on private equity investment programs, Gerry Flintoft, Head of Private Markets

V. Adjournment



ACTION ITEM

COMMITTEE ON RESOURCE MANAGEMENT

March 27, 2024

RM #24-06

Action Item Issue: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023

Prepared by:

A handwritten signature in black ink, appearing to read 'Ramona G. Hinck'.

3/22/24

Ramona G. Hinck
Ka Pou Kihi Kanaloa Wai, Chief Financial Officer

Date

Reviewed by:

A handwritten signature in black ink, appearing to read 'Stacy K. Ferreira'.

3/22/2024

Stacy K. Ferreira
Ka Pouhana, Chief Executive Officer

Date

Reviewed by:

A handwritten signature in black ink, appearing to read 'Ke Kua'.

03/23/2024

Ke Kua, Trustee John Waihee, IV
Luna Ho'omalua o ke Kōmike Resource Management
Chair of the Committee on Resource Management

Date

Action Item RM #24-06: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023

I. Proposed Actions

The Board of Trustees, Committee on Resource Management:

- Approve the draft Office of Hawaiian Affairs Financial Statements with Independent Auditor's Report for the Year Ended June 30, 2023 at Attachment A;
- Approve the draft Office of Hawaiian Affairs Report of Independent Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023, at Attachment B; and
- Authorize the OHA Chief Executive Officer and Administration to take all other reasonable actions necessary and appropriate to complete, issue, file and distribute the reports.

II. Managements Responsibility, Auditor's Responsibilities and Auditor's Opinion – FYE 6/30/2023

A. Financial Transparency.

Posted on the Office of Hawaiian Affairs' website, under the Financial Transparency tab, are financial statements from June 30, 2004 to June 30, 2022 are 19 years of financial information plus 5 years of single audits of the Native Hawaiian Revolving Loan Fund (NHRLF), completed by four independent audit firms. The following list indicates the year of the financial statements audited, the independent audit firm conducting the audit, **noting that each audit had a "clean" or an "unqualified" opinion.** Refer to section D below for further discussion re: Auditor's Opinion.

1. June 30, 2022, N&K, CPA's Inc.
2. June 30, 2021, N&K, CPA's Inc.
3. June 30, 2020, N&K, CPA's Inc.
4. June 30, 2019, N&K, CPA's Inc.
5. June 30, 2018, N&K, CPA's Inc.
6. June 30, 2017, N&K, CPA's Inc.
7. June 30, 2016, KMH LLP
8. June 30, 2015, KMH LLP
9. June 30, 2014, KMH LLP
10. June 30, 2013, KMH LLP
11. June 30, 2012, KMH LLP
12. June 30, 2011, PKF Pacific Hawaii LLP
13. June 30, 2010, PKF Pacific Hawaii LLP
14. June 30, 2009, Grant Thornton LLP
15. June 30, 2008, Grant Thornton LLP
16. June 30, 2007, Grant Thornton LLP
17. June 30, 2006, Grant Thornton LLP
18. June 30, 2005, Grant Thornton LLP
19. June 30, 2004, Grant Thornton LLP

Action Item RM #24-06: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023

- B. Management's Responsibility.** 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.
- C. Auditor's Responsibilities.¹** The Auditor's 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 auditor's report that includes our opinions. The financial statements of Hi'ilei Aloha LLC 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, were audited by another auditor, a report furnished and the other auditor's opinion relied upon.

The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The auditors are required to be independent of OHA and to meet ethical requirements relating to the audit in order to obtain audit evidence sufficient and appropriate to provide a basis for their audit opinion.

- D. Auditor's Opinion – June 30, 2023.²** “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.”

The above opinion is commonly referred to as a “clean” or “unqualified” opinion.

¹Source: Independent Auditor's Report

²Source: Independent Auditor's Report

Action Item RM #24-06: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023

E. Recommended Actions

Administration recommends the Board of Trustees, Committee on Resource Management:

1. Approve the draft Office of Hawaiian Affairs Financial Statements with Independent Auditor's Report for the Year Ended June 30, 2023, at Attachment A;
2. Approve the draft Office of Hawaiian Affairs Report of Independent Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023, at Attachment B; and
3. Authorize the OHA Chief Executive Officer and Administration to take all other reasonable actions necessary and appropriate to complete, issue, file and distribute the reports.

Attachments

- A. Draft OHA Financial Statements with Independent Auditor's Report for the Year Ended June 30, 2023
- B. Draft OHA Report of Independent Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023

INTENTIONALLY LEFT BLANK – END OF ACTION ITEM

FINAL DRAFT 03.22.2024

Office of Hawaiian Affairs

State of Hawai‘i

Independent Auditors’ Reports and Financial Statements

For the Year Ended June 30, 2023

FINAL DRAFT 03.22.2024

Office of Hawaiian Affairs, State of Hawai‘i

Table of Contents

Page**INTRODUCTORY SECTION (Unaudited)**

Letter from the Chief Executive Officer.....	i
--	---

FINANCIAL SECTION

Independent Auditors’ Report on the Financial Statements.....	1
--	----------

Management’s Discussion and Analysis (Required Supplementary Information) (Unaudited).....	5
---	----------

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position.....	16
Statement of Activities	18

Fund Financial Statements:

Governmental Fund Financial Statements:

Balance Sheet.....	23
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.....	24
Statement of Revenues, Expenditures, and Changes in Fund Balances	25
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	26

Proprietary Fund Financial Statements:

Statement of Net Position	29
Statement of Revenues, Expenses, and Changes in Net Position	30
Statement of Cash Flows	31

Notes to the Basic Financial Statements	37
---	----

Required Supplementary Information (Unaudited):

Budgetary Comparison Schedule – General Fund.....	71
Budgetary Comparison Schedule – Public Land Trust Fund.....	72
Budgetary Comparison Schedule – Federal Fund.....	73
Schedule of OHA's Proportionate Share of the Net Pension Liability.....	74
Schedule of Contributions – Pensions	75
Schedule of Contributions – OPEB	76
Schedule of Changes in Net OPEB Liability and Related Ratios	77

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79
--	-----------

FINAL DRAFT 03.22.2024

This page intentionally left blank.

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*.

Office of Hawaiian Affairs, State of Hawai‘i

LETTER FROM THE CHIEF EXECUTIVE OFFICER – UNAUDITED (CONTINUED)

June 30, 2023

FINAL DRAFT 03.22.2024

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

Office of Hawaiian Affairs, State of Hawai‘i

LETTER FROM THE CHIEF EXECUTIVE OFFICER – UNAUDITED (CONTINUED)

June 30, 2023

FINAL DRAFT 03.22.2024

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,

Office of Hawaiian Affairs, State of Hawai‘i

LETTER FROM THE CHIEF EXECUTIVE OFFICER – UNAUDITED (CONTINUED)

June 30, 2023

FINAL DRAFT 03.22.2024

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:

Division Title	Division Objectives
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.

Office of Hawaiian Affairs, State of Hawai‘i

LETTER FROM THE CHIEF EXECUTIVE OFFICER – UNAUDITED (CONTINUED)

June 30, 2023

FINAL DRAFT 03.22.2024

Division Title	Division Objectives
3. Beneficiary advocacy <i>Grants, Halawa-Luluku Interpretive Development, Native Hawaiian Revolving Loan Fund, Advocacy, Public Policy, Community Engagement, Compliance & 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.

Office of Hawaiian Affairs, State of Hawai‘i

LETTER FROM THE CHIEF EXECUTIVE OFFICER – UNAUDITED (CONTINUED)

June 30, 2023

FINAL DRAFT 03.22.2024

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

Office of Hawaiian Affairs, State of Hawai‘i

LETTER FROM THE CHIEF EXECUTIVE OFFICER – UNAUDITED (CONTINUED)

June 30, 2023

FINAL DRAFT 03.22.2024

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.

Office of Hawaiian Affairs, State of Hawai‘i

LETTER FROM THE CHIEF EXECUTIVE OFFICER – UNAUDITED (CONTINUED)

June 30, 2023

FINAL DRAFT 03.22.2024

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.

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

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.

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

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;

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

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.

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

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

Office of Hawaiian Affairs, State of Hawai‘i

LETTER FROM THE CHIEF EXECUTIVE OFFICER – UNAUDITED (CONTINUED)

June 30, 2023
FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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.

FINAL DRAFT 03.22.2024

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.

To the Board of Trustees and management
of the Office of Hawaiian Affairs
Honolulu, Hawai‘i
Page 3

FINAL DRAFT 03.22.2024

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 XX, 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.

Santa Ana, California
March XX, 2024

FINAL DRAFT 03.22.2024

This page intentionally left blank.

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

As management of OHA, we offer the following narrative overview and analysis to readers of our financial statements. While the financial statements and notes present only the financial activities for the fiscal year ended June 30, 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 31, 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:

	2023	2022
ASSETS		
Capital assets	\$ 293,650,315	\$ 294,398,403
Other assets	609,668,872	579,273,011
Total assets	903,319,187	873,671,414
DEFERRED OUTFLOWS OF RESOURCES		
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
LIABILITIES		
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
DEFERRED INFLOWS OF RESOURCES		
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
NET POSITION		
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 Invested in capital assets, net of related debt.

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 Invested in capital assets, net of related debt.

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

OHA's Total net position, from June 30, 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.

INTENTIONALLY LEFT BLANK

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:

	2023	2022
REVENUES		
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>
EXPENSES		
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>
NET TRANSFERS (TO) / FROM OTHER FUNDS	-	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

FINAL DRAFT 03-22-2024

BASIC FINANCIAL STATEMENTS

FINAL DRAFT 03.22.2024

This page intentionally left blank.

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

Office of Hawaiian Affairs, State of Hawai‘i

Statement of Net Position

June 30, 2023

FINAL DRAFT 03.22.2024

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
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
Total current assets	35,129,017	8,140,397	43,269,414
Noncurrent assets:			
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
Total noncurrent assets	841,748,627	18,301,146	860,049,773
Total assets	876,877,644	26,441,543	903,319,187
DEFERRED OUTFLOWS OF RESOURCES			
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
Total deferred outflows of resources	5,053,286	-	5,053,286

Office of Hawaiian Affairs, State of Hawai‘i

Statement of Net Position (Continued)

June 30, 2023

FINAL DRAFT 03.22.2024

	Governmental Activities	Business-Type Activities	Total
LIABILITIES			
Current liabilities:			
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
Total current liabilities	4,714,598	563,391	5,277,989
Noncurrent liabilities:			
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
Total noncurrent liabilities	123,107,065	-	123,107,065
Total liabilities	127,821,663	563,391	128,385,054
DEFERRED INFLOWS OF RESOURCES			
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
Total deferred inflows of resources	33,080,151	541,718	33,621,869
NET POSITION			
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
Total net position	\$ 721,029,116	\$ 25,336,434	\$ 746,365,550

Office of Hawaiian Affairs, State of Hawai‘i

Statement of Activities

For the Year Ended June 30, 2023

FINAL DRAFT 03.22.2024

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
Governmental activities:						
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)
Total governmental activities	43,812,494	10,834,087	421,680	(32,556,727)	-	(32,556,727)
Business-type Activities:						
Hi‘ilei Aloha LLC	5,788,704	9,809,119	-	-	4,020,415	4,020,415
Total business-type activities	5,788,704	9,809,119	-	-	4,020,415	4,020,415
Total primary government	\$49,601,198	\$ 20,643,206	\$ 421,680	(32,556,727)	4,020,415	(28,536,312)
General revenues:						
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
Total general revenues				62,558,447	-	62,558,447
Changes in net position				30,001,720	4,020,415	34,022,135
Net position - beginning of year				691,027,396	21,316,019	712,343,415
Net position - end of year				\$ 721,029,116	\$ 25,336,434	\$ 746,365,550

FINAL DRAFT 03-22-2024

FUND FINANCIAL STATEMENTS

FINAL DRAFT 03.22.2024

This page intentionally left blank.

GOVERNMENTAL FUND
FINANCIAL STATEMENTS

FINAL DRAFT 03.22.2024

This page intentionally left blank.

Office of Hawaiian Affairs, State of Hawai‘i

Balance Sheet

Governmental Funds

June 30, 2023

FINAL DRAFT 3.22.2024

	Major Funds			Nonmajor	Total
	General	Public Land	Federal	Governmental	Governmental
	Fund	Trust	Grants	Fund	Funds
ASSETS					
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
Total assets	\$ 1,360,901	\$ 572,655,615	\$ 24,830,484	\$ 20,478	\$ 598,867,478
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
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
Total liabilities	-	2,487,913	491,401	105,999	3,085,313
Deferred inflows of resources:					
Leases	-	27,664,638	-	-	27,664,638
Total deferred inflows of resources	-	27,664,638	-	-	27,664,638
Fund balances:					
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)
Total fund balances (deficit)	1,360,901	542,503,064	24,339,083	(85,521)	568,117,527
Total liabilities, deferred inflows of resources, and fund balances	\$ 1,360,901	\$ 572,655,615	\$ 24,830,484	\$ 20,478	\$ 598,867,478

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

Total Fund Balances - Total Governmental Funds	\$ 568,117,527
---	----------------

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
--	-------------

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)	

Net position of governmental activities	\$ 721,029,116
--	-----------------------

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
REVENUES:					
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
Total revenues	2,254,400	70,455,486	847,306	257,022	73,814,214
EXPENDITURES:					
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
Total expenditures	5,942,728	36,350,610	1,097,922	12,907	43,404,167
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(3,688,328)	34,104,876	(250,616)	244,115	30,410,047
OTHER FINANCING SOURCES (USES):					
Inception of leases	-	396,657	-	-	396,657
Transfers in	3,284,400	-	-	-	3,284,400
Transfers out	-	(3,284,400)	-	-	(3,284,400)
Total other financing sources (uses)	3,284,400	(2,887,743)	-	-	396,657
NET CHANGES IN FUND BALANCES	(403,928)	31,217,133	(250,616)	244,115	30,806,704
FUND BALANCES (DEFICIT):					
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

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	<u>\$ 30,001,720</u>
--	-----------------------------

PROPRIETARY FUND
FINANCIAL STATEMENTS

FINAL DRAFT 03.22.2024

This page intentionally left blank.

Office of Hawaiian Affairs, State of Hawai‘i

Statement of Net Position

Proprietary Fund

June 30, 2023

FINAL DRAFT 03.22.2024

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

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
OPERATING REVENUES:	
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
Total operating revenues	9,809,119
OPERATING EXPENSES:	
Program services	4,355,858
Management and general	1,364,297
Fundraising	68,549
Total operating expenses	5,788,704
OPERATING INCOME	4,020,415
CHANGES IN NET POSITION	4,020,415
NET POSITION:	
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
CASH FLOWS FROM OPERATING ACTIVITIES:	
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)
Net cash provided by operating activities	3,972,095
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Lease income from capitalized lease	299,536
Expenditures for property and equipment	(735,014)
Sale of capital asset	12,000
Net cash (used in) capital and related financing activities	(423,478)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of investments	(2,518,167)
Net cash (used in) investing activities	(2,518,167)
Net change in cash and cash equivalents	1,030,450
CASH AND CASH EQUIVALENTS:	
Beginning of year	6,353,803
End of year	\$ 7,384,253
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
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)
Net cash provided by operating activities	\$ 3,972,095

FINAL DRAFT 03.22.2024

This page intentionally left blank.

FINAL DRAFT 03.22.2024

NOTES TO THE BASIC FINANCIAL STATEMENTS

FINAL DRAFT 03.22.2024

This page intentionally left blank.

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

FINAL DRAFT 03.22.2024

Note 1 – Financial Reporting Entity	37
Note 2 – Significant Accounting Policies	37
A. Basis of Presentation.....	37
B. Government-wide Financial Statements	37
C. Governmental Funds Financial Statements.....	37
D. Proprietary Fund Financial Statements	38
E. Accounts Receivable.....	38
F. Investments	39
G. Inventory and Prepaid Items	39
H. Notes Receivable.....	40
I. Capital Assets	40
J. Leases.....	40
K. Deferred Outflows of Resources and Deferred Inflows of Resources	42
L. Compensated Absences and Compensatory Pay.....	42
M. Risk Management	42
N. Net Position.....	43
O. Fund Balance	43
P. Encumbrances	45
Q. Use of Estimates.....	45
R. Pensions	46
S. Postemployment Benefits Other Than Pensions (OPEB)	46
T. Implementation of New GASB Pronouncement.....	46
Note 3 – Biennial Budget.....	46
Note 4 – Appropriations.....	47
Note 5 – Cash.....	47
Note 6 – Inventory, Prepaid items and Other assets	48
Note 7 – Lease Receivables	48
Note 8 – Notes Receivables.....	49
Note 9 – Investments.....	49
A. Foreign Currency Risk.....	51
B. Interest Rate Risk.....	51
C. Credit Risk	52
D. Concentration of Credit Risk	52
E. Other Risks and Uncertainties.....	52
Note 10 – Capital Assets.....	53
Note 11 – Long-term Debt.....	54

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

Note 12 – Defined Benefit Pension Plan	55
A. Pension Plan Description	55
B. Benefits Provided	55
C. Contributions	58
D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions	58
E. Actuarial Assumptions	60
F. Discount Rate	61
G. Sensitivity of OHA’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate	61
H. Pension Plan Fiduciary Net Position	61
I. Payables to the Pension Plan	61
Note 13 – Postemployment Health Care and Life Insurance Benefits	61
A. Plan Description	61
B. Employees Covered by Benefit Terms	62
C. Contributions	62
D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB	62
E. Actuarial Assumptions	63
F. Single Discount Rate	64
G. OPEB Plan Fiduciary Net Position	65
H. Changes in OHA’s Proportionate Share of the State’s Net OPEB Liability	65
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	65
J. Payables to the OPEB Plan	66
Note 14 – Employee Benefits	66
A. Deferred Compensation	66
B. Hi‘ilei Aloha LLC Retirement Plan	66
C. Sick Leave	66
Note 15 – Risk Management and Contingent Liabilities	67
A. Workers’ Compensation and Other Self-Insurance Liabilities	67
B. Quiet Title Litigation	67
C. Litigation	68
Note 16 – Net Investment in Capital Assets	68
Note 17 – Related Party Transactions	68

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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	Significant	Significant
			in Active	Other	Unobservable
			Markets	Observable	Inputs
			(Level 1)	Inputs	Inputs
	Fund	Reported Value	(Level 1)	(Level 2)	(Level 3)
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		<u>292,801,068</u>	<u>\$ 292,801,068</u>	<u>\$ -</u>	<u>\$ -</u>
Investments held at NAV					
Commingled Funds	NHTF	97,264,770			
Alternative Investments					
Absolute Return	NHTF	51,805,651			
Private Investments	NHTF	<u>81,677,733</u>			
Total investments at NAV		<u>230,748,154</u>			
Invested securities lending collateral					
Money Market Funds		<u>8,989,100</u>			
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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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	
Capital assets, not being depreciated:					
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
Capital assets, being depreciated:					
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
Less accumulated depreciation:					
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
Intangible assets, being amortized:					
Right-to-use leased building	397,073	396,657	(157,136)	-	636,594
Total lease assets	397,073	396,657	(157,136)	-	636,594
Less accumulated amortization:					
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
Governmental activities capital assets, net	\$ 279,317,205	\$ (1,158,482)	\$ (48,342)	\$ -	\$ 278,110,381

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	
Capital assets, not being depreciated:					
Land	\$ 13,429,733	\$ -	\$ -	\$ -	\$ 13,429,733
Total capital assets, not being depreciated	13,429,733	-	-	-	13,429,733
Capital assets, being depreciated:					
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
Less accumulated depreciation:	(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
Business-type activities capital assets, net	\$ 15,081,198	\$ 468,287	\$ (9,551)	\$ -	\$ 15,539,934

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

FINAL DRAFT 03.22.2024

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
Total	\$ 61,288,428	\$ 789,240	\$ (586,756)	\$ 61,490,912	\$ 1,729,500	\$ 59,761,412

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
Total	\$ 484,646	\$ 37,485	\$ 522,131

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

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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:

	Deferred outflows of Resources	Deferred inflows of Resources
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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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%
	100.00%	

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

FINAL DRAFT 03.22.2024

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.

	Increase (Decrease)		
	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(c) = (a) - (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:

	Discount Rate - 1 % (6.00%)	Current Discount Rate (7.00%)	Discount Rate + 1 % (8.00%)
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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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

FINAL DRAFT 03.22.2024

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.

**REQUIRED SUPPLEMENTARY
INFORMATION (UNAUDITED)**

FINAL DRAFT 03.22.2024

This page intentionally left blank.

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
REVENUES:				
Appropriations, net of lapses	\$ 2,254,400	\$ 2,254,400	\$ 2,254,400	\$ -
Total revenues	<u>2,254,400</u>	<u>2,254,400</u>	<u>2,254,400</u>	<u>-</u>
EXPENDITURES:				
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)
Total expenditures	<u>2,254,400</u>	<u>3,087,826</u>	<u>5,942,728</u>	<u>(2,854,902)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(833,426)</u>	<u>(3,688,328)</u>	<u>2,854,902</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	3,284,400	(3,284,400)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>3,284,400</u>	<u>(3,284,400)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (833,426)</u>	<u>(403,928)</u>	<u>\$ (429,498)</u>
FUND BALANCE:				
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
REVENUES:				
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	-
Total revenues	<u>52,800,121</u>	<u>69,314,238</u>	<u>70,455,486</u>	<u>1,141,248</u>
EXPENDITURES:				
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)
Total expenditures	<u>42,681,253</u>	<u>66,799,349</u>	<u>36,350,610</u>	<u>30,448,739</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>10,118,868</u>	<u>2,514,889</u>	<u>34,104,876</u>	<u>(29,307,491)</u>
OTHER FINANCING SOURCES (USES):				
Inception of leases	-	-	396,657	(396,657)
Transfers out	-	-	(3,284,400)	
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(2,887,743)</u>	<u>2,887,743</u>
NET CHANGE IN FUND BALANCE	<u>\$ 10,118,868</u>	<u>\$ 2,514,889</u>	<u>31,217,133</u>	<u>\$ (26,419,748)</u>
FUND BALANCE:				
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
REVENUES:				
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	-
Total revenues	<u>1,660,777</u>	<u>847,306</u>	<u>847,306</u>	<u>-</u>
EXPENDITURES:				
Beneficiary advocacy	1,660,777	3,025,737	954,921	2,070,816
Support services	-	231,045	143,001	88,044
Total expenditures	<u>1,660,777</u>	<u>3,256,782</u>	<u>1,097,922</u>	<u>2,158,860</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ (2,409,476)</u>	<u>(250,616)</u>	<u>\$ (2,158,860)</u>
FUND BALANCE:				
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
Total OPEB liability						
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)
Net change in total OPEB liability	(1,108,769)	262,979	(277,795)	1,832,175	1,406,931	1,293,610
Total OPEB liability - beginning	39,201,559	38,938,580	39,216,375	37,384,200	35,977,269	34,683,659
Total OPEB liability - end	<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>
Plan fiduciary net position						
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
Net Change in plan fiduciary net position	135,326	1,212,946	1,244,286	1,801,874	1,145,437	921,707
Plan fiduciary net position - beginning	8,056,513	6,843,567	5,599,281	3,797,407	2,651,970	1,730,263
Plan fiduciary net position - end	<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>
Plan net OPEB liability	<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>
Plan fiduciary net position as a %age of the total OPEB liability	<u>21.50%</u>	<u>20.55%</u>	<u>17.58%</u>	<u>14.28%</u>	<u>10.16%</u>	<u>7.37%</u>
Covered payroll	<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>
Plan net OPEB liability as a percentage of covered payroll	<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).

FINAL DRAFT 03.22.2024

This page intentionally left blank.

FINAL DRAFT 03.22.2024

**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 XX, 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
Page 2

FINAL DRAFT 03.22.2024

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.

Santa Ana, California
March XX, 2024

FINAL DRAFT 03.22.2024

Office of Hawaiian Affairs

State of Hawai‘i

Single Audit and Independent Auditors’ Reports

For the Year Ended June 30, 2023

FINAL DRAFT 03.22.2024

Office of Hawaiian Affairs, State of Hawai‘i
Single Audit and Independent Auditors’ Reports
For the Year Ended June 30, 2023

FINAL DRAFT 03.22.2024

Table of Contents

	<u>Page</u>
Independent Auditors’ Reports:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Financial Information:	
Schedule of Expenditures of Federal Awards	7
Notes to the Schedule of Expenditures of Federal Awards	8
Native Hawaiian Revolving Loan Fund Financial Statements:	
Balance Sheet.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balance	12
Statement of Cash Flows	13
Schedule of Findings and Questioned Costs	15

FINAL DRAFT 03.22.2024

This page intentionally left blank.

**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
of the Office of Hawaiian Affairs, State of Hawai'i
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 governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Office of Hawaiian Affairs ("OHA"), State of Hawai'i, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise OHA's basic financial statements, and have issued our report thereon dated March XX, 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of OHA's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 OHA'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.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether OHA’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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.

Santa Ana, California
March XX, 2024

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

Independent Auditors' Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Office of Hawaiian Affairs ("OHA"), State of Hawai'i compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of OHA's major federal programs for the year ended June 30, 2023. OHA's major federal programs are identified in the summary of the auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, OHA complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States ("Government Auditing Standards"), and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of OHA and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of OHA's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to OHA's federal programs.

Auditors’ Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on OHA’s compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about OHA’s compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 OHA’s compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of OHA’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of OHA’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

FINAL DRAFT 03.22.2024

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-001 to be significant deficiencies.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on OHA’s response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. OHA’s response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance and Native Hawaiian Revolving Loan Fund Financial Statements

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of OHA 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. We issued our report thereon dated March XX, 2024, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. The accompanying Native Hawaiian Revolving Loan Fund financial statements are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards and the Native Hawaiian Revolving Loan Fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Santa Ana, California
March XX, 2024

FINAL DRAFT 03.22.2024

This page intentionally left blank

Office of Hawaiian Affairs, State of Hawai'i
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

FINAL DRAFT 03.22.2024

Federal Grantor/Pass-Through Grantor Program Title	Assistance Listing Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Transportation			
<i>Highway Planning and Construction Cluster</i>			
<i>Pass-through Department of Transportation - State of Hawai'i</i>			
Highway Planning and Construction (Federal-Aid Highway Program)	20.205	20358600	\$ 208,563
Total Federal Transit Cluster			208,563
Total U.S. Department of Transportation			208,563
Department of Health and Human Services			
<i>Native American Programs</i>			
Native Hawaiian Revolving Loan Program	93.612	N/A	3,483,250
Total U.S. Department of Health and Human Services			3,483,250
Total Expenditures of Federal Awards			\$ 3,691,813

Office of Hawaiian Affairs, State of Hawai‘i
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2023

Note 1 – Basis of Presentation

The financial reporting entity consists of the primary government, the Office of Hawaiian Affairs, State of Hawai‘i (“OHA”), organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The Board of Trustees acts as the governing body and is able to impose its will on the following organizations establishing financial accountability:

- Hi‘ilei Aloha LLC

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

Funds received under the various grant programs have been recorded within the Federal Fund of OHA. OHA utilizes the modified accrual basis of accounting for the Federal Fund. The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (“CFR”) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of OHA’s basic financial statements.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of OHA. Federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through the State of Hawaii Department of Transportation, are included in the Schedule. The Schedule was prepared from only the accounts of various grant programs and, therefore, does not present the financial position or results of operations of OHA.

Indirect Cost Rate

OHA did not elect to use the 10% de minimis cost rate.

Note 3 – Native Hawaiian Revolving Loan Program

The Native Hawaiian Revolving Loan Program is administered directly by OHA and balances and transactions related to this program are included in OHA’s basic financial statements. Loans issued during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2023 was \$7,802,644.

FINAL DRAFT 03.22.2024

**NATIVE HAWAIIAN REVOLVING LOAN FUND
FINANCIAL STATEMENTS**

FINAL DRAFT 03.22.2024

This page intentionally left blank

Office of Hawaiian Affairs, State of Hawai‘i
Balance Sheet
Native Hawaiian Revolving Loan Fund
June 30, 2023

ASSETS

Cash held in bank	\$ 4,432,935
Cash held by investment managers	69,831
Interest and dividends receivable	52,018
Notes receivable, net of allowance for doubtful accounts	7,802,644
Investments	<u>12,028,696</u>
Total assets	<u><u>\$ 24,386,124</u></u>

LIABILITIES AND FUND BALANCE

Liabilities:

Accounts payable and accrued liabilities	\$ 42,258
Due to other funds	<u>246</u>
Total liabilities	<u>42,504</u>

Fund balance:

Restricted	
Support services	143,001
Long-term portion of notes receivable	6,696,453
Native Hawaiian loan programs	<u>17,504,166</u>
Total fund balance	<u>24,343,620</u>
Total liabilities and fund balance	<u><u>\$ 24,386,124</u></u>

Office of Hawaiian Affairs, State of Hawai‘i
Statement of Revenues, Expenditures, and Changes in Fund Balance
Native Hawaiian Revolving Loan Fund
For the Year Ended June 30, 2023

REVENUES:

Loan interest income	\$ 503,086
Net change in fair value of investment securities	(93,563)
Other revenue	15,440
Total revenues	424,963

EXPENDITURES:

Salaries and fringe benefits	406,296
Services	307,027
Bad debt recovery	(109,837)
Rent	35,894
Investment manager fee	19,552
Legal services	9,405
Other expenses	32,246
Total expenditures	700,583

NET CHANGES IN FUND BALANCE (275,620)

FUND BALANCE:

Beginning of year	24,619,240
End of year	\$ 24,343,620

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

CASH FLOWS FROM OPERATING ACTIVITIES:

Net change in fund balance	\$ (275,620)
Adjustments to reconcile net change in fund balance to net cash used in operating activities:	
Bad debt recovery	(109,837)
Net change in fair value of investment securities	86,161
Amortization of discount on investment securities	16,574
Change in:	
Interest and dividends receivable	(6,533)
Prepaid expenses and other	5,813
Change in:	
Accounts payable	(63,052)
Due to other funds	(87,673)
Net cash (used in) operating activities	<u>(434,167)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of investments	(1,329,000)
Proceeds from maturities of investments	1,125,000
Notes receivable issued	(2,782,667)
Proceeds from repayment of notes receivable	1,497,746
Net cash (used in) investing activities	<u>(1,488,921)</u>

Net (decrease) in cash and cash equivalents (1,923,088)

CASH AND CASH EQUIVALENTS:

Beginning of year	<u>6,425,854</u>
End of year	<u><u>\$ 4,502,766</u></u>

CASH AND CASH EQUIVALENTS:

Cash held in banks	\$ 4,432,935
Cash held by investment manager	69,831
Total cash and cash equivalents	<u><u>\$ 4,502,766</u></u>

FINAL DRAFT 03.22.2024

This page intentionally left blank.

Office of Hawaiian Affairs, State of Hawai‘i
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2023

Section I – Summary of Auditors’ Results

Financial Statements

Types of report the auditors issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified? **None Reported**

Noncompliance material to financial statements noted? **No**

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified? **2023-001**

Type of auditors’ report issued on compliance for major federal programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? **Yes**

Identification of major federal programs:

Assistance Listing Numbers	Major Federal Program or Cluster	Federal Expenditures
93.612	Native Hawaiian Revolving Loan Program	\$ 3,483,250
	Total Expenditures of All Major Federal Programs	\$ 3,483,250
	Total Expenditures of Federal Awards	\$ 3,691,813
	Percent of Total Expenditures of Federal Awards	94.35%

Dollar threshold used to distinguish between type A and type B programs: **\$750,000**

Auditee qualified as a low-risk auditee in accordance with 2 CFR 200.520? **Yes**

Office of Hawaiian Affairs, State of Hawai‘i
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section II – Financial Statement Findings

A. Current Year Findings – Financial Statement

No current year findings were reported.

B. Prior Year Findings – Financial Statement

No prior year findings were reported.

Office of Hawaiian Affairs, State of Hawai‘i
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section III – Federal Award Findings and Questioned Costs

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

2023-001 - Procurement, Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”) (Significant Deficiency)

Identification of the Federal Program:

Assistance Listing Number:	93.612
Assistance Listing Title:	Native Hawaiian Revolving Loan Program
Federal Agency:	Department of Health and Human Services
Pass-Through Entity:	N/A
Federal Award Number and Award Year:	N/A

Criteria or Specific Requirement (Including Statutory, Regulatory, or Other Citation):

Suspension and Debarment, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (“SAM”) Exclusions maintained by the General Services Administration and available at <https://www.sam.gov/portal/public/SAM/> (Note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

In accordance with *OMB Uniform Guidance*, entities under the program, including subrecipients of a state, must follow the procurement standards in 2 CFR sections § 200.318 through § 200.327, including ensuring that the procurement method used for the contracts are appropriate based on the dollar amount and conditions specified in 2 CFR section 200.320.

C.F.R. § 200.319 prescribes that all procurement transactions for the acquisition of property or services required under a Federal award must be conducted in a manner providing full and open competition consistent with the standards of this section and § 200.320. Further, the non-Federal entity must ensure that all prequalified lists of persons, firms, or products which are used in acquiring goods and services are current and include enough qualified sources to ensure maximum open and free competition. Also, the non-Federal entity must not preclude potential bidders from qualifying during the solicitation period.

Condition:

During our audit, we noted that there was no supporting document to indicate that OHA verified the vendors in SAM to ensure that the vendors were not suspended or debarred from federally funded programs before the contract was entered into.

Office of Hawaiian Affairs, State of Hawai‘i
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section III – Federal Award Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

2023-001 - Procurement, Suspension, and Debarment – Internal Control over Verification Against the System for Award Management (“SAM”) (Significant Deficiency) (Continued)

Cause:

OHA does not have policies and processes in place to check and ensure the suspension and debarment review process for vendors that provide goods or services to OHA’s programs prior to entering into a contract.

Effect or Potential Effect:

Without verifying whether vendors are suspended or debarred prior to the contract being awarded, OHA could be contracting with vendors that are prohibited from working on federally funded projects.

Questioned Costs:

None.

Context:

See condition above for context of the finding.

Identification as a Repeat Finding, If Applicable:

Not applicable.

Recommendation:

We recommended OHA to include SAM check in its internal control policies and procedures to incorporate the suspension and debarment verification requirements prior to awarding contracts.

Views of Responsible Officials:

Management concurs the finding. Refer to the separate management’s corrective action plan.

Office of Hawaiian Affairs, State of Hawai‘i
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2023

Section III – Federal Award Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

No prior year findings were reported.

FINAL DRAFT 03.22.2024

This page intentionally left blank.

Committee on Resource ManagementTrustee John Waihe'e IV, *At-Large* - ChairTrustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair**Members**Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brickwood Galuteria, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee J. Keoni Souza, *At-Large*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Wednesday March 27, 2024**TIME:** 1:30 p.m.

PLACE: Remote Meeting by Interactive Conference Technology
and in-person at OHA Maui Ola Boardroom
Nā Lama Kukui
560 N. Nimitz Hwy.
Honolulu, HI. 96817

viewable at <https://www.oha.org/livestream> OR

Listen by phone: (213) 338-8477, Webinar ID: 861 7259 5166

This virtual meeting can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listened to by phone at: (213) 338-8477, Webinar ID: 861 7259 5166. A physical meeting location, open to members of the public who would like to provide oral testimony or view the virtual meeting, will be available at 560 N. Nimitz Hwy., Suite 200, Honolulu HI 96817.

AGENDA**I. Call to Order****II. Approval of Minutes**

A. February 21, 2024

III. Unfinished Business – None**IV. New Business**

- A. Presentation by Auditors: Draft Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023, Sophia Kuo, Assurance Services Director, The Pun Group LLP
- B. Action Item RM #24-06: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023
- C. Action Item RM #24-07: Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends
- D. Action Item RM #24-08: Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau
- E. Action Item RM #24-09: Reappointment of Roberts "Bob" Leinau as a Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027
- F. Consequent Capital Management (CCM) – Independent Board Investment Advisor
 - 1. re: Changes in CCM personnel, Ken Simon, CEO
 - 2. Discussion on a financial entity, Vijoy Chattergy, CIO (external)
 - 3. Discussion on private equity investment programs, Gerry Flintoft, Head of Private Markets

V. Adjournment



ACTION ITEM

COMMITTEE ON RESOURCE MANAGEMENT

March 27, 2024

RM #24-07

Action Item Issue: Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends

Prepared by:

A handwritten signature in black ink, appearing to read 'Casey Brown'.

Mar 22, 2024

Casey K. Brown
Ka Pou Nui, Chief Operating Officer

Date

Reviewed by:

A handwritten signature in black ink, appearing to read 'Ramona G. Hinck'.

Mar 22, 2024

Ramona G. Hinck
Ka Pou Kihi Kanaloa Wai, Chief Financial Officer

Date

Reviewed by:

A handwritten signature in black ink, appearing to read 'Everett Ohta'.

Mar 22, 2024

Everett Ohta
Ka Paepae Puka Kūikawā, Interim General Counsel

Date

Reviewed by:

A handwritten signature in black ink, appearing to read 'Stacy Ferreira'.

Mar 22, 2024

Stacy K. Ferreira
Ka Pouhana, Chief Executive Officer

Date

Reviewed by:

A handwritten signature in black ink, appearing to read 'Ke Kua'.

Mar 23, 2024

Ke Kua, Trustee John D. Waihe'e III
Luna Ho 'omalū o ke Kōmike Resource Management
Chairperson of the Committee on Resource Management

Date

Action Item RM #24-07: Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends

I. Proposed Action

Approve and authorize the following fiscal year 2024 event sponsorship disbursement totaling \$10,000

Organization Name	Event	Award Amount Recommendation
1. The Hawai‘i Academy of Recording Arts (HARA) and Nā Hōkū Hanohano Awards	Restoration of the Hearth of Maui Fundraising Concert April 5, 2024 The Blue Note, Honolulu, O‘ahu April 6, 2024 Blaisdell Arena, Honolulu, O‘ahu	\$10,000
Total Recommendations (1)		\$10,000

II. Issue

Whether or not the Committee on Resource Management will recommend approval and authorize to the Board of Trustees (“BOT” or “Board”), of the disbursement of \$10,000 to fund the new fiscal year 2024 event sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends.

III. Background and Context

Restoration of the Heart of Maui is a united initiative with the people of Hawaii and 98 Degrees to restore Hawaii's heritage and promote wellness in the wake of the Maui fires. This effort will create a spiritual impact of healing for the community in Lahaina with these key initiatives:

1. Restoring Sacred Resting Places: Committed to the sensitive restoration of Waiola church of gravestones and sacred landmarks of significant importance, honoring Hawaiian royalty, notably Queen Keopuolani, who played a critical role in establishing the early churches.
2. Restoring Educational Resources: Help to rebuild King Kamehameha III Elementary School, Lahainaluna High School and their football field, Lahaina Intermediate, Sacred Hearts and Princess Nāhi‘ena‘ena Elementary School. Over 4000 students and education staff are affected by this.
3. Help To Rebuild The Restaurant Community: Lahaina’s Front Street was an integral part of the restaurant community and was a favorite destination among our visitors and makes up over 40% of Maui’s economy.
4. Fostering Mental and Emotional Well-being: Recognizing the vital role that mental and emotional health plays in the community, this initiative aims to develop long-

Action Item RM #24-07: Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends

term programs focusing on nurturing well-being, ensuring a thriving, happy, and healthy populace on Maui once they are restored.

Funds raised will be used for the reconstruction of historical churches established by Hawaii royalty and the revitalization of the historical Lahaina community homes, schools and businesses.

Outrigger Hotels & Resorts confirmed the use of The Blue Note venue for an intimate performance and filming on Friday April 5, 2024, for VIPs and Sponsors. The Blaisdell Arena is the confirmed venue for a performance on Saturday April 6, 2024, with a seating capacity of 7,500 and a donated performance by 98 Degrees.

IV. Discussion

A. Event Oversight

Key team members for the Restoration of the Heart of Maui event include Anne Lee, Host/ Executive Producer; Dennis James Lee, Producer film and music; and Pastor John Tilton, Production Manager/ Producer. The two non-profit partners are The Hawai'i Academy of Recording Arts (HARA) and Nā Hōkū Hanohano Awards.

B. OHA Funding Event Sponsorship Benefits

The recommended sponsorship level is \$30,000 however OHA is choosing to limit its sponsorship level to \$10,000.

Sponsor benefits have been defined for the \$30,000 level only and are as follows:

- Inclusion in multi-media promotion/marketing, show open and close billboards
- 30 second commercial to air during the show
- Sponsor logo on official website
- Additional 98 Degrees commemorative bottle to be sold on official website and
- Promoted on PSA's throughout tv stations.
- VIP Passes: (20) reserved corporate seats in our VIP area, 10 seats to the Friday event and 10 tickets to the Blaisdell Arena show

V. Recommended Action

A. Approve OHA funding of a fiscal year 2024 event sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends totalling \$10,000.

VI. Alternative Actions

A. Approve a different funding amount for the sponsorship

B. Do not sponsor event

Action Item RM #24-07: Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends

VII. Budget Authorization

Table 1: Sponsorships -- 56560

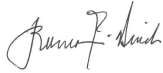
56560 SPONSORSHIPS	Approved	Approved	Biennium Budget Request		FY24/FY25	%
	FY 22	FY 23	FY 24	FY 25	2-Year Total	
BOT - Sponsorships	\$135,000	\$0	\$135,000	\$135,000	\$270,000	
Kaiaulu/CEO - Sponsorships	70,921	0	70,921	70,921	141,842	
SUBTOTAL	\$205,921	\$0	\$205,921	\$205,921	\$411,842	38%

Source: Table 6g from AI RM #23-17

Fiscal year 2024 Budget totaling \$10,000 will be encumbered in BOT – Sponsorships.

VIII. Certification

The following is the certification by the Chief Financial Officer that the funds are available.



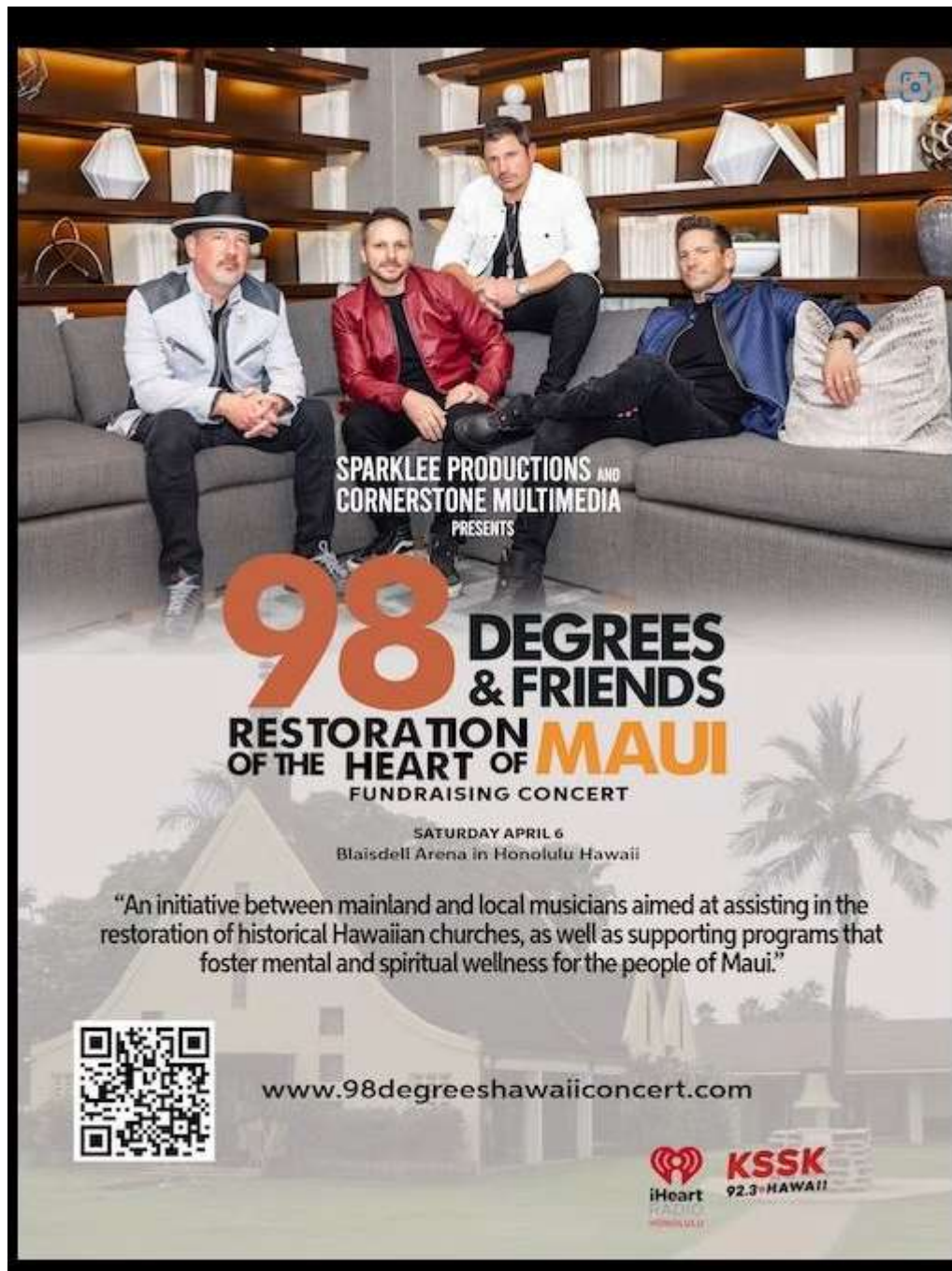
Ramona G. Hinck,
Chief Financial Officer
Date: Mar 22, 2024

VI. Attachment(s)

A. Restoration of the Heart of Maui Flyer

Action Item RM #24-07: Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends

Attachment A. Restoration of the Heart of Maui Flyer



Committee on Resource ManagementTrustee John Waihe'e IV, *At-Large - Chair*Trustee Luana Alapa, *Moloka'i / Lāna'i - Vice Chair****Members***Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brickwood Galuteria, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee J. Keoni Souza, *At-Large*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Wednesday March 27, 2024**TIME:** 1:30 p.m.

PLACE: Remote Meeting by Interactive Conference Technology
and in-person at OHA Maui Ola Boardroom
Nā Lama Kukui
560 N. Nimitz Hwy.
Honolulu, HI. 96817

viewable at <https://www.oha.org/livestream> OR

Listen by phone: (213) 338-8477, Webinar ID: 861 7259 5166

This virtual meeting can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listened to by phone at: (213) 338-8477, Webinar ID: 861 7259 5166. A physical meeting location, open to members of the public who would like to provide oral testimony or view the virtual meeting, will be available at 560 N. Nimitz Hwy., Suite 200, Honolulu HI 96817.

AGENDA**I. Call to Order****II. Approval of Minutes**

A. February 21, 2024

III. Unfinished Business – None**IV. New Business**

- A. Presentation by Auditors: Draft Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023, Sophia Kuo, Assurance Services Director, The Pun Group LLP
- B. **Action Item RM #24-06:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023
- C. **Action Item RM #24-07:** Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends
- D. **Action Item RM #24-08:** Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau
- E. **Action Item RM #24-09:** Reappointment of Roberts "Bob" Leinau as a Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027
- F. Consequent Capital Management (CCM) – Independent Board Investment Advisor
 - 1. re: Changes in CCM personnel, Ken Simon, CEO
 - 2. Discussion on a financial entity, Vijoy Chattergy, CIO (external)
 - 3. Discussion on private equity investment programs, Gerry Flintoft, Head of Private Markets

V. Adjournment



ACTION ITEM

COMMITTEE ON RESOURCE MANAGEMENT

March 27, 2024

RM #24-08

Action Item Issue: Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau

Prepared by:

A handwritten signature in black ink, appearing to read 'Casey Brown'.

Mar 22, 2024

Casey K. Brown

Date

Ka Pou Nui, Chief Operating Officer

Reviewed by:

A handwritten signature in black ink, appearing to read 'Ramona G. Hinck'.

Mar 22, 2024

Ramona G. Hinck

Date

Ka Pou Kihi Kanaloa Wai, Chief Financial Officer

Reviewed by:

A handwritten signature in black ink, appearing to read 'Everett Ohta'.

Mar 22, 2024

Everett Ohta

Date

Ka Paepae Puka Kūikawā, Interim General Counsel

Reviewed by:

A handwritten signature in black ink, appearing to read 'Stacy Ferreira'.

Mar 22, 2024

Stacy K. Ferreira

Date

Ka Pouhana, Chief Executive Officer

Reviewed by:

A handwritten signature in black ink, appearing to read 'Ke Kua'.

Mar 23, 2024

Ke Kua, Trustee John D. Waihe'e III

Date

Luna Ho 'omalū o ke Kōmike Resource Management

Chairperson of the Committee on Resource Management

Action Item RM #24-08: Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau

I. Proposed Action

Approve and authorize the following fiscal year 2024 event sponsorship disbursement totaling \$1,000

Organization Name	Event	Award Amount Recommendation
1. Ho'olehua Homesteader's Association	Scholarship Luau Fundraiser May 10, 2024 The Lanikeha Center , Ho'olehua, Moloka'i	\$1,000
Total Recommendations (1)		\$1,000

II. Issue

Whether or not the Committee on Resource Management will recommend approval and authorize to the Board of Trustees ("BOT" or "Board"), of the disbursement of \$1,000 to fund the new fiscal year 2024 event sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau.

III. Background and Context

The Ho'olehua Homesteader's Association Scholarship Luau Fundrasier event will include an evening of mea'ai, entertainment, a live auction, and scholarship presentations to the island's na 'opio. At this year's event Senator Lynn Decoite, her many accomplishments and continued kako'o for the Moloka'i community will be honored.

IV. Discussion

A. Event Oversight

This Scholarship Luau event will be held by the Ho'olehua Homesteader's Association.

B. OHA Funding Event Sponsorship Benefits

- VIP table available

V. Recommended Action

A. Approve OHA funding of a fiscal year 2024 event sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau Fundrasier totalling \$1,000.

Action Item RM #24-08: Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau

VI. Alternative Actions

A. Approve a different funding amount for the sponsorship.

B. Do not sponsor event

VII. Budget Authorization

Table 1: Sponsorships -- 56560

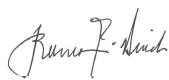
56560 SPONSORSHIPS	Approved	Approved	Biennium Budget Request		FY24/FY25	%
	FY 22	FY 23	FY 24	FY 25	2-Year Total	
BOT - Sponsorships	\$135,000	\$0	\$135,000	\$135,000	\$270,000	
Kaiaulu/CEO - Sponsorships	70,921	0	70,921	70,921	141,842	
SUBTOTAL	\$205,921	\$0	\$205,921	\$205,921	\$411,842	38%

Source: Table 6g from AI RM #23-17

Fiscal year 2024 Budget totaling \$1,000 will be encumbered in BOT – Sponsorships.

VIII. Certification

The following is the certification by the Chief Financial Officer that the funds are available.



Ramona G. Hinck,

Chief Financial Officer

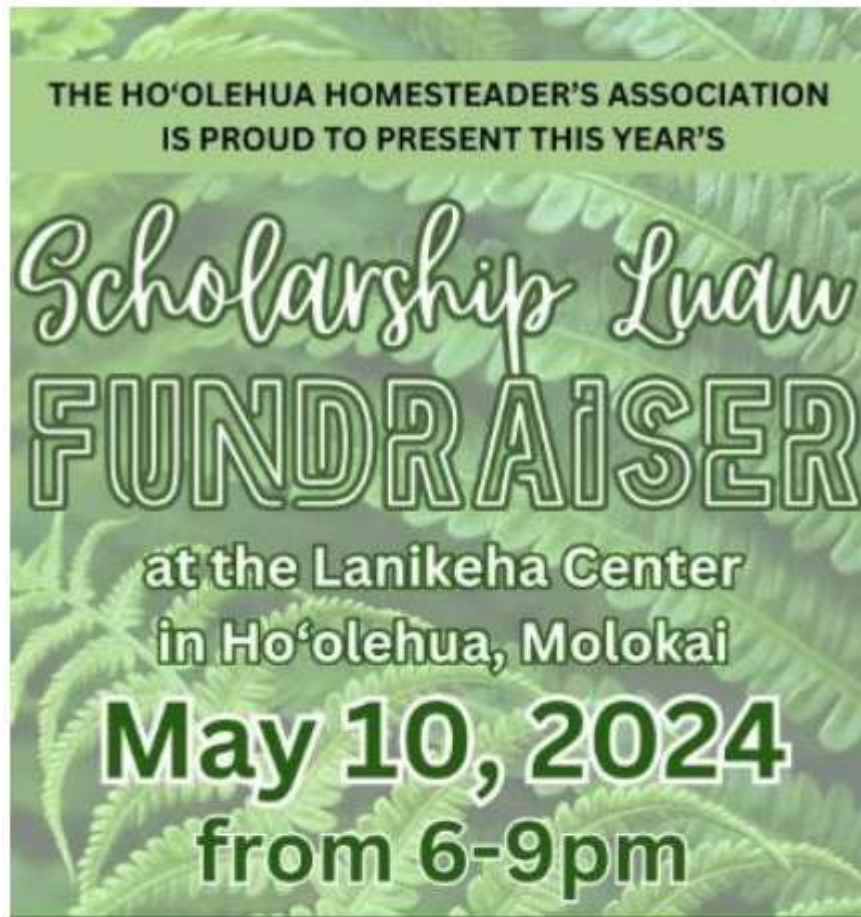
Date: Mar 22, 2024

VI. Attachment(s)

A. Ho'olehua Homesteader's Association Scholarship Luau Fundrasier Flyer

Action Item RM #24-08: Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau

Attachment A. Ho'olehua Homesteader's Association Scholarship Luau Fundrasier Flyer



Join us for an evening of mea'ai, entertainment, a live auction and scholarship presentations to our island's na 'opio



Committee on Resource Management

Trustee John Waihe'e IV, *At-Large* - Chair

Trustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair

Members

Trustee Dan Ahuna, *Kaua'i / Ni'ihau*

Trustee Kaleihikina Akaka, *O'ahu*

Trustee Keli'i Akina, *At-Large*

Trustee Brickwood Galuteria, *At-Large*

Trustee Carmen Hulu Lindsey, *Maui*

Trustee J. Keoni Souza, *At-Large*

Trustee Mililani Trask, *Hawai'i Island*



**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Wednesday March 27, 2024

TIME: 1:30 p.m.

PLACE: Remote Meeting by Interactive Conference Technology
and in-person at OHA Maui Ola Boardroom

Nā Lama Kukui

560 N. Nimitz Hwy.

Honolulu, HI. 96817

viewable at <https://www.oha.org/livestream> OR

Listen by phone: (213) 338-8477, Webinar ID: 861 7259 5166

This virtual meeting can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listened to by phone at: (213) 338-8477, Webinar ID: 861 7259 5166. A physical meeting location, open to members of the public who would like to provide oral testimony or view the virtual meeting, will be available at 560 N. Nimitz Hwy., Suite 200, Honolulu HI 96817.

AGENDA

I. Call to Order

II. Approval of Minutes

A. February 21, 2024

III. Unfinished Business – None

IV. New Business

- A. Presentation by Auditors: Draft Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023, Sophia Kuo, Assurance Services Director, The Pun Group LLP
- B. **Action Item RM #24-06:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023
- C. **Action Item RM #24-07:** Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends
- D. **Action Item RM #24-08:** Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau
- E. **Action Item RM #24-09:** Reappointment of Roberts "Bob" Leinau as a Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027
- F. Consequent Capital Management (CCM) – Independent Board Investment Advisor
 - 1. re: Changes in CCM personnel, Ken Simon, CEO
 - 2. Discussion on a financial entity, Vijoy Chattergy, CIO (external)
 - 3. Discussion on private equity investment programs, Gerry Flintoft, Head of Private Markets

V. Adjournment



Action Item
Committee on Resource Management
March 27, 2024

RM #24-09

Action Item Issue: Reappointment of Roberts “Bob” Leinau as a Non-OHA LLC Manager for Hi’ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027

Prepared by:

Mar 22, 2024

Casey Brown
Ka Pou Nui, Chief Operating Officer

Date

Reviewed by:

Mar 22, 2024

Stacy Ferreira
Ka Pouhana, Chief Executive Officer

Date

Reviewed by:

Mar 22, 2024

Everett Ohta
Ka Paepae Puka Kūikawā, Interim General Counsel

Date

Reviewed by:

Mar 23, 2024

John D. Waihe'e, IV
Luna Ho'omalua o ke Kōmike Resources Management
Chair, Committee on Resource Management

Date

Action Item RM #24-09: Reappointment of Roberts “Bob” Leinau as a Non-OHA LLC Manager for Hi’ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027

I. Proposed Action

Approve the reappointment of Roberts “Bob” Leinau, for a three-year term and service period, beginning May 10, 2024, and ending May 9, 2027, as a non-OHA limited liability community manager for Hi’ilei Aloha LLC.

II. Issue

Whether or not the Committee on Resource Management will approve, and recommend Board of Trustee’s (BOT) approval, Administration’s recommendation to approve Roberts “Bob” Leinau, for a three-year term and service period, beginning May 10, 2024, and ending May 9, 2027, as a non-OHA limited liability company manager, for Hi’ilei Aloha LLC. Refer to Attachment A for resume of Roberts “Bob” Leinau.

III. Background & Overview

A. **Background and Overview.** Via Action Item RM #21-01, the BOT approved the following non-OHA employees as volunteer, uncompensated Managers (collectively, Community Managers) for Hi’ilei Aloha LLC (Hi’ilei), effective April 1, 2021, with the noted staggered terms of service:

1. Roberts “Bob” Leinau for a service period of three (3) years;
2. Greg C. Pietsch for a service period of two (2) years; and
3. Leilani Kūpahu-Marino Kaho‘āno for a service period of one (1) year.

The staggered terms were intentionally set to enable stability in institutional knowledge, experience and management for Hi’ilei and Hi’ipaka LLC, dba Waimea Valley (Hi’ipaka).

B. **Structure.** The Office of Hawaiian Affairs (“OHA”) is the sole member of two limited liability companies (“LLCs”), Hi’ilei Aloha LLC (“Hi’ilei Aloha”) and Ho’okele Pono LLC (“Ho’okele Pono”). Hi’ilei Aloha is the sole member of two limited liability companies Hi’ipaka LLC (“Hi’ipaka”) and Hi’ikualono LLC (“Hi’ikualono”). Ho’okele Pono is the sole member of a single limited liability company

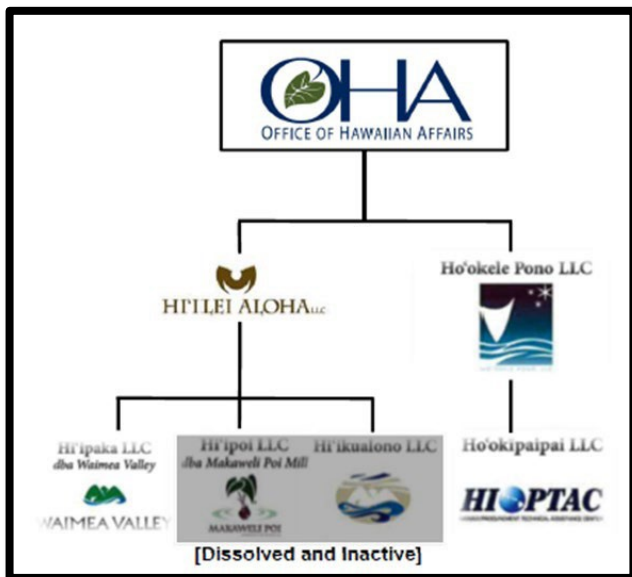


Figure 1. LLC Structure

Ho’okipaipai LLC (“Ho’okipaipai”).

Action Item RM #24-09: Reappointment of Roberts “Bob” Leinau as a Non-OHA LLC Manager for Hi’ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027

- C. Implementation of Actions to Seat Non-OHA LLC Managers.** As outlined in Action Item RM #21-01: Approval of Non-OHA Limited Liability Company Managers for Hi’ilei Aloha LLC, February 16, 2021, then applicants, now non-OHA LLC managers information (collectively “Community LLC Managers”) included the following:
- 1. Then Applicant, Now Community LLC Manager (1 Year Term 2021, 3 Year Term Renewed 2022): Leilani Kūpahu-Marino Kaho‘āno. Education:** Associates Degree, Nursing, Santa Rosa Junior College; **Experience:** Home Hospice (Navian), Pediatric Nurse Case Manager 2018 (11) to 2019 (06); Tripler Army Medical Center, Neonatal Intensive Care Nurse 2010 (11) to 2018 (11); Kapiolani Medical Center for Women & Children, NICU RN (to be updated); Native Hawaiian Nurse Adjunct Instructor; **Additional Experiences:** cultural/professional highlights; board experiences; cultural, additional information; educator; program development; nurse case manager; shift charge nurse; nurse surgical suite general contractor; trailblazing nursing projects; professional presentations/grant funded programs; professional publications; professional memberships/scholarships; volunteer activities.
 - 2. Then Applicant, Now Community LLC Manager (2 Year Term 2021, 3 Year Term Renewed 2023): Greg C. Pietsch. Education:** BBA Finance and Real Estate, Minor, Studio Art (Southern Methodist University), Oxford University, University College, Course work: International Business; **Experience:** Professional Affiliations: Chartered Financial Analyst (CF), American Society of Appraisers, Business Valuation: Accredited Senior Appraiser; Ernst & Young, LLP, Corporate Finance and Real Estate Manager 1994-2000; Eureka Capital Markets, Corporate Finance, Managing Member 2000-2004; Pietsch Properties, LLC, Finance and Real Estate, Managing Member 2004-present; **Community Experiences:** Trust for Public Land, Hawaiian Islands Program, Board Member; Historic Hawaii Foundation, Board Member; and Haleakala Ranch, Board Member.
 - 3. Then Applicant, Now Community LLC Manager (3 Year Term 2021, 3 Year Term Renewal Proposed Herein): Roberts “Bob” Leinau. Education:** BA Pre-Med/Biology University of Southern California; **Experience:** Military: Hawaii National Guard 1966 to 1974, Journeyman carpenter 1968 to 1973, Safety officer, Business man with 30+ years management experience in Waimea Valley; **Community Activities:** Wahiawa Waialua Rotary // past President; Hale’iwa Main Street dba North Shore Chamber of Commerce // past Director and current volunteer; Sunset Beach Community Assn // past President; North Shore Outdoor Circle//Director // past President; North Shore Neighborhood Board #27 [since its inception-1977]// Treasurer; Oahu Metropolitan Planning Organization N.S. Representative; Mālama ‘Ohana // past Charter member; Mālama Pūpūkea-Waimea [Charter Member]// director, Treasurer; Hale’iwa Arts Festival // past Director, Secretary; Hawai’i Ecotourism Assn // past Director // Secretary; Wahiawa General Hospital // past Director // Treasurer; Hale’iwa Harbor Advisory Committee; North Shore Community Land Trust [Charter Member]// Treasurer; Defend Oahu Coalition // past Director; Kuilima Advisory Committee [now defunct] // past member; Resort Training Inc. // past Director; Board of Water Supply Community Advisory Board // NS representative; Hawaiian Islands Humpback Whale National Marine Sanctuary // past Advisory Council member; Papahānaumokuākea Marine National Monument //Reserve Advisory Council; Waimea Valley Aha Hui

Action Item RM #24-09: Reappointment of Roberts “Bob” Leinau as a Non-OHA LLC Manager for Hi’ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027

advisory group // current; Oahu Master Gardener // current volunteer/ /“plant doctor”; Kokua Foundation's 'Aina in Schools teacher/volunteer.

- D. **Community LLC Manager Activities.** Refer to Attachment B for the Hi’ilei Aloha and Hi ‘ipaka Annual Report for 2023.
- E. **Audited Financial Statements.** Refer to Attachment C for the Hi ‘ipaka LLC Audit Financial Statements December 31, 2022 and 2021.

IV. Recommended Action

Approve the reappointment of Roberts “Bob” Leinau, for a three-year term and service period, beginning May 10, 2024, and ending May 9, 2027, as a non-OHA limited liability community manager for Hi’ilei Aloha LLC.

V. Alternative Actions

- A. Amend the recommended action.
- B. Do not approve the recommended action.

VI. Reference Documents

- A. **Action Item RM #23-09:** Reappointment of Greg Charles Pietsch as Non-OHA LLC Manager for Hi’ilei Aloha LLC for a 3-Year Term (2024, 2025, 2026), from May 10, 2023 to May 09, 2026
- B. **Action Item RM #23-05:** Final Report of May 2019 Board Actions re: Limited Liability Companies, March 22, 2023;
- C. **Action Item RM #22-03:** Reappointment of Leilani Kūpahu-Marino Kaho‘āno as Non-OHA LLC Manager for Hi’ilei Aloha LLC for a 3-Year Term (2023, 2024, 2025), March 8, 2022
- D. **Action Item RM #21-01:** Approval of Non-OHA Limited Liability Company Managers for Hi’ilei Aloha LLC, February 16, 2021;
- E. **Action Item RM #19-20:** Approval of the Non-OHA Employee Managers’ Selection and Seating Process for Hi’ilei Aloha, LLC and revised LLC Manager Position Description, November 20, 2019; and
- F. **Action Item RM #19-08:** Approval of Resolutions of the Board of Trustees Office of Hawaiian Affairs, Reorganization Documents, and Hi’ilei Aloha LLC Manager Position Description as sole member of two limited liability companies, Hi’ilei Aloha LLC and Ho’okele Pono LLC, May 29, 2019.

Action Item RM #24-09: Reappointment of Roberts “Bob” Leinau as a Non-OHA LLC Manager for Hi‘ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027

VII. Attachments

- A. Resume of Roberts “Bob” Leinau
- B. Hi‘ilei Aloha and Hi ‘ipaka Annual Report for 2023
- C. Hi ‘ipaka LLC Audit Financial Statements December 31, 2022 and 2021

RESUME

Roberts Leinau
59-524 Aukauka Place
Haleiwa, Hawaii 96712
Email: leinaur001@hawaii.rr.com

Education

BA Pre-Med/Biology University of Southern California

Experience

1966 to 1974
Hawaii National Guard

1968 to 1973
Journeyman carpenter

1973 to 2008
Waimea Valley-Variou positions including Compliance Officer, General Manager, Facilities Manager through various ownership transitions: Bishop Corporation, Associates Four, Attractions Hawaii, Oahu Entertainment Parks, City and County of Honolulu (Audubon Center), OHA (Hi'ilei Aloha/Hi'ipaka)

Community Activities:

Wahiawa Waialua Rotary -Past President
Hale'iwa Main Street dba North Shore Chamber of Commerce -Past Director
Sunset Beach Community Assn -Past President
North Shore Outdoor Circle -Director and Past President
North Shore Neighborhood Board #27 -Treasurer
Oahu Metropolitan Planning Organization N.S. Representative
Mālama 'Ohana -Past Charter member
Mālama Pūpūkea-Waimea-Charter Member, Director, Treasurer
Hale'iwa Arts Festival- Past Director, Secretary
Hawai'i Ecotourism Assn -Past Director, Secretary
Wahiawa General Hospital -Past Director, Treasurer
Hale'iwa Harbor Advisory Committee
North Shore Community Land Trust-Charter Member, Treasurer
Defend Oahu Coalition -Past Director
Kuiliima Advisory Committee
Resort Training Inc.-Past Director
Board of Water Supply Community Advisory Board - NS Representative
Hawaiian Islands Humpback Whale National Marine Sanctuary -Past Advisory Council Member
Papahānaumokuākea Marine National Monument Reserve Advisory Council
Waimea Valley Aha Hui Advisory Group
Oahu Master Gardener -Volunteer
Kokua Foundation's 'Aina in Schools- Teacher/Volunteer.



**HI'ILEI ALOHA LLC
HI'IPAKA LLC ANNUAL REPORT
DECEMBER 31, 2023**

Contents

Hi`ilei Aloha	1
Hi`ipaka LLC	1
Introduction/Background	1
2023 Major Highlights/Accomplishments.....	2
Strategic Priority 1	3
Discounted Kama`āina Pricing	4
Kama`āina and Military Admission	4
Kama`āina and Military Passes	4
Kama`āina Special Events, Activities and Promotions	4
Kama`āina Morning Walker Program	5
Weekly Nursery Plant Sale	5
21st Century Learning Center Grant	6
Strategic Priority 2.....	6
Visitor Experience Programs and Activities	6
Kauhale History and Cultural Experience	6
Ka`apuni O Waimea Program.....	7
Artisan/Cultural Practitioner Program.....	7
Operational Sustainability	8
Revenue	8
Toa Lū`au.....	9
Tour Companies/Online Sales.....	10
Weddings and Events.....	10
Food Services	10
Operating Expenditures	11
Capital Expenditures.....	11
Capital Equipment	12
Capital Improvement Projects	12
Ka Wai Kupuna Fundraiser.....	13
Cash Management	13
Equipment and Facilities Maintenance and Improvements	13
Economic Development Administration Grant.....	14
Strategic Priority 3.....	14
Education Program	14
Conservation Program	15
Coconut Rhinoceros Beetle (CRB).....	16
Volunteer Program	17
Community Outreach and Partnerships	17
IMLS Kauhale Exhibit.....	19
IMLS Artifact Preservation Project.....	19
Staff Development	20
Grants.....	20
Conclusion.....	21

Hi`ilei Aloha

Hi`ilei Aloha completed a wind-down of all program activities in 2022. There was no Hi`ilei Aloha activity in 2023.

Hi`ilei Aloha was created as Hi`ipaka's parent organization for the purpose of providing a range of administrative, legal, HR, accounting, annual auditing and insurance procurement services. The only remaining Hi`ilei Aloha function is insurance procurement for Hi`ipaka to provide an additional layer of liability protection for OHA.

The Hi`ipaka LLC Executive Director is responsible for any Hi`ilei Aloha transactions, such as annual DCCA filings, and maintaining its checking account. In 2023 there were very limited bank transactions to include:

- A monthly bank fee of \$10.
- In April there was a \$3,899 flood insurance rebate pass-through for Hi`ipaka.
- The beginning bank balance was \$615.97 with an ending bank balance of \$495.97.

A financial audit will not be required in 2023 and no program activity is anticipated in 2024.

Hi`ipaka LLC

Introduction/Background

The 2023 Work Plans and Budgets were prepared to support the strategic initiative in the 2021 to 2023 Business Operating Plan. The Plan includes three strategic priorities that continue to attract kama`āina visitors, maintain financial sustainability and fully support our mission as follows:

- I. Maintain at least a 25% Hawai'i resident visitor base by promoting the natural and cultural aspects of the Valley, conducting community focused events, and offering financial incentives.
- II. Maintain financial sustainability by offering authentic cultural, botanical, and other experiences that will attract visitors to Waimea Valley.
- III. Perpetuate the human, cultural and natural resources of Waimea Valley as a model not-for-profit outdoor learning center for plant conservation and cultural preservation.

The strategic priorities are supported by several initiatives and activities as follows:

Priority I	Priority II	Priority III
<ul style="list-style-type: none"> • Discounted pricing for daily kama`āina admissions • Discounted pricing on individual, family, lifetime, and organization passes. • Garden/Conservation support opportunities • Kama`āina activities and promotions • Kama`āina morning walker program • Weekly nursery plant sale • 21st Century Learning Center Grant Partnership 	<ul style="list-style-type: none"> • Kauhale history and cultural experience • Ka`apuni o Waimea program • Artisan/Cultural Practitioner program • Hōi`hi Program • Botanical Photo Opp. Gardens • WI-FI Information Stations 	<ul style="list-style-type: none"> • Conservation Program • Education Program • Research Program • Volunteer Program • Community Outreach and Partnerships

2023 Major Highlights/Accomplishments

- 483,855 visitors enjoyed the Valley in 2023, to include 141,741 kama‘āina and military (admissions and events), representing 27% of total visitors.
- A total of 1,056 kama‘āina annual passes were sold in 2023.
- Waimea Valley generated sales of \$12,192,810 with a net gain of \$2,991,952 (unaudited) and year-end financial reserves of over \$9 million.
- The largest revenue source in 2023 is admissions, generating \$7,835,783.58 or 64% of all revenue. The average daily visitor count decreased from 1,456 in 2022 to 1,415 in 2023.
- Special Events generated \$1,131,083.54 in rental/lease revenue compared to \$1,037,283 in 2022, and the Gift Shop generated \$1,357,359.58 in sales compared to \$1,347,056 in 2022.
- A number of programs and activities were introduced or expanded in 2023 to create a meaningful and authentic visitor experience as follows.
 - The Ka‘apuni o Waimea program was developed in 2022 and implemented in 2023. The program is based on the Hawaiian cultural value of *Ho‘okipa*, whereby guests who visit the learning sites can earn a collectible *Ho‘okipa Ambassador* pin and certificate.
 - The artisan program was redesigned in 2021 to attract a wide range of artisans. At the end of 2023, 12 artisans/cultural practitioners were contracted to work in the Valley.
 - The Hō‘ihi Program provides grant support for the cultural practices demonstrated by our resident artisans. The grant ensures that two to four artisans are present every open day at the Valley and that 50 visitors a day are engaged in the cultural activities.
- 118 school groups with 5,746 students and chaperones conducted field trips to Waimea Valley participating in one of the Valley’s education programs.
- The conservation team added 4,282 linear feet of ungulate exclusion fencing to the Kalahe‘e reforestation area, protecting an additional 100 acres from feral pigs and planted approximately 4,021 native trees and shrubs as part of our forest restoration work.
- Capital expenditures totaled \$1,387,451.50 in 2023. This includes \$589,746.20 in capital equipment and \$797,705.31 in capital improvement projects.
- Approximately 33 individuals and 135 groups provided 11,796.25 volunteer hours in 2023 compared to 54 individuals and 197 groups provided 14,372 volunteer hours in 2022.
- Hi‘ipaka received \$315,250 in new grants for Covid recovery, Kauhale exhibit, energy conservation, mauka reforestation and a composter for processing commercial kitchen food waste.
- A community fundraising committee raised \$74,167 to replace the Valley’s outdated water system.

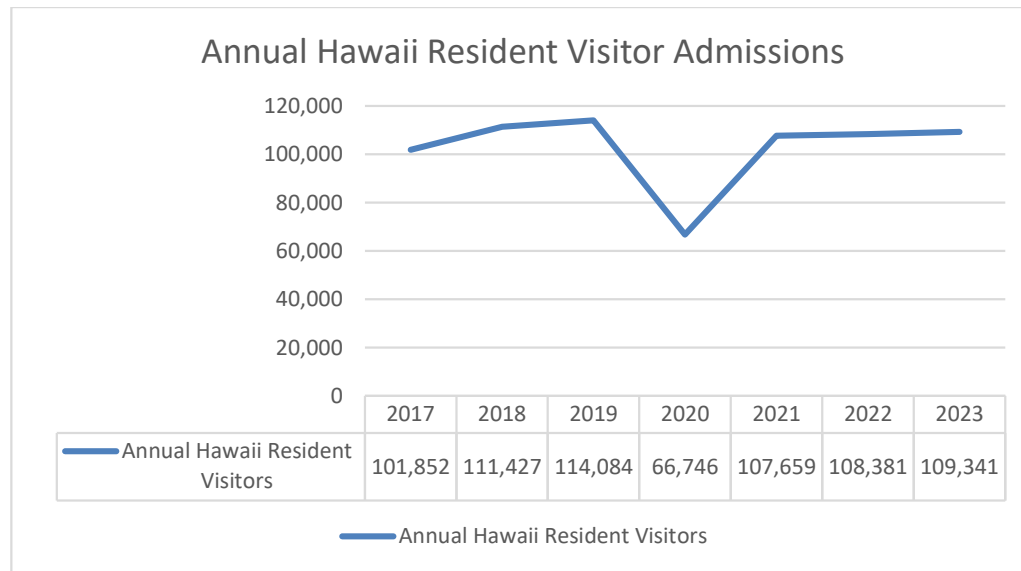
Strategic Priority 1.

Maintain at least a 25% Hawai'i resident visitor base by promoting the natural and cultural aspects of the Valley, conducting community focused events, and offering financial incentives.

The total number of resident and non-resident visitors to the Valley, from 2017 to 2023, can be viewed in the following table.

	2017	2018	2019	2020	2021	2022	2023
Non-Resident Admissions	286,937	300,079	320,242	71,263	372,474	401,401	374,514
Hawai'i Resident Admissions	65,184	74,158	71,438	57,250	85,509	74,104	109,341
Total Admissions	352,121	374,237	391,680	128,513	457,983	475,505	483,855
Residents Attending Valley Events	36,668	37,269	42,646	9,496	22,150	34,277	32,440
Total	388,789	411,506	434,326	138,009	480,133	509,521	516,295
Hawai'i Resident %	26%	27%	26%	48%	22%	21%	27%

In 2023 the percent of resident visitors, through admissions and events, was 27% compared to 21% in 2022. This includes both admissions and the number of Kama`āina attending Waimea Valley events. We surpassed our 25% target, with the number of kama`āina guests increasing in both admissions and event attendance. Since 2020 the Kama`āina admission numbers have been increasing surpassing the pre-COVID numbers as seen in the following chart.



Attracting Kama`āina to the Valley is achieved through the following initiatives and activities:

- Discounted pricing for daily kama`āina admissions
- Discounted pricing on individual, family, lifetime, and organization passes
- Garden/Conservation support opportunities
- Kama`āina activities and promotions
- Kama`āina morning walker program
- Weekly nursery plant sale
- 21st Century Learning Center Grant Partnership

Discounted Kama`āina Pricing

Kama`āina and Military pricing for general admission, annual family, individual, organization and lifetime passes remained at the 2022 discounted pricing.

Kama`āina and Military Admission

The 2023 Kama`āina admission, compared to non-resident pricing, is as follows:

	Adult	Senior/ Student	Child
Kama`aina/Military	\$10	\$8	\$6
Visitor Non-Resident	\$25	\$16	\$12

Approximately 109,341 Kama`āina and Military guests entered the admission booth with an additional 32,440 attending various events held in the Valley. Kama`āina and Military represent 28% of total visitors in 2023.

Kama`āina and Military Passes

The number of annual passes sold in 2023 amounts to \$51,805 slightly lower than total sales of \$65,040 in 2022. This trend can be seen as follows:

Annual Pass Sales	2017 to 2019 Annual Average	2020	2021	2022	2023
Number of Passes	486	1,400	1,745	1,154	1,056
Sales	\$44,000	\$84,110	\$95,000	\$65,040	\$51,805

Kama`āina Special Events, Activities and Promotions

Kama`āina promotion days conducted in 2023 include Keiki Wednesday, Lā `Ohana Day, and Kama`āina Thursdays offering local residents free admission from 12 pm to 3 pm same day as the Hale`iwa Market. Keiki Wednesday provides free admission to children ages 4 to 12 and Lā `Ohana Day offers 50% admission for all Kama`āina and Military on the third Sunday of the month. Admission numbers for these three repeat promotion days - Lā `Ohana Day – 1,141, Keiki Wednesday – 462, and Kama`āina Thursdays – 3,758.

In 2023, we extended kama`āina promotions to include a number of discounted or free admission days throughout the year to increase the number of resident visitors to the Valley. The discount days include:

Holiday/Celebration	Date	Kama`āina	Attendance
King Charles Lunalilo Birthday	January 31 Tuesday	Free entry	0
King Kamehameha IV Birthday (Alexander Liholiho)	February 9, Thursday	50% off	0
Prince Kūhiō Day	March 26th, Sunday	Free entry	199
Prince Albert Edward Kauikeaouli Kaleiopapa a Kamehameha Birthday	May 20th, Saturday	50% off	2
Kamehameha Day	June 11th, Friday	Free entry	414
La Ho`iho'i Ea (Sovereignty Restoration Day)	July 31st, Monday	50% off	60
Queen Lili`uokalani's birthday/Hawaiian History Month	September 2, Saturday	Free entry	212
King Kalakaua Birthday	November 16th, Thursday	Free entry	87
La Ku'oko'a-Hawaiian Independence Day	November 28th, Tuesday	50% off	23
Prince Lot Kapua'iwa Birthday	December 11th, Monday	50% off	28
Princess Bernice Pauahi Paki Birthday	December 19th, Tuesday	50% off	26



Several Waimea Valley events were held in 2023 with attendance as noted in the following table.

EVENT	2021 ATTENDANCE	2022 ATTENDANCE	2023 ATTENDANCE
Yoga Class	2,340	2,220	1,855
Aunty Candy Hula Class	795	680	660
Hālau I Ka Lima Hula Practice	1,040	2,400	2,400
Hale'iwa Farmer's Market	3,900	4,900	4,000
North Shore Realtors Association	0	341	480
The Mission North Shore Church Service	10,400	12,350	12,000
Community Events (Summer Concert, Makahiki, etc.)	175	3,354	5,070
Private Events	3,500	8,032	5,975
Total:	22,150	34,277	32,440

Kama`āina Morning Walker Program

The Waimea Valley morning walker program is open to all annual pass holders. The program allows Kama`āina to enter the Valley starting at 7:30am for exercise. In 2023, 61 annual pass holders signed up to be morning walkers.



Weekly Nursery Plant Sale

Waimea Valley held a weekly plant sale every Saturday along with plant sales at a number of special events generating sales of \$34,483. The Botanical Department also provided 200 trees to community members, free of charge, as part of the Arbor Day tree giveaway.



21st Century Learning Center Grant

Hi'ipaka is in partnership with this project at the six public schools in the Kahuku complex. This project has a budget to fund transport, supervision, and curriculum delivery by Hi'ipaka staff for 1,100 student visits to Waimea Valley, after school and during the intersession breaks, over the next three years. The project will also fund the purchase of 150 discounted family passes to be provided to participating students; and Hi'ipaka is donating an additional 150 family passes to be awarded.

In 2023 200 family passes were purchased with grant funds at the discounted rate of \$30, enabling families from the community to build a meaningful connection with Waimea Valley.

Strategic Priority 2.

Maintain financial sustainability by offering authentic cultural, botanical and other experiences that will attract visitors to Waimea Valley.

Visitor Experience Programs and Activities

A number of programs and activities were conducted in 2023 to create a genuine visitor experience as follows.

Kauhale History and Cultural Experience

The Kauhale area and structures were restored and cultural activities increased in 2023 to create the Kauhale history and cultural experience.

A major Valley objective is to shift the visitor focus from the waterfall to the cultural significance and history of the Valley with Kauhale being a focal point. All hale were rebuilt in 2022 and received maintenance in 2023, as examples of a compound of hale structure:



- Hale Kuku (Kapa Making House)
- Hale Papa'a (Storage House)
- Hale Ola (Healing House)
- Hale Mua (Men's Eating House)
- Hale Wa'a (Canoe House)
- Hale Noa (Sleeping House)
- Hale 'Āina (Women's Eating House)

The various hale house cultural staff and artisans who share knowledge and demonstrate cultural practices and a display of nā mea pa'ahana. Visitors learn about traditional lifeways while visiting Kauhale.

In 2024 the focus will be on regular maintenance and repair of the hale to avoid the need for major renovations in the future. The Cultural Programs team will add a multi-media exhibit to the area and continue to direct visitors to Kauhale as a focus of the Waimea Valley experience.



Ka‘apuni O Waimea Program

The cultural programs team launched a new program in February of 2023, Ka‘apuni o Waimea, interpreting three cultural sites: Hale Ho‘ike, Kauhale and Kahua Pa‘ani. The visitors have a chance to learn cultural values and ‘ōlelo Hawai‘i associated to each site, earn stamps, and if they complete each station and demonstrate retention of the learning points, they earn the status of “Ho‘okipa Ambassador” and a souvenir pin. The program runs during Valley opening hours and the staff receive special training on how best to reach the visitors.



The goal for the new program in 2023 was a daily average of 25 pins distributed (reflecting visitors completing the program), and the Cultural team ended 2023 with a final average of 37 pins a day, 87 stamps a day (reflecting visitors partially completing program) and 300 daily average participants (reflecting visitors engaging in the program). The daily average increased from 14 pins earned a day in Quarter 1 of 2023 to 75 earned daily by the end of Quarter 4. The total number of visitors completing the program in 2023 was 9,532. The Cultural team expects to continue to see participation increase as the program is refined and expanded.

Artisan/Cultural Practitioner Program

In 2023, the number of artisans/cultural practitioners contracted to work in the Valley increased by 3 practitioners, two professional ‘ukulele players and one nā mea pa‘ahana and mo‘olelo demonstration. There are a total of 12 practitioners offering cultural experiences along the visitor pathway on a regular schedule, 3 to 6 artisans are in the valley during peak hours daily.

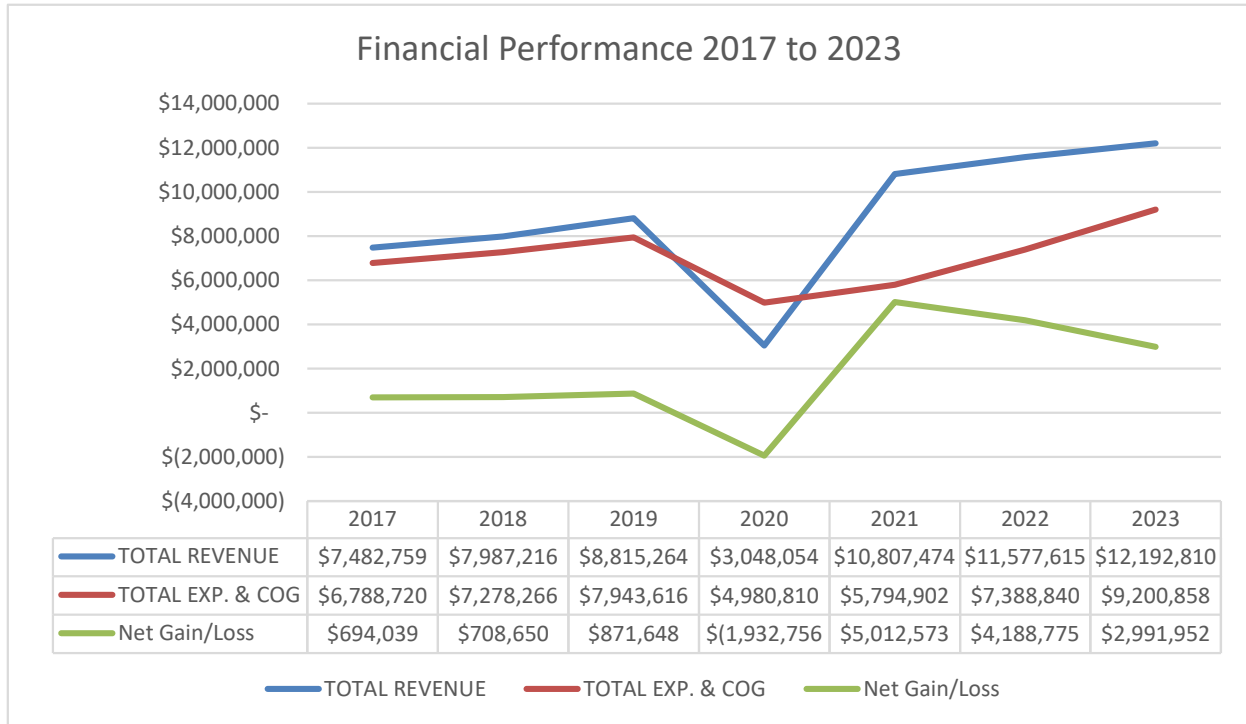
The Hō‘ihi Program provides grant support for the cultural practices demonstrated by our resident artisans. The grant ensures that two to four artisans are present every open day at the Valley and that 50 visitors a day are engaged in the cultural activities. The artisans are provided supplies to lead their hands-on, cultural projects with the visitors, like lei making, coconut weaving, lauhala weaving, woodwork, hale building, kukui nut uses, ‘ukulele lessons, kapa making, rope making, and poi pounding. The visitor can keep the items they make to remember their learning experience in the Valley.

In 2023 there was a daily average of 109 visitors completing a takeaway activity with an artisan, with an average of 519 visitors a day engaging with the artisans. A total of 36,139 cultural demonstration takeaway activities were facilitated by the artisan hui throughout the year.



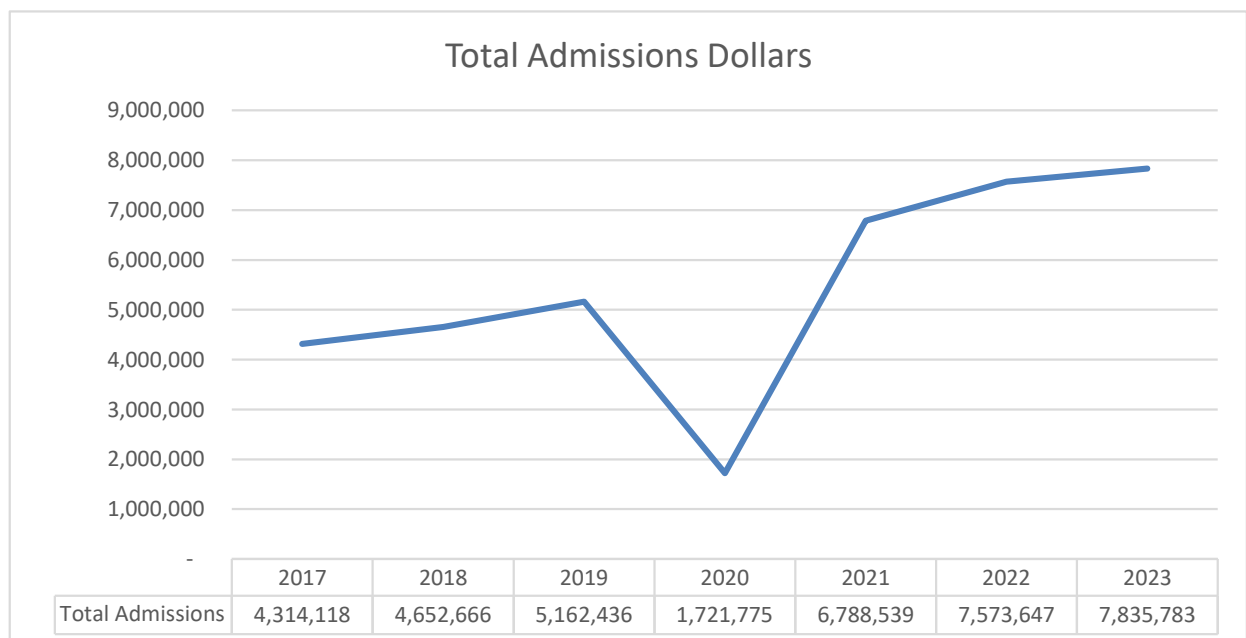
Operational Sustainability

Financial results for 2023 are favorable with revenue of \$12,192,810 and a net gain of \$2,991,952 (unaudited). Hi'ipaka LLC achieved good financial performance with year-end reserves of over \$8 million compared to \$6.8 million in 2022. Financial performance from 2017 to 2023 is displayed in the chart below.



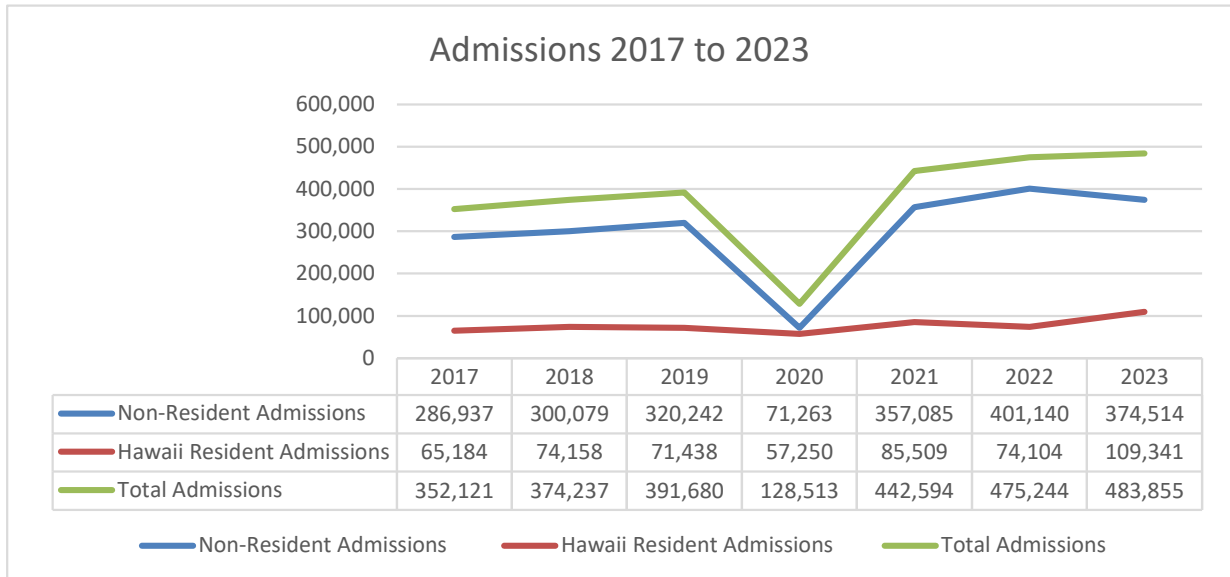
Revenue

The largest revenue source in 2023 was admissions generating \$7,835,783 or 64% of all revenue. The average daily visitor count decreased from 1,456 in 2022 to 1,409 in 2023. Revenue generated from admissions is displayed in the chart below:



Waimea Valley generated \$1,007,750 in admissions through Fare Harbor online booking service compared to \$874,876 in 2022. Smart Destinations sells the O‘ahu Go Card a multi-destination visitor program that includes Waimea Valley which generated \$47,873.00 (6,839 visits). These amounts are included in the total admission sales of \$7,835,784. The Toa Lū‘au admission sales are not included, bringing the actual admissions sales total to \$8,071,086.

The following chart displays total annual admission numbers for the past six years.



Waimea Valley generated \$1,007,750 in admissions through Fare Harbor online booking service compared to \$874,876 in 2022. Smart Destinations sells the O‘ahu Go Card a multi-destination visitor program that includes Waimea Valley which generated \$47,873.00 (6,839 visits). These amounts are included in the total admission sales of \$7,835,784. The Toa Lū‘au admission sales of \$235,302 are not included, bringing the admissions sales total to \$8,071,086.

Toa Lū‘au

Toa Lū‘au added a daytime show in 2022 and conducted the lū‘au 8 to 10 times per week generating \$591,642 in rental revenue for the Valley along with \$235,302 in admissions. The pavilion will be expanded and upgraded to allow the Lū‘au to operate Monday to Friday. EDA funding will be used for the pavilion upgrades with construction expected to begin in early 2025.



Tour Companies/Online Sales

26 tour company contracts were in force in 2023 generating \$1,081,976 in admissions revenue for the Valley. The top four tour company earners are as follows:

E Noa Tours	\$213,861
Go Tours Hawai'i	\$230,213
Polynesian Adventure	\$241,981
O'ahu Nature Tours	\$160,167

Weddings and Events

Special Events generated \$1,129,827 in rental/lease revenue compared to \$1,037,283 in 2022. This amount encompasses all venue rentals to include Toa Lū'au, halau practice, Haleiwa Market, and community yoga, weddings and special events. Furthermore 1,456 inquiries were received, 156 site tours conducted with 775 wedding and events () booked in 2023.



Food Services

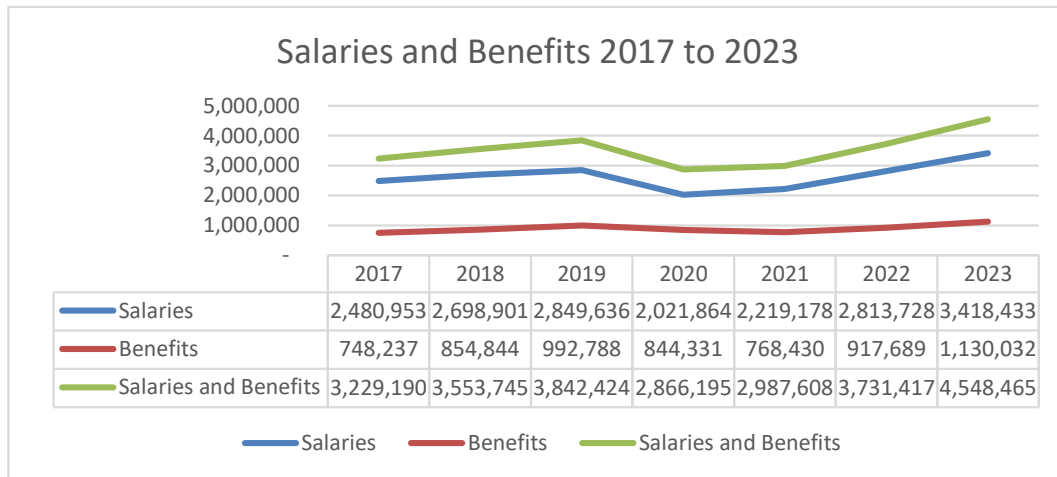
Food services were improved with the contracting of all food services to Ke Nui Kitchen in 2020. Ke Nui Kitchen paid Hi'ipaka LLC \$177,000 in kitchen rental compared to \$191,750 in 2022 and \$107,360 in commissions compared to \$95,536 in 2022.

Other major sources of revenue include:

	2022	2023
Gift Shop Sales	\$1,347,056	\$1,357,359
Shuttle Service	\$ 356,138	\$434,345
Grant Funding	\$584,892	\$622,637
Beach Parking	\$224,560	\$197,115
Plant Sales	\$41,105	\$34,482.61
AV Production	\$117,590	\$16,462

Operating Expenditures

Total 2023 operating expenditures were \$8,713,535 or 26% more than 2022 (\$6,904,104) and 22% higher than 2019 (\$7,168,162). Salaries and benefits are the Valley's largest expenditure representing 52% of total expenditures. The 2017 to 2023 salaries and benefits are displayed in the following chart.



Waimea Valley's 2023 advertising strategy focused on digital and social media. The 2023 advertising expenditures increased from \$187,269 in 2022 to \$225,188.22 in 2023. The impact of the social media strategy is as follows:

- Website received over 508,000 visits.
- Followers/audience/subscribers of over 82,500 + (Facebook, Instagram, Pinterest, LinkedIn, YouTube, and newsletters).
- Over 1,302,000 reach (the total number of unique users who have seen Waimea content).
- 113,680 social media users interacted with our content (likes, comments, shares, reposts).

The 2023 Total Operating Budget Comparison report lists actual expenditures against budgeted amounts. Overall, expenditures were \$8,713,535 lower than budget (\$8,897,914). The 2023 Budget Comparison report can be found as Attachment 1.

Capital Expenditures

Capital expenditures totaled \$1,387,452 in 2023. This includes \$589,746 in capital equipment and \$797,705 in capital improvement projects. The following are the 2023 capital expenditures.

Capital Equipment

EQUIPMENT	Budget	Actual Expenditure	Balance
Upgrade/Purchase Backhoe	\$ 30,000.00	\$ 30,000.00	\$ -
Radio Upgrade	\$ 41,930.00	\$ 41,930.00	\$ -
Upgrade/Replace computers	\$ 20,000.00	\$ 17,339.32	\$ 2,660.68
Food Services equip. upgrade/replacement	\$ 35,000.00	\$ 34,780.57	\$ 219.43
Purchase 20 new golf carts	\$ 130,708.00	\$ 99,877.10	\$ 30,830.90
Conservation Truck replacement	\$ 75,000.00	\$ 69,891.37	\$ 5,108.63
Anti-Theft System for Store	\$ 2,073.00	\$ 2,070.33	\$ 2.67
Annual Membership Program and Equipment	\$ 10,293.00	\$ 11,793.93	\$ (1,500.93)
Office Container for Kitchen	\$ 14,000.00	\$ 13,956.82	\$ 43.18
3 Phase Generator for WWTO	\$ 6,000.00	\$ 5,975.87	\$ 24.13
Composter for Kitchen	\$ 15,000.00	\$ 15,000.00	\$ -
Camera Equipment Upgrade	\$ 12,192.00	\$ 12,130.89	\$ 61.11
Electric Shuttle	\$ 52,000.00	\$ 52,000.00	\$ -
Portable Generator	\$ 30,000.00	\$ 8,000.00	\$ 22,000.00
Solar Power System	\$ 175,000.00	\$ 175,000.00	\$ -
Total	\$ 649,196.00	\$ 589,746.20	\$ 59,449.80

Capital Improvement Projects

IMPROVEMENT PROJECT	Budget	Actual Expenditure	Balance
Kitchen Renovations	\$ 120,000.00	\$ 99,062.85	\$ 20,937.15
Road and parking lot paving road maintenance	\$ 81,855.00	\$ 81,855.00	\$ -
Proud Peacock Upgrade	\$ 14,000.00	\$ 3,300.51	\$ 10,699.49
Roof Replacement	\$ 120,000.00	\$ 114,918.80	\$ 5,081.20
Water System Upgrade	\$ 600,000.00	\$ 252,160.19	\$ 347,839.81
Restroom Expansion	\$ 31,000.00	\$ 29,964.17	\$ 1,035.83
Conservation Fence	\$ 147,292.48	\$ 147,292.48	\$ -
Replace Snack Bar Decking	\$ 100,000.00	\$ 65,575.89	\$ 34,424.11
ADA lift enclosed	\$ 1,000.00	\$ 262.74	\$ 737.26
Valley Signage Upgrade	\$ 10,000.00	\$ 3,312.68	\$ 6,687.32
Total	\$ 1,225,147.48	\$ 797,705.31	\$ 427,442.17

Several capital equipment and improvement project items have been carried over to the 2024 budget.

Ka Wai Kupuna Fundraiser

In 2021 a water assessment was conducted and determined an overhaul is necessary to address the aging water system. A community fundraising committee was formed establishing a \$1,000,000 fundraising goal to cover the water system replacement. The overhaul will be done in phases to limit the disruption to Waimea Valley operations. The one-million-dollar goal is broken down into quarterly goals of \$250,000. Waimea Valley contributed 50 cents from every admission ticket sold in 2023 to support the fundraising effort.

In 2023 several fundraising events and efforts were conducted to help raise funds. A GoFundMe campaign was created to accept donations throughout the year with several social media advertising efforts and posters in the main visitor areas. The Ka Wai Kupuna fundraiser kick-off event was held on May 19th, with over 190 attendees. The event raised \$74,167.26 after expenses, from donations, sponsorships, and a live auction. The Toa Lū'au evening show which took place on September 1st donated its revenue to the Ka Wai Kūpuna fundraiser. Ke Nui Kitchen, which provides food and beverage for the lū'au guests donated the food and labor for this show also benefiting the fundraiser. A total of \$24,006 was donated. Overall, when adding the 50 cents per admission a total of \$434,150 was raised which is enough to complete phase 1 of the upgrade project.

Cash Management

Hi'ipaka LLC financial reserves amounted to \$9,107,769 at the end of 2023, as noted below.

	December 31, 2021	December 31, 2022	December 31, 2023
Savings Account Balance	\$4,468,059	\$4,469,024	\$3,471,461
Investment Account	0	\$2,402,868	\$5,636,308
	\$4,468,059.00	\$6,871,892.00	\$9,107,769

The Hi'ipaka Financial Reserve Policy was revised in December and approved by the Managers to appoint the Bank of Hawai'i as investment manager. Prior to the revised policy, reserve funds were held in the Hi'ipaka LLC savings account. The new policy allows reserve funds to be placed in higher yielding investments with Bank of Hawai'i acting as investment manager.

Equipment and Facilities Maintenance and Improvements

Several kitchen equipment upgrades were completed to include:

- Larger ice machine (back dock)
- One stacked ovens (2 ovens total)
- 36" char broiler
- Double basket deep fryer

Other equipment and facilities upgrades are as follows:

- Repaired damaged kitchen foundation both refrigerator walk-in floors and foundation
- Repaired kitchen office and electrical walls due to water damage
- Install new roof to the kitchen and Proud Peacock
- Installed Proud Peacock solar panels to the west side of the Pikake Pavilion
- Installed new solar panels to the kitchen and Proud Peacock
- Replaced the snack bar deck with trex and repaired damages joists
- Replaced the 30 year old back hoe
- Bought a used 3 phase generator for the waste water treatment plant
- Bought and assembled two 14 seater shuttles and one 23 seater shuttle
- An office container for Ke Nui Kitchen
- Turnaround restroom extension of one bathroom
- Upgraded and added new directional signage throughout the Valley
- Added special fencing around the Proud Peacock ADA compliant lift
- Upgraded the 2 way radios, base stations, and repeater with digital radios
- Repaved the main pathway from the ticket booth entrance, around pond 1, to Kau Hale

Economic Development Administration Grant

On September 20, 2022, the US Economic Development Administration awarded \$3,750,000 for the Waimea Valley Economic Resilience Project. The project will design and construct five projects in Waimea Valley to improve the visitor experience. The projects include renovation of the pavilion, the resource center (formally the education center), the gift shop, and the visitor center restrooms. The construction of a new traditional Hawaiian hale for educational use is the fifth project that will be completed but is no longer funded as part of the grant scope. A focus will be on deepening the Hawaiian cultural sense of place and alerting visitors to the sacred and historical nature of the Valley.

Strategic Priority 3.

Perpetuate the human, cultural and natural resources of Waimea Valley as a model not-for-profit outdoor learning center for plant conservation and cultural preservation.

Strategic priority 3 is progressing well with an increased number of organizations interested in collaborating with Hi'ipaka LLC to promote environmental sustainability and cultural preservation and to generally support our goals and mission.

Education Program

School groups resumed conducting field trips to Waimea Valley in April with 118 schools and 4,926 students and 820 chaperones participating in one of the Valley's education programs. Our school programs serve our local DOE schools, private schools, Hawaiian Public Charter Schools and many other educational groups. The education program staff have developed relationships with many teachers and schools, offering ongoing wahi pana-centered programming for Kawaihona o ka Na'auao, Hālau Kū Māna, Punana Leo o Waialua, Hau'ula Hawaiian Immersion, Kahuku Hawaiian Immersion schools in 2023, to name a few.

A summary of school program activities is as follows for the year:

School Programs	Q1 2023	Q2 2023	Q3 2023	Q4 2023	TOTALS 2023
School Groups	31	31	24	32	118
Students	1,262	1,235	1,089	1,340	4,926
Chaperones	258	236	125	201	820
Kupuna Groups	2	2	2	0	6
Cultural Tours	3	42	2	14	61
Ho'ola Nā Koa Participants	15	42	36	24	117
Community Outreach	1	0	2	2	5
School Outreach	2	0	1	1	4
Cultural Workshop	1	2	3	152	158

Conservation Program

The conservation team added 4,282 linear feet of ungulate exclusion fencing to the Kalāhe'e reforestation area, protecting an additional 100 acres from feral pigs.



Approximately 162 native trees and shrubs were planted on the one-acre CREP-funded site and 3,141 native trees and shrubs were planted on the one-acre EQIP 2020 site under contract with the Natural Resource Conservation Service.

Below is a summary of conservation activities and results by quarter in 2023.

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Native Plants Planted	975	838	1,222	986	4,021
Ungulates Removed	65	102	63	86	316
Hunter Hours	1,134.5	1,036	820.5	964.5	3,955.5
Forest Restoration Volunteer Hours	317	388	220	107	1032

There are 15 endangered 'alae'ula water-birds that make Waimea Valley their home. Active predator control ensures that the 'alae'ula water-birds are kept safe.

Coconut Rhinoceros Beetle (CRB)

The conservation team at Waimea is closely monitoring and mitigating the spread of coconut rhinoceros beetle in the valley.

The coconut rhinoceros beetle (CRB) is an invasive large black beetle from Southeast Asia. CRB is becoming widespread on Oahu and is a serious pest of palms. CRB prefer coconut, phoenix, royal, and fan including *Pritchardia* (loulu) palms but can feed on other palm types. They less frequently feed on hala (pandanus, or screwpine), sugarcane, and pineapple. Damage to palms results in slower growth, lower yield, unsightly frond damage and if CRB populations are high, the damage will kill palms. We recommend removal of dead palms but we do not generally recommend removal of living palms. CRB do not inhabit the palms long-term so reducing palm numbers will concentrate the damage on existing palms or drive CRB to new areas.

In August of 2022, Waimea Valley signed a compliance agreement with State Department of Agriculture that outlines directives for the proper transportation, movement, processing and disposal of CRB host material prevent the spread of the CRB to other areas of the state.

Crown of a Waimea Valley Loulu
Palm showing CRB damage, July 2022



the
to

To achieve the compliance standards and further mitigate the CRB population in the valley (and the community at large), the conservation team is working diligently with the Coconut Rhinoceros Beetle Response (crbhawaii.org), a task force to remove and/or avoid accumulation of potential breeding material, detect and report CRB presence throughout the valley, and working swiftly to treat any areas with known CRB host material. This combination approach is the state-wide initiative of best practices to reduce the impacts of CRB. In 2023 the conservation team developed a forefront technique with advisement from the CRB Task Force to preventatively treat palms to mitigate tree-loss to CRB. Through the year, the conservation team assessed the entire Hawaiian *Pritchardia* palm collection of the 110 specimens in Waimea Valley, with 22 showing damage by CRB and 2 of which needed removal. The team applied a foliar spray of imidacloprid applied to Hawaiian *Pritchardia* Palm collection in October. It appears the mitigation methods have allowed for 6 of the trees to overcome previous damage and begin to regrow. Follow up treatments will be completed on a schedule going forward.

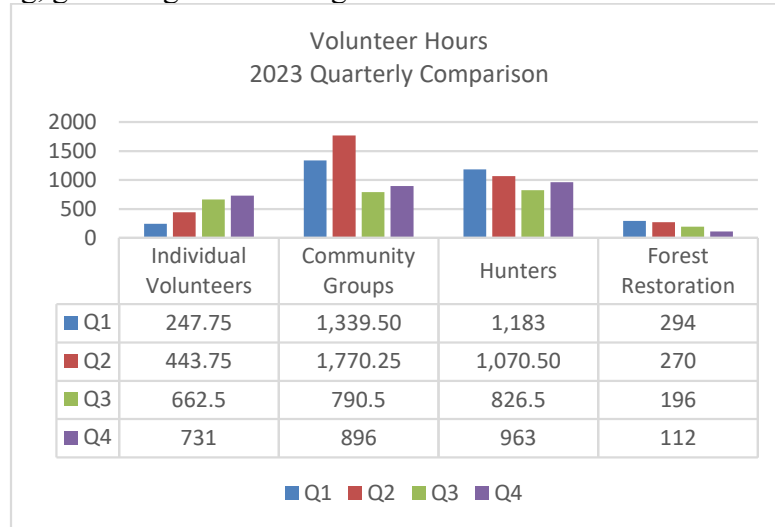
Waimea Valley staff distributed 200 native and fruit trees as part of its Arbor Day tree-giveaway in November. The carbon offset program was introduced in 2021 to support our conservation efforts.

Kalo Distribution

Waimea Valley has over 60 varieties of kalo and continues to be a distribution site on O‘ahu. On an annual basis we distribute approximately 1000 kalo huli to the community.

Volunteer Program

Approximately 33 individuals and 135 groups provided 11,796 volunteer hours in 2023 compared to 54 individuals and 197 groups with 14,372 volunteer hours in 2022. The volunteers assisted with a wide variety of activities including information center greeters, special events support, native forest restoration, painting, gardening and cleaning.



Community Outreach and Partnerships

Waimea Valley continues to be a community resource. The following is a sampling of the organizations that have visited primarily to learn about the cultural and historical significance of Waimea Valley, or that Waimea valley staff has provided cultural consultations or blessings for special projects, or requested Valley staff to facilitate an educational booth:

- Facilitated a booth for ‘Imi Pono, an annual event to support our public school Hawaiian language immersion education at Ke Kula Kaiapuni O Pū‘ōhala located at Pū‘ōhala School in Kāne‘ohe
- Hosted Makahiki games activity for the Eddie ‘Aikau Big Wave opening ceremony.
- Provided a blessing for the Redbull Magnitude Women’s Invitational.
- Provided cultural consult, venue logistics support, opening remarks and cultural activity facilitation for the “Day on the ‘Āina” International Indigenous Librarians Forum Conference.
- Provide ongoing support and consultation to the Hewahewa ‘Ohana and other piko families.
- Participated in Cultural Surveys Hawai‘i consultation for Waimea Bay Rockfall Mitigation Project cultural impact assessment by Federal Highways Administration and State DOT.
- Began planning with the Mayor’s Office of Culture and the Arts, Art is Public Places Department for the Bloomberg Philanthropies Public Art Challenge as a Project Site Partner.
- Contributed in planning as a community partner in ‘A‘ala Park First Annual Urban Makahiki with Waiwai Collective.
- Hosted National Geographic writer/editor Allie Yang with special cultural consultation with Finn Partners, for a NatGeo article on language revitalization published May 2023.
- Facilitated educational booth at Ho‘olau Kanaka, hosted by Hālau Nā Mamo O Pu‘uanahulu at Moanalua Gardens.
- Hosted an informational booth at Hawai‘i Loding and Tourism Association and Hawai‘i Tourism Authority’s Tourism Day at the Capitol.
- Facilitated educational booth at UH Hawai‘i West Oahu Native Hawaiian Student Success Program’s #WestBoud Fair.

Other groups in addition to our local schools that have come to Waimea Valley for cultural learning partnership projects include: Lee University, University of Rhode Island, Lyman House Museum, Keiki

O Ka ‘Āina, Kama’aina Kids, Queens Trust (formally Queen Lili‘uokalani Children’s Center, Hālau Wai ‘Ōlena O Waipao, Hālau Ho‘oulu I Ke Kapa, Classroom Au Pair (international school), Kupu Hawai‘i, YMCA, Girl Scouts of Hawai‘i, Intercession day camps, and many other cultural tours paired with volunteer work.

The Botanical Department also facilitated, hosted and participated in many community enrichment projects, including:

- Kokua Foundation Ā‘ina Night with a demonstration of native plants.
- The Arbor Day tree giveaway, we distributed 200 plants to the community.
- The annual Kalo and Awa Festival dedicated to Uncle Jerry Konanui. With a record 640 people in attendance and over 20 mahi‘ai and mahi‘ai in training.
- The Department of Fish and Wildlife bi-annual waterbird surveys.
- Daily weather gage reading (precipitation and min and max temperatures) in the Waimea watershed in partnership with National Oceanic and Atmospheric Administration.
- Participating members of the statewide Laukahi Network to help align Hawai‘i with the Hawai‘i Strategy for Plant Conservation (HSPC) and the Botanical Gardens Congress International (BGCI).
- Participating member in the professional statewide hui for ‘uala growers and members of a professional Kō growers working group.
- Renewed partnership agreement with the Ko‘olau Mountain Watershed Partnership, attending quarterly meeting and planning work exchange days.
- Facilitated the ongoing partnership with Mike Letzring of San Diego Zoo Global; in 2023 he assisted in professional landscaping for the new succulent garden and held a pruning training for staff.
- Managed three KUPU ‘Āina Corps Conservation Leadership internships and one KUPU Hawai‘i Youth Conservation Corps 1 week summer group session.
- CRB mitigation strategies with the Department of Agriculture CRB Task Force.
- City and County of Honolulu site visit with horticultural staff and plant exchange at Foster Botanical Garden.
- Hui Kū Maoli Ola and Nui Keahola plant exchange via owners Rick Barbosa and Kealoha Domingo.
- O‘ahu Army Natural Resource Program (OANRP) Mt. Ka‘ala staff work day.
- OANRP Seed Bank and Nursery professional site visit on Schofield.
- Natural Resource Data Solutions (NRDS) account partner Sam Aruck assists with database utilization.
- Lyon Arboretum site visit and propagation list planning for ongoing plant exchange to protect collections.
- UH College of Tropical Agriculture faculty ongoing plant exchange, including stephanotis for a new admin trellis.
- Arkansas Master Gardener site visit and special tour.
- North Shore Community Land Trust ongoing plant list for propagation for Kalaeokauna‘oa restoration.
- Eagle Scout Mateo Brown’s revitalization project and work day at his DOE school.
- Girl Scouts presentation for horticultural career pathways.
- UH Manoa Botany Department Anthony Amend microbiome research and presentation.
- Adopt A Garden participating partners: North Shore Outdoor Circle, USINDOPACOM, Huapala Designs LLC, Kōkua Foundation and planning a new partnership with the City and County of Honolulu Park and Recreation Department Lei Day Court.
- Professional hui member for Hawaii Plant Restoration Group and Hawai‘i Weed Restoration Group.



Publications

Four *North Shore News* articles were published to include “Winter Colors” in March 2023, “The Land is Chief” in April 2023 to promote volunteerism and Earth Day, “Importance of Wai” in May 2023, an article about awa in connection with the Kalo & Awa Festival in September 2023, and lastly an article about the business incubator program in December.

IMLS Kauhale Exhibit

Waimea Valley was awarded an Institute of Museum and Library Services grant to produce an multimedia exhibit in Kauhale, with a 1-year work period beginning July 1, 2023. A detailed curatorial outline was developed, identifying audio and physical media to be created for each hale. An RFP was issued for the audio installation and sound engineering components of the project. The team selected a sound/audio contractor, Pueo Audio, LLC, to assist in producing the sound elements, and began collaborating on a script to be recorded in early 2024. Lists of cultural implements were identified for the visual displays and the team began collecting the items in preparation for physical installation. An exhibit blessing and dedication is expected in May of 2024.

IMLS Artifact Preservation Project

In June 2023 the cultural team completed deliverables and closed an Institute for Museum and Library Services, Native Hawaiian Library Services grant that focused on the Waimea Valley archaeological collections. There is a 53-piece collection of historic cultural material that was removed during archeological surveys in the 1970s-1990s. The grant assisted the cultural department in hiring a consulting material culture conservator, Linda Hee of Handwoven Hawai‘i, and a museum collections registrar consultant, Angela Neller, to conduct a conservation survey of the collections, design an official Collection Management Policy and think through how Waimea Valley defines the scope of different collection types: the seed collection, the botanical collection, the archaeological sites, and the field collected archaeological collections removed from the archeological sites (with known provenance). An SOP was developed to implement culturally appropriate handling for recently found cultural material that has no documented provenance but clearly shows modification by human use and are most likely historic remnants. All staff was trained on the procedures if they find historic cultural material while working in the field. The grant enabled the purchase of a long-term preservation storage cabinet for geological collections and archival housing material for the archaeological collections and the corresponding survey reports and manuscripts.

Staff Development

Staff development was a major focus in 2023 with staff attending over 40 business, management, technical, cybersecurity customer service and ho'okipa training programs.

In 2023 a number of staff were promoted or received additional responsibilities as follows:

- Kaila Alva – Promoted from Cultural Specialist/Educator to Cultural Programs Coordinator
- Dayton Supebedia – Promoted from Botanical Gardner to Ancestral Crop Gardener
- Casey Primacio – Promoted from Ho'okipa Ambassador to Cultural Specialist/Educator
- Christen McMahon – Promoted from Botanical Gardner to Horticultural Technician
- Melchor Ines – Promoted from Botanical Gardener to Facilities Mechanic Maintenance
- Andy Pezzulo – Job Title change from Events Admin Assistant to Events Admin Assistant/IT Support
- Jordan Llop – – Job Title change from Admin Assistant to Admin Assistant/IT Support 4/1

The next two years will continue to have a strong focus on staff development and training to prepare for the eventual transition to a new Executive Director.

A complete list of staff training completed can be found as Attachment 2.

Grants

Hi'ipaka received the following new grant awards in 2023 totaling \$315,250:

- | | |
|------------------------------------|-----------|
| • DOI Ho'ihi | \$75,000 |
| • Atherton Foundation Conservation | \$25,000 |
| • CNHA Summer Concerts | \$20,000 |
| • IMLS NHMS Kauhale | \$150,000 |
| • JOF Composter | \$10,000 |
| • C&C Covid Aid | \$100,000 |
| • Young Brothers Shipping | \$3,100 |
| • Hawaii Energy | \$2,150 |

Currently there is \$4,715,116 in outstanding grants for active programs and activities that support the environmental conservation, cultural education, capital improvements, cultural preservation, and community outreach at Waimea Valley.

The following grants applications were submitted at the end of 2023 and pending award.

Agency	Focus	Amount Req.	Summary of Proposed Action
McInerney Foundation	Mauka reforestation	\$50,000	Mauka reforestation
U.S. National Endowment for the Humanities	New Culture Walk (display) for renovated Visitors Center	\$500,000	Develop a cultural walk exhibit from the Visitor's Center to Hale Ho'ike to prepare visitors to appreciate and interact with Waimea Valley as a wahi pana o Hawai'i.

A complete list of current and completed grants can be found as Attachment 3.

Conclusion

Hi'ipaka LLC completed a very successful year thanks to the hard work and dedication of staff. There were many improvements to facilities, infrastructure, staffing and programs to support our focus on enhancing the visitor experience and achieving our mission to preserve and perpetuate the human, cultural and natural resources of Waimea for generations through education and stewardship.

Staff, Executive Team, Hi'ipaka LLC Community Mangers, volunteers, artisans and contractors all contributed to make 2023 a very successful year with over 483,855 visitors, well maintained and safe facilities, unique and interesting programs resulting in good financial performance.



The Hi'ilei Aloha and Hi'ipaka LLC Community Mangers have been very active in all decision making and providing guidance, direction and advice on an ongoing basis.

Waimea Valley's success has a much broader impact than the 70 Hi'ipaka LLC employees. The Valley acts as an economic engine for the North Shore of Oahu providing employment and economic activity through several contractors as follows:

- Ke Nui Kitchen – employees 55 individuals and purchases local produce and agriculture items from North Shore vendors.
- Toa Lū'au – employees 50 individuals as greeters, waiters, dancers and musicians. Purchases leis and food items from local vendors.
- Waimea Valley Lifeguard Services employees 8 lifeguards.

Hi'ipaka's success is based on providing an authentic and unique experience for our visitors. Visitor feedback is important and monitored through several online review sites and a visitor survey that was started in 2021. These feedback mechanisms indicate a high level of satisfaction from our visitors.

Customer review websites are monitored to obtain visitor feedback, thank and acknowledge good reviews and correct inaccurate or misinformation. The major review websites rate Waimea Valley at 4 (out of 5) or higher as noted below:

Review Service	2021 Rating	2022 Rating	2023 Rating
Yelp	4 Stars	4 Stars	4.2 stars
Google Business	4.6 stars	4.6 stars	4.6 stars
Trip Advisor	4.5 stars	4.5 stars	4.5 stars
Facebook	4.4 stars	4.4 stars	4.4 stars

The 2024 programs, activities and budgets are based on the normalizing of the visitor industry with financial results expected to be similar to 2023. The year will be very busy for all with a number of facilities improvement projects, new programing, botanical garden development, a major fundraising campaign to replace our aging water system, and several new grant programs to include the EDA construction.

Attachment 1 –Hi'ipaka LLC 2023 Budget Comparison Report

Hi'ipaka LLC

Budget Comparison Report

For Year Ending December 2023

	Year-to-Date		
	Actual	Budget	Variance
Operating Revenues			
Donations	5,796	4,770	1,026
Sponsorship	3,730	6,730	-3,000
Grants - Government	622,637	511,467	111,170
Grants - Private Foundation	5,150	5,000	150
Parking	199,965	200,000	-35
Shuttle Service	434,345	420,000	14,345
Sales - Admissions	7,835,784	7,600,000	235,784
Sales - Admissions -Toa Luau	235,302	0	235,302
Sales - Educational Programs	23,624	25,000	-1,376
Sales - Gift Shop	1,357,360	1,300,000	57,360
Plant Sales	34,483	32,000	2,483
KNK Commissions	200,930	203,570	-2,640
Sales - Special Events	27,526	15,446	12,080
Sales - Toa Luau Special Events	-20,724	0	-20,724
Sales - Tours	1,878	1,000	878
Rentals/ Leases	1,129,827	1,130,000	-173
A/V Production Income	16,463	18,463	-2,000
GET Income	52,314	52,993	-679
Other Income	26,420	25,601	25,601
Total Operating Revenues	12,192,810	11,552,040	-640,770
Cost of Sales - Gift Shop	-468,539	-450,000	-18,539
Cost of Sales - Consignment	-18,784	-11,007	-7,777
	-487,323	-461,007	-26,316
Gross Profit	11,705,487	11,091,033	-614,454
Operating Expenses			
Salaries	-3,418,433	-3,555,607	-137,174
Employee Benefits	-1,130,032	-1,248,907	-118,875
Accounting Services	-33,408	-40,000	-6,592
Advertising	-235,108	-254,830	-19,722
Bank Fees	-222,128	-213,911	8,217
Cash Over and Short	-165	0	165
Computer - Equipment	-950	-950	0
Computer - Software	-5,639	0	5,639
Computer Services	-88,674	-85,866	2,808
Depreciation Expense	-295,641	-290,000	5,641
Donation - Programs	-2,181	-2,181	0
Dues and Subscriptions Exp	-43,814	-51,282	-7,468
Employee Expenses	-31,766	-35,000	-3,234

Employee - Background checks	-792	-1,500	-708
Employee - Drug Testing	-1,304	-1,150	154
Employee - Training & Staff Mt	-4,253	-5,272	-1,019
Employee Tuition Reimbursement	-6,600	-6,400	200
Equipment & Vehicles	-22,201	-33,848	-11,647
Equip/Vehicle Gas & Fuel	-13,156	-14,199	-1,043
Equip/Vehicle Maint Contracts	-74,875	-64,308	10,567
Equip/Vehicle Repairs	-18,704	-28,409	-9,705
Freight & Delivery	-104	-180	-76
Food & Honoraria	-284,865	-264,376	20,489
Matching Grant Funds for Incubator	-20,000	0	20,000
Internship	-46,500	-68,500	-22,000
Insurance Expense	-496,853	-400,000	96,853
Inventory Adjustments	7,341	0	-7,341
Legal Services	-17,339	-20,000	-2,661
Licenses, Permits & Regist	-1,735	-6,365	-4,630
Lifeguard Services	-277,266	-295,446	-18,180
Mileage & Parking	-972	-1,000	-28
Office Supplies	-3,729	-6,000	-2,271
Payroll Services	-76,211	-74,120	2,091
Postage	-2,914	-3,951	-1,037
KNK Reimburseables	168	0	168
Printing	-9,280	-13,636	-4,356
Professional Svcs	-499,889	-644,463	-144,574
Repair & Maintenance	-376,006	-400,000	-23,994
Security	-11,205	-11,045	160
Special Events	-31,826	-25,389	6,437
Supplies	-121,668	-127,500	-5,832
Supplies - Plants	-57,420	-75,000	-17,580
Supplies - Tools & Equipment	-7,508	-5,000	2,508
Taxes - GET	-161,283	-166,012	-4,729
Taxes	-101,988	-150,609	-48,621
Telephone & Telecommunications	-12,575	-13,133	-558
Travel	-4,332	-11,000	-6,668
Tree Trimming	-39,903	-70,000	-30,097
Uniforms	-26,759	-25,035	1,724
Utilities - Electricity	-127,566	-115,248	12,318
Utilities - Gas Snack Shop	-46,084	-49,080	-2,996
Utilities - Water	-98,009	-85,946	12,063
Utilities - WasteWater	-107,725	-109,526	-1,801
Volunteer Expenses	-1,709	-3,000	-1,291
Total Operating Expenses	-8,713,538	-9,174,180	-460,306
NET PROFIT / (LOSS)	2,991,952	1,916,853	1,075,099

Attachment 2 –Staff Training

Training Date	Training Description	Attendees
January – Dec	HEMIC Safety Task Analysis: Botanical/Conservation Tasks Analyzed with Staff-led training, 24 sessions	40
March - Dec	KnowB4 Cybersecurity Training Series – all staff with network access required to complete 100% of training series, 10 sessions	40
January	Cultural Staff-led Training: Morning Protocol	40
February 6	<i>All Staff Meeting</i> : Ka‘apuni o Waimea and Botanical Tour	66
March	Botanical Staff-led Training: Endemic Plants in Hawai‘i	35
March	Pesticide Applicators Certificate Training Series	2
April	Cultural Staff-led Training: Morning Protocol	40
May 15	<i>All Staff Meeting</i> : Ho‘okipa reminders, Safety and Emergency Procedures, Fire Extinguisher Training, Incident Reporting Procedures (3 trainings)	51
May	CTHAR Landscaping Training	2
May - June	ProService Fundamental Components of Resilient Leadership	3
June	ProService Developing a Customer Service Mindset	18
May	Botanical Staff-led Training: Certified Nursery Tour	33
June	ProService Adopting a Growth Mindset	3
June	Cultural Staff-led Training: Intro to Hale o Lono	39
June	Hawaii Conservation Alliance Annual Conservation Conference	3
July	Botanical Staff-led Training: Introduction to Conservation	51
July	ProService Webinar: Resolving Conflict	7
July	ProService: The Power of Communication	1
September	ProService: Empowered Problem Solving	1
August	Cultural Staff-led Training: Hale Iwi	38
August	ProService Webinar: Accident Prevention	18
August	ProService Webinar: Fundamentals of Resilient Leadership	4
August	BCGI Introduction to Seed Conservation	1
September	Botanical Staff-led Training: Greenhouse Tour	55
September	Hawaii Conservation Alliance Annual Conservation Conference	3
Sept-Nov	Ho‘okipa Training: Fundamentals of Welcoming, 3 sessions	24
September	Wilderness First Aid Training	2
September	Makahiki Cultural Training Series, 5 Sessions	12
Oct	Association of Tribal Libraries and Museums Annual Conference	2
Oct	Cultural Staff-led Training: Lo‘i Terrace Walls	40
Oct	Makahiki Cultural Staff Training Series, 5 Sessions	12
Oct	Waimea Valley Microbiome Research Presentation by Anthony Amend	20
Oct	CTAHR Landscape Management Webinar: Soil and Erosion Control	1
Oct	Proservice Webinar: Adopting a Growth Mindset	4
Oct-Nov	Proservice: Management Training Certificate, 3 sessions	3
Nov	<i>All Staff Meeting</i> : Ho‘okipa Training Fundamentals for all staff, ATALM Recap, Major Projects	47
Nov	Botanical Staff-led Training: Invasive Species	23
Nov	‘Ōhi‘a Love Fest Workshop	1
Nov	MALP Webinar: Tree Care and Pest Diseases	1
Nov	UMass Webinar: Urban Forestry Today	1
Nov	Rodale Institute Webinar: Impact of Soil Management	1
Nov	Dryland Forest Symposium	3
Nov	Proservice Webinar: The Power of Communication	5
Dec	Staff-led Training Series Make-up Opportunities (4 sessions)	30
Dec	Pacific Entomological and Botanical Meeting	15
Dec	Soil Food Webinar: Unearth Essential Endophytic Fungi	1
Dec	Proservice Webinar: Mastering Performance Management	5

Attachment 3 - Grants

Grants 2023	Department	Total amount	Received To Date	Outstanding Amount	Current Status	Outstanding Activities
CREP	Botanical	\$16,000	\$12,540	\$3,460	Active	Rare habitat monitoring
FSP year 9	Botanical	\$49,460	\$17,865	\$31,595	Active	Fence Lama unit, planting clearing, ungulate control, invasive species control maintain roads and trails, IPM in wetland.
FSP year 10	Botanical	\$47,778	\$0	\$47,778	Active	Fence Eugenia unit, planting clearing, ungulate control, invasive species control maintain roads and trails, IPM in wetland.
EQIP 2020	Botanical	\$161,878	\$19,053	\$142,825	Active	Restore five acres of forest, plant 2000 trees, 6,400 shrubs
NRCS CSP	Botanical	\$19,755	\$11,007	\$8,748	Active	Implement and/or maintain specific conservation practices, as set forth in the Conservation Plan Schedule of
21st Century Learning Center Kahuku Complex	Cultural	\$21,000	\$4,500	\$16,500	Active	Participant in grant program providing educational programs and discount family passes to the students of the Kahuku complex of schools participating in the 21CLC.
EDA	CIP	\$3,750,000	\$0	\$3,750,000	Active	Renovate sites at Waimea including VC restrooms, gift shop, amphitheater, education center, Pu'ukua, and conservation areas
ANA SEDS	Community	\$642,208	\$233,270	\$408,938	Active	This project establishes a Business Incubator to help Native Hawaiian veterans, artisans, small business owners and microbusiness owners create and build successful businesses.
DOI	Cultural	\$225,000	\$75,000	\$150,000	Active	Support the artisan program at Waimea
IMLS NHMS	Cultural	\$150,000	\$14,728	\$135,272	Active	Materials and supplies for Kahale exhibit
CNHA	Events	\$20,000	\$0	\$20,000	Active	2024 Waimea Events
Atherton	Botanical	\$25,000	\$25,000	\$0	Active	Waimea Mauka Reforestation
HCF	Administration	\$30,000	\$30,000	\$0	Complete	Strategic Planning and Executive Transition
JOF	Administration	\$10,000	\$10,000	\$0	Complete	Provides a match for a commercial kitchen composter
FSP year 8	Botanical	\$69,369	\$69,369	\$0	Complete	Fence K4 unit, planting clearing, ungulate control, invasive species control maintain roads and trails, IPM in wetland.
IMLS NHMS	Cultural	\$100,000	\$100,000	\$0	Complete	Hawaiian artifact collections stewardship.
CEP	Cultural	\$25,000	\$25,000	\$0	Complete	Summer Concert August
MCF	Administration	\$4,000	\$4,000	\$0	Complete	Patagonia Holdfast donation.
Young Brothers	Botanical	\$1,929	\$1,929	\$0	Complete	Shipping of fence material from Big Island
C&C Covid Aid	Administration	\$100,000	\$100,000	\$0	Complete	Administration and payroll support for Covid losses
EQIP 2019	Botanical	\$31,515	\$31,515	\$0	Complete	Clear and plant 1 acre with 400 trees and 1280 shrubs
CREP 2017	Botanical	\$13,321	\$13,321	\$0	Complete	Monitoring in 2021 and 2025
Hawaii Energy	Facilities	\$2,150	\$2,150	\$0	Complete	New Energy Star chef's base in Kitchen

Hi'ipaka LLC

(A Nonprofit Organization)

A sub-entity of Hi'ilei Aloha LLC which is a component unit for financial reporting purposes of the Office of Hawaiian Affairs

Financial Statements

December 31, 2022 and 2021

Hi'ipaka LLC
(A Nonprofit Organization)
Index

	Page(s)
Independent Auditor's Report	1-3
Financial Statements	
Statements of Net Position December 31, 2022 and 2021	4
Statements of Revenues, Expenses, and Changes in Net Position Years Ended December 31, 2022 and 2021	5
Statements of Cash Flows Years Ended December 31, 2022 and 2021	6
Notes to Financial Statements.....	7-16
Supplementary Information	
Schedule of Functional Expenses Year Ended December 31, 2022	18
Schedule of Functional Expenses Year Ended December 31, 2021	19
Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	21-22

Independent Auditor's Report

To the Member and Managers
Hi'ipaka LLC

Report on the Financial Statements

Opinion

I have audited the accompanying financial statements of Hi'ipaka LLC (a nonprofit organization), a component unit of Hi'ilei Aloha LLC and the Office of Hawaiian Affairs, State of Hawai'i, which comprise the statements of net position as of December 31, 2022 and 2021, and the related statements of revenues, expenses, and changes in net position, and of cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hi'ipaka LLC as of December 31, 2022 and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

I conducted my audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am required to be independent of Hi'ipaka LLC and to meet my other ethical responsibilities in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter

As discussed in Note 1 to the financial statements, Hi'ipaka LLC adopted new accounting guidance for lease agreements in 2022, retroactive to 2021. My opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Hi'ipaka LLC's ability to

continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 auditor's report that includes my opinion. 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 generally accepted auditing standards 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, including omissions, 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*, I:

- 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 Hi'ipaka LLC'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hi'ipaka LLC's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Other Matter – Supplementary Information

My audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to

prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Matter – Omission of Management's Discussion and Analysis

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated March 16, 2023 on my consideration of Hi'ipaka LLC's internal control over financial reporting and on my 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 my 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 Hi'ipaka LLC'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 Hi'ipaka LLC's internal control over financial reporting and compliance.

James P. Hesselman, CPA, LLC

Honolulu, Hawai'i
March 16, 2023

Hi'ipaka LLC
(A Nonprofit Organization)
Statements of Net Position
December 31, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash	\$ 7,383,637	\$ 6,346,744
Accounts receivable, net of allowance for doubtful accounts of \$10,000 in 2022 and \$10,000 in 2021	320,882	282,046
Lease receivable, current	183,374	175,320
Income tax receivable	-	17,327
Inventories	141,705	106,066
Prepaid expenses	109,783	94,769
Investments	2,402,868	-
Total current assets	10,542,249	7,022,272
Noncurrent Assets		
Lease receivable, noncurrent	358,344	541,718
Capital Assets		
Buildings and improvements	4,049,207	3,616,546
Furniture, fixtures and equipment	1,125,469	962,204
Vehicles	440,064	300,976
	5,614,740	4,879,726
Less accumulated depreciation	(3,504,539)	(3,237,912)
	2,110,201	1,641,814
Land	13,429,733	13,429,733
Total capital assets	15,539,934	15,071,547
Total noncurrent assets	15,898,278	15,613,265
Total assets	\$ 26,440,527	\$ 22,635,537
Liabilities and Net Position		
Current Liabilities		
Accounts payable	\$ 77,178	\$ 116,600
Accrued liabilities	302,760	262,230
Income taxes payable	37,408	127,291
Deferred revenue	145,845	141,697
Deferred lease rent, current	183,374	175,320
Total current liabilities	746,565	823,138
Noncurrent Liabilities		
Deferred lease rent, noncurrent	358,344	541,718
Total liabilities	1,104,909	1,364,856
Net Position		
Unrestricted	9,795,684	6,199,134
Net investment in capital assets	15,539,934	15,071,547
Total net position	25,335,618	21,270,681
Total liabilities and net position	\$ 26,440,527	\$ 22,635,537

The accompanying notes are an integral part of the financial statements.

Hi'ipaka LLC**(A Nonprofit Organization)****Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2022 and 2021**

	2022	2021
Operating revenue and support		
Retail revenue		
Admissions and tours	\$ 7,589,547	\$ 6,804,860
Shuttle service	356,138	307,354
Gift store and food service	1,405,612	1,114,191
Cost of sales, including retail departmental expenses	(1,649,963)	(1,395,597)
Net retail	7,701,334	6,830,808
Special events and other	66,250	62,487
Less bad debt expense	-	620
Total net sales	7,767,584	6,893,915
Parking, rental and other	1,385,605	920,189
Grants and donations	656,875	363,953
Audio visual production	117,590	48,145
PPP loan forgiveness	-	1,203,807
Investment income (loss)	(97,132)	-
Other revenue and support	2,062,938	2,536,094
Total operating revenue and support	9,830,522	9,430,009
Operating expenses		
Program services		
Cultural	916,826	580,284
Botanical	1,855,651	1,570,835
Preservation and stewardship	1,581,731	1,970,993
	4,354,208	4,122,112
Management and general	1,342,828	966,997
Fundraising	68,549	64,132
Total operating expenses	5,765,585	5,153,241
Operating income and change in net position	4,064,937	4,276,768
Net position		
Beginning of year	21,270,681	16,993,913
End of year	\$ 25,335,618	\$ 21,270,681

The accompanying notes are an integral part of the financial statements.

Hi'ipaka LLC
(A Nonprofit Organization)
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Receipts from customers, grantors and funders	\$ 11,222,138	\$ 9,328,338
Payments to suppliers, vendors and service providers	(3,274,753)	(3,080,953)
Payments to employees for salaries and benefits	(3,781,771)	(3,016,048)
Refunds (payments) of unrelated business income taxes	(175,076)	129,040
Net cash provided by operating activities	<u>3,990,538</u>	<u>3,360,377</u>
Cash flows from investing activities		
Purchase of investments	(2,518,167)	-
Net cash used in investing activities	<u>(2,518,167)</u>	<u>-</u>
Cash flows from capital and related financing activities		
Lease income from capitalized lease	299,536	186,488
Expenditures for property and equipment	(735,014)	(135,160)
Net cash provided by (used in) capital and related financing activities	<u>(435,478)</u>	<u>51,328</u>
Cash flows from noncapital financing activities		
Proceeds from PPP loan	-	509,472
Net cash provided by noncapital financing activities	<u>-</u>	<u>509,472</u>
Increase in cash	1,036,893	3,921,177
Cash and cash equivalents		
Beginning of year	<u>6,346,744</u>	<u>2,425,567</u>
End of year	<u>\$ 7,383,637</u>	<u>\$ 6,346,744</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 4,064,937	\$ 4,275,228
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation and amortization	266,627	244,978
PPP loan forgiveness	-	(1,203,807)
Realized and unrealized investment loss	115,299	-
Lease income from capitalized lease	(299,536)	(186,488)
Change in:		
Accounts receivable	(38,836)	(170,835)
Inventories	(35,639)	(1,549)
Prepaid expenses	(15,014)	11,046
Accounts payable and accrued liabilities	1,108	156,947
Income taxes payable and receivable	(72,556)	223,772
Deferred revenue	4,148	11,085
Net cash provided by operating activities	<u>\$ 3,990,538</u>	<u>\$ 3,360,377</u>
Supplemental Cash Flow Information		
Noncash investing and financing - PPP loan forgiveness	\$ -	\$ 1,203,807
Noncash capital and related financing - lease receivable	-	858,404

The accompanying notes are an integral part of the financial statements.

Hi'ipaka LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies

Hi'ipaka LLC (Company) was established on December 6, 2007, and began operations in February 2008. The Company'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. The Company is a limited liability company with Hi'ilei Aloha LLC (Hi'ilei) as its sole member. Hi'ilei is a limited liability company with the Office of Hawaiian Affairs (OHA) as its sole member. The Company's governing body previously consisted of three "Managers" who were senior management officials of OHA. In 2019, OHA approved amending the Company'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 the Company shall be personally liable for debts, obligations, or liabilities of the Company whether arising 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.

Basis of Accounting

The financial statements of the Company have been prepared on the accrual basis of accounting consistent with enterprise fund accounting and accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (GASB).

Use of Estimates in the Preparation of Financial Statements

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

Cash and Cash Equivalents

The Company considers all highly liquid debt investments with original maturities of three months or less when purchased to be cash equivalents.

Hi'ipaka LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2022 and 2021

Concentrations of Credit Risk

The Company maintains cash accounts with a financial institution in the State of Hawai'i. Balances are insured up to \$250,000 per account holder by the Federal Deposit Insurance Corporation (FDIC). The accounts are held in "public funds" accounts whereby the bank is required to post collateral for account balances. The Company's bank balances at December 31, 2022 and 2021, irrespective of outstanding checks and deposits in transit, were \$7,381,744 and \$6,429,847, respectively.

Receivables

Accounts receivable are stated at the amount management expects to collect from outstanding balances. The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts that reflects management's best estimate of the amounts that will not be collected based upon prior experience, a review of delinquent accounts, and management's assessment of the credit worthiness of its customers. Management considers accounts past due when they are outstanding beyond 60 days with no payment. Interest is generally not charged on past due accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the allowance account and a credit to accounts receivable. The Company's allowance for doubtful accounts was \$10,000 at December 31, 2022 and 2021, and was established based on a review of specific delinquent accounts.

Inventories

Inventories consist of items held for sale in the Company's gift store. Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value.

Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Money market, mutual and exchange traded funds are valued at the daily closing price as reported by the mutual fund. Mutual funds held by the Company are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value (NAV) and to transact at that price. The mutual funds held by the Company are deemed to be actively traded. Investments in U.S. Treasury obligations are valued at quoted market prices. Fixed income investments such as corporate bonds and U.S. government agency securities are valued by pricing services that utilize computer-based pricing models incorporating multiple observable inputs.

Investment income or loss includes the net appreciation (depreciation) in the fair value of investments, which consists of realized gains or losses and the unrealized appreciation (depreciation) on those investments; as well as interest and dividend income. Interest income is recorded on an accrual basis. Dividends are recorded on the ex-dividend date. Purchases and sales are recorded on a trade date basis.

Capital Assets

Property and equipment is stated at cost if purchased. Property transferred to the Company from OHA as part of the Company's formation is stated at OHA's carrying basis. Property purchased with a cost in excess of \$1,000 and a useful life exceeding one year is capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of such assets (3 to 7 years

Hi'ipaka LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2022 and 2021

for furniture, fixtures, equipment and vehicles, and 10 to 30 years for building and improvements). Expenditures for maintenance, repairs, restoration, and minor renewals are charged to expense; expenditures for betterments are capitalized. Property retired or otherwise disposed of is removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses from the disposition of assets are reflected in current operations.

Impairment Review

Long-lived assets such as property and equipment are reviewed for impairment when events or circumstances indicate that their carrying value may not be recoverable. Estimated undiscounted future cash flows are used to determine if an asset is impaired, in which case the asset's carrying value would be reduced to fair value. No impairment charges have been recorded.

Revenue Recognition

Admission and tours revenues are recognized based on the date of admission to the Valley. Gift store sales are recognized at the time of sale as sales returns are inconsequential. Revenue from special events and venue rentals are recognized when the event occurs. Revenue from long term leases is recognized ratably over the term of the lease. Revenues are recognized net of all discounts and allowances, including bad debts if any. Grants and contributions are recognized as support in the period in which eligibility requirements imposed by the donor have been met, which is generally when received. Amounts received prior to revenue recognition are recorded as deferred revenue.

Expenses

The costs of conducting programs and other services have been summarized on a functional basis in the statements of revenues, expenses, and changes in net position. The Company's program service expenses consist of cultural, botanical and the preservation and stewardship of Waimea Valley. Cultural expenses include various programs and educational activities. Botanical expenses include all activities related to the flora and fauna of the Valley. Preservation and stewardship expenses include all activities pertaining to maintaining, restoring and improving the physical infrastructure and safety of the Valley. The Company also incurs costs related to its gift store which serves to support the Company's programmatic initiatives and enhance the visitor experience. These costs include cost of goods sold, salaries and other departmental expenses. Management and general expenses represent those costs associated with oversight, business management, general recordkeeping, budgeting, advertising and other related administrative activities. Fundraising expenses represent costs associated with obtaining grants and donations. Certain costs have been allocated between programs and supporting services based on various methodologies, including relative personnel costs or other estimates.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available to pay the expenses, resources are generally applied proportionate to the benefit realized. For instances in which such a determination is not feasible or if there are cost compliance issues, unrestricted resources are applied first.

Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses result from the activities described above. Nonoperating activities relate to grants and other support received from OHA, if any. These revenues are recognized when received. Grants and donations received that are restricted for capital asset

Hi'ipaka LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2022 and 2021

acquisition, if any, are reflected as capital contributions and reported separately from operating and nonoperating activity.

Advertising Costs

The cost of advertising production is expensed the first time the advertising takes place. Total advertising expense amounted to \$187,269 and \$103,475 in 2022 and 2021, respectively.

General Excise Tax

General excise tax collected from customers is reflected in revenues. General excise taxes paid to the State of Hawai'i is reflected in cost of sales and other expenses.

Implementation of New Accounting Standard

In 2022, the Company implemented GASB Statement No. 87, *Leases*. The Company has one lease, as lessor, meeting the criteria for recognition under this standard, which requires the reporting of a lease receivable and a deferred inflow of resources (deferred revenue) within assets and liabilities, respectively. As required, this standard was implemented retroactively, with the 2021 financial statements restated as if the standard had been in effect for 2021. Note 5 summarizes the amounts in the 2021 financial statements that were restated.

Reclassifications

Certain amounts in the 2021 financial statements have been reclassified to conform with the 2022 presentation. Such reclassifications did not affect operating income and change in net position as previously reported.

Subsequent Events Review

Management has reviewed and considered whether events occurring after year end should be reflected or disclosed in these financial statements. The date through which this review was conducted was March 16, 2023, the date the financial statements were available to be issued.

2. Investments

The Company has established a Financial Reserve Policy to support the mission, programs, employment, and ongoing operations of the organization. The related investment objectives are to provide for capital preservation, providing for current liquidity and modest diversification for growth to meet future obligations. Authorized assets include equity securities and investment grade fixed income securities; and mutual and exchange traded funds that invest in such securities.

Hi'ipaka LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2022 and 2021

The Company established its investment portfolio in 2022. Balances as of December 31, 2022 and their maturities were as follows:

Investment Type	Reported Value	Investment Maturities (in years)	
		Less than one	One through five
U.S. Government Obligations	\$ 1,405,635	\$ 502,706	\$ 902,929
Corporate Bonds	776,427	59,897	716,530
Mutual and Exchange Traded Funds - primarily equities	135,835		
Money Market Funds	84,971		
Total	<u>\$ 2,402,868</u>		

Investment portfolio risks:

- (1) Foreign currency risk – investments in exchange traded funds that focus on emerging and developed markets may contain foreign currency risk. Such investments are not significant to the overall portfolio.
- (2) Interest rate and credit risk – to minimize interest rate risk, the Investment Policy has established a time horizon of five years. Investments in fixed income securities must be investment grade.
- (3) Concentrations of credit risk – for fixed income securities other than U.S. government obligations, the Investment Policy states that the total investment in any one issuer should not comprise more than 5% of the market value of the fixed income portfolio, at the time of purchase. Such securities must be investment grade.

The fair value measurement framework provides for measuring fair value based on a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy are described as follows:

- (1) Level 1 inputs consist of unadjusted quoted prices in active markets such as stock exchanges for identical assets;
- (2) Level 2 inputs consist of significant other observable inputs such as quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset and liability, either directly or indirectly, for substantially the full term of the financial instrument;
- (3) Level 3 inputs consist of significant unobservable inputs such as discounted cash flow methodologies.

Hi'ipaka LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2022 and 2021

At December 31, 2022, fair values by level were as follows:

Investment Type	Level 1	Level 2	Total
U.S. Government Obligations	\$ 1,244,456	\$ 161,179	\$ 1,405,635
Corporate Bonds	-	776,427	776,427
Mutual and Exchange Traded Funds - primarily equities	135,835	-	135,835
Money Market Funds	84,971	-	84,971
Total	<u>\$ 1,465,262</u>	<u>\$ 937,606</u>	<u>\$ 2,402,868</u>

The Company has no Level 3 investments.

3. Capital Assets

Capital asset activity for the years ended December 31, 2022 and 2021 was as follows:

	Balance January 1, 2022	Additions	Deductions	Balance December 31, 2022
Capital assets not depreciated:				
Land	\$ 13,429,733	\$ -	\$ -	\$ 13,429,733
Total capital assets not depreciated	13,429,733	-	-	13,429,733
Capital assets being depreciated				
Buildings and improvements	3,616,546	432,661	-	4,049,207
Furniture, fixtures and equipment	962,204	163,265	-	1,125,469
Vehicles	300,976	139,088	-	440,064
Total capital assets being depreciated	4,879,726	735,014	-	5,614,740
Less accumulated depreciation	(3,237,912)	(266,627)	-	(3,504,539)
Capital assets being depreciated, net	1,641,814	468,387	-	2,110,201
Total capital assets, net	<u>\$ 15,071,547</u>	<u>\$ 468,387</u>	<u>\$ -</u>	<u>\$ 15,539,934</u>

Hi'ipaka LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2022 and 2021

	Balance January 1, 2021	Additions	Deductions	Balance December 31, 2021
Capital assets not depreciated:				
Land	\$ 13,429,733	\$ -	\$ -	\$ 13,429,733
Total capital assets not depreciated	13,429,733	-	-	13,429,733
Capital assets being depreciated				
Buildings and improvements	3,519,641	96,905	-	3,616,546
Furniture, fixtures and equipment	935,467	26,737	-	962,204
Vehicles	289,458	11,518	-	300,976
Total capital assets being depreciated	4,744,566	135,160	-	4,879,726
Less accumulated depreciation	(2,992,934)	(244,978)	-	(3,237,912)
Capital assets being depreciated, net	1,751,632	(109,818)	-	1,641,814
Total capital assets, net	\$ 15,181,365	\$ (109,818)	\$ -	\$ 15,071,547

Depreciation expense amounted to \$266,627 and \$244,978 in 2022 and 2021, respectively.

In connection with the initial acquisition of Waimea Valley by OHA for purposes of preserving and protecting the Valley and its historical and archaeological sites and artifacts, a conservation easement covering the Valley was granted to the City and County of Honolulu and the State of Hawai'i. The purpose of the easement is to protect and preserve the Conservation Values (as defined in the easement) of the property, through the rights of inspection, monitoring and similar enforcement actions.

4. PPP Loan

In April 2020 and March 2021, the Company obtained loans under the Paycheck Protection Program (PPP) in the amount of \$694,335 and \$509,472, respectively. The PPP, established as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), provided for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying business. The loans and accrued interest are forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, maintains its payroll levels, and adheres to other requirements.

In 2021, these loans were forgiven.

5. Lease Agreements

The Company has leased its food and beverage premises to an independent third party under a lease agreement expiring October 31, 2025. The agreement provides for payment of minimum base rent, percentage rent on sales exceeding certain breakpoints, and fixed payments for utility usage. The agreement allows the tenant to extend the lease for an additional five year period.

Hi'ipaka LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2022 and 2021

Future minimum payments under this agreement are \$204,000 in 2023-2024, and \$170,000 in 2025. Income earned in 2022 and 2021 amounted to approximately \$300,000 and \$186,000, respectively, including approximately \$95,000 and \$18,000 in variable payments based on percentage rent in 2022 and 2021, respectively.

As discussed in Note 1, the Company implemented GASB 87 *Leases* in 2022, retroactive to 2021. A lease receivable and deferred lease rent of \$858,404 was recorded as of January 1, 2021 for the lease agreement described above. The calculation of this amount includes only the fixed minimum rent and utility payments to be collected under the lease agreement. Any amounts to be collected under the percentage rent provisions of the agreement are not included in this amount and will be recognized into income as earned. Revenue and expense as previously reported for 2021 were not affected by this new standard. The following amounts were restated in the 2021 financial statements as part of the implementation of this standard:

	As Originally Reported	As Restated
Statement of net position amounts		
Lease receivable, current	\$ -	\$ 175,320
Total current assets	6,846,952	7,022,272
Lease receivable, noncurrent	-	541,718
Total noncurrent assets	15,071,547	15,613,265
Total assets	21,918,499	22,635,537
Deferred lease rent, current	-	175,320
Total current liabilities	647,818	823,138
Deferred lease rent, noncurrent	-	541,718
Total liabilities	647,818	1,364,856
Total liabilities and net position	21,918,499	22,635,537
Statement of cash flow amounts		
Receipts from customers, grantors and funders	9,514,826	9,328,338
Net cash provided by operating activities	3,546,865	3,360,377
Lease income from capitalized lease	-	186,488
Net cash provided by (used in) capital and related financing activities	(135,160)	51,328

The Company has also executed a site rental agreement to a third party allowing that party to operate luaus on the Company's property. The agreement calls for the Company to receive a fixed payment per event, plus an additional per guest fee for guest counts exceeding certain counts. The agreement's present term expires December 31, 2023.

The Company collected \$3,200 in rent from Hi'ilei Aloha LLC in 2021 on a month-to-month lease agreement.

6. Retirement Plan

The Company maintains 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. Under the plan, the Company matches employees' contributions up to 4% of salary. Contribution expense amounted to \$74,337 and \$63,283 in 2022 and 2021, respectively.

Hi'ipaka LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2022 and 2021

7. Income Tax Expense

The Company is tax exempt under section 501(c)(3) based on an IRS determination letter dated March 2012. Accordingly, the Company is exempt from federal and state income taxes, except on unrelated business income. Certain of the Company's activities are considered to be unrelated business income and accordingly the Company files form 990-T with the IRS and form N-70NP with the State of Hawaii to report and pay tax on such activities.

Income taxes receivable, payable, and expense for 2022 and 2021 are as follows:

	Income Tax Receivable	Income Tax Payable	Income Tax Expense
Year ended December 31, 2022			
Federal			
Current year expense	\$ -	\$ -	\$ 80,486
Current year payable, net of estimated taxes paid	-	25,862	-
Total Federal	-	25,862	80,486
State			
Current year expense	-	-	22,034
Current year payable, net of estimated taxes paid	-	11,546	-
Total State	-	11,546	22,034
Total Federal and State	\$ -	\$ 37,408	\$ 102,520
Year ended December 31, 2021			
Federal			
Current year expense	\$ -	\$ -	\$ 72,831
Current year payable, net of estimated taxes paid	-	51,831	-
IRS refund received in error, repaid 2022	-	64,876	-
Refund from carryback of 2020 loss to 2018	17,327	-	-
Total Federal	17,327	116,707	72,831
State			
Current year expense	-	-	20,361
Current year payable, net of estimated taxes paid	-	10,584	-
Total State	-	10,584	20,361
Total Federal and State	\$ 17,327	\$ 127,291	\$ 93,192

The Company adheres to generally accepted accounting principles (GAAP) pertaining to uncertain tax positions. Those principles call for uncertain tax positions to be recognized in the financial statements only if those positions are more likely than not to be sustained upon regulatory examination. Management believes that it has appropriate support for any tax positions taken on previously filed tax returns and thus believes that the Company does not have any material

Hi'ipaka LLC
(A Nonprofit Organization)
Notes to Financial Statements
December 31, 2022 and 2021

uncertain tax positions. Such tax returns are generally open for examination by the IRS until the statute of limitations (three years) expires.

8. Litigation

The Company is the subject of pending litigation related to the death of a visitor to Waimea Valley. Management believes this claim will be resolved by the Company's insurance carrier and/or third party carrier with the final adjudication of this claim resulting in little to no financial loss to the Company.

Supplementary Information

Hi'ipaka LLC
(A Nonprofit Organization)
Schedule of Functional Expenses
Year Ended December 31, 2022

	Program Services				Management and General	Fundraising	Total
	Cultural	Botanical	Stewardship and Preservation	Total Program Services			
Salaries, payroll taxes and benefits	\$ 498,570	\$ 1,170,919	\$ 678,765	\$ 2,348,254	\$ 679,949	\$ 22,347	\$ 3,050,550
Advertising	-	-	-	-	187,269	-	187,269
Bank fees	26,830	61,100	36,527	124,457	37,793	-	162,250
Computer expenses	9,610	21,886	13,084	44,580	13,533	-	58,113
Depreciation & amortization	46,473	105,834	63,269	215,576	23,953	-	239,529
Dues and subscriptions	3,294	7,475	4,476	15,245	4,628	-	19,873
Employee expenses	225	385	-	610	17,321	-	17,931
Equipment and vehicle expenses	17,237	39,252	23,466	79,955	24,589	-	104,544
Food and honoraria	174,141	1,194	-	175,335	24,485	-	199,820
Income taxes	-	-	-	-	102,520	-	102,520
Insurance	65,986	150,273	89,835	306,094	34,011	-	340,105
Licenses	623	1,418	848	2,889	877	-	3,766
Lifeguard services	-	-	222,376	222,376	-	-	222,376
Other expenses	2,285	5,321	3,111	10,717	3,244	-	13,961
Payroll services	9,664	22,008	13,157	44,829	13,613	-	58,442
Postage	275	626	374	1,275	387	-	1,662
Professional and consulting fees	-	2,106	86,244	88,350	99,079	46,202	233,631
Repairs, maintenance and restoration	-	66,286	213,450	279,736	-	-	279,736
Special events expenses	4,440	1,988	-	6,428	-	-	6,428
Supplies	12,105	93,093	71,391	176,589	11,481	-	188,070
Taxes other than income	-	1,852	-	1,852	612	-	2,464
Telephone	2,255	5,135	3,070	10,460	3,177	-	13,637
Uniforms	3,299	7,512	4,491	15,302	4,646	-	19,948
Utilities	39,514	89,988	53,797	183,299	55,661	-	238,960
	\$ 916,826	\$ 1,855,651	\$ 1,581,731	\$ 4,354,208	\$ 1,342,828	\$ 68,549	\$ 5,765,585

Hi'ipaka LLC
(A Nonprofit Organization)
Schedule of Functional Expenses
Year Ended December 31, 2021

	Program Services				Management and General	Fundraising	Total
	Cultural	Botanical	Stewardship and Preservation	Total Program Services			
Salaries, payroll taxes and benefits	\$ 339,877	\$ 993,822	\$ 653,458	\$ 1,987,157	\$ 469,243	\$ 17,717	\$ 2,474,117
Advertising	-	-	-	-	103,475	-	103,475
Bank fees	17,887	51,118	34,389	103,394	25,627	-	129,021
Computer expenses	7,819	22,343	15,032	45,194	11,197	-	56,391
Depreciation & amortization	34,328	98,104	66,000	198,432	22,048	-	220,480
Dues and subscriptions	8,373	23,929	16,098	48,400	11,996	-	60,396
Employee expenses	-	-	-	-	14,045	-	14,045
Equipment and vehicle expenses	13,618	38,918	26,182	78,718	19,512	-	98,230
Food and honoraria	74,473	-	-	74,473	12,154	-	86,627
Income taxes	-	-	-	-	93,192	-	93,192
Insurance	36,281	103,686	69,755	209,722	23,302	-	233,024
Licenses	653	1,866	1,256	3,775	936	-	4,711
Lifeguard services	-	-	207,648	207,648	-	-	207,648
Other expenses	660	1,911	1,270	3,841	954	-	4,795
Payroll services	5,601	16,008	10,769	32,378	8,025	-	40,403
Postage	167	478	321	966	240	-	1,206
Professional fees	-	16,175	-	16,175	91,916	46,415	154,506
Repairs, maintenance and restoration	-	26,681	751,637	778,318	-	-	778,318
Special events expenses	3,000	8,664	-	11,664	-	-	11,664
Supplies	4,693	70,539	54,012	129,244	11,762	-	141,006
Taxes other than income	-	2,701	-	2,701	300	-	3,001
Telephone	3,512	10,037	6,752	20,301	5,033	-	25,334
Utilities	29,342	83,855	56,414	169,611	42,040	-	211,651
	\$ 580,284	\$ 1,570,835	\$ 1,970,993	\$ 4,122,112	\$ 966,997	\$ 64,132	\$ 5,153,241

**Auditor's Report on Internal Control Over Financial
Reporting and on Compliance and Other Matters**

P.O. Box 11149
Honolulu HI 96828
Telephone (808) 721 5483
E-mail jim@cpajph.com

**Independent Auditor's 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***

To the Member and Managers
Hi'ipaka LLC

I 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, the financial statements of Hi'ipaka LLC (the "Organization"), which comprise the statement of net position as of December 31, 2022, and the related statements of revenues, expenses, and changes in net position, and of cash flows for the year then ended, and the related notes to the financial statements, and have issued my report thereon dated March 16, 2023.

Report on Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Organization'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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization'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.

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "James P. Hesselman, CPA, LLC". The signature is written in a cursive, flowing style.

Honolulu, Hawaii
March 16, 2023

Committee on Resource ManagementTrustee John Waihe'e IV, *At-Large* - ChairTrustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair**Members**Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brickwood Galuteria, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee J. Keoni Souza, *At-Large*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Wednesday March 27, 2024**TIME:** 1:30 p.m.

PLACE: Remote Meeting by Interactive Conference Technology
and in-person at OHA Maui Ola Boardroom
Nā Lama Kukui
560 N. Nimitz Hwy.
Honolulu, HI. 96817

viewable at <https://www.oha.org/livestream> OR

Listen by phone: (213) 338-8477, Webinar ID: 861 7259 5166

This virtual meeting can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listened to by phone at: (213) 338-8477, Webinar ID: 861 7259 5166. A physical meeting location, open to members of the public who would like to provide oral testimony or view the virtual meeting, will be available at 560 N. Nimitz Hwy., Suite 200, Honolulu HI 96817.

AGENDA**I. Call to Order****II. Approval of Minutes**

A. February 21, 2024

III. Unfinished Business – None**IV. New Business**

- A. Presentation by Auditors: Draft Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023, Sophia Kuo, Assurance Services Director, The Pun Group LLP
- B. **Action Item RM #24-06:** Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023
- C. **Action Item RM #24-07:** Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends
- D. **Action Item RM #24-08:** Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau
- E. **Action Item RM #24-09:** Reappointment of Roberts "Bob" Leinau as a Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027

F. Consequent Capital Management (CCM) – Independent Board Investment Advisor

- 1. re: Changes in CCM personnel, Ken Simon, CEO
- 2. Discussion on a financial entity, Vijoy Chattergy, CIO (external)
- 3. Discussion on private equity investment programs, Gerry Flintoft, Head of Private Markets

V. Adjournment

Committee on Resource ManagementTrustee John Waihe'e IV, *At-Large* - ChairTrustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair**Members**Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brickwood Galuteria, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee J. Keoni Souza, *At-Large*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Wednesday March 27, 2024**TIME:** 1:30 p.m.

PLACE: Remote Meeting by Interactive Conference Technology
and in-person at OHA Maui Ola Boardroom
Nā Lama Kukui
560 N. Nimitz Hwy.
Honolulu, HI. 96817

viewable at <https://www.oha.org/livestream> OR

Listen by phone: (213) 338-8477, Webinar ID: 861 7259 5166

This virtual meeting can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listened to by phone at: (213) 338-8477, Webinar ID: 861 7259 5166. A physical meeting location, open to members of the public who would like to provide oral testimony or view the virtual meeting, will be available at 560 N. Nimitz Hwy., Suite 200, Honolulu HI 96817.

AGENDA**I. Call to Order****II. Approval of Minutes**

A. February 21, 2024

III. Unfinished Business – None**IV. New Business**

- A. Presentation by Auditors: Draft Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023, Sophia Kuo, Assurance Services Director, The Pun Group LLP
- B. Action Item RM #24-06: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023
- C. Action Item RM #24-07: Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends
- D. Action Item RM #24-08: Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau
- E. Action Item RM #24-09: Reappointment of Roberts "Bob" Leinau as a Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027

F. Consequent Capital Management (CCM) – Independent Board Investment Advisor

- 1. re: Changes in CCM personnel, Ken Simon, CEO
- 2. Discussion on a financial entity, Vijoy Chattergy, CIO (external)
- 3. Discussion on private equity investment programs, Gerry Flintoft, Head of Private Markets

V. Adjournment



Independent Board Consultant for
the Office of Hawaiian Affairs'
Native Hawaiian Trust Fund

Wednesday, March 27, 2024
1:30 a.m. HST

MEETING AGENDA

1. BACKGROUND INFORMATION
2. UPDATE ACTIVITIES
3. EDUCATION TOPICS: BELIEFS;
IDENTIFICATION; NETWORK
4. APPENDIX
5. GLOSSARY TERMS

Separate Document/Presentation

- Private Equity Program/Pacing Study
(illustration)

ABOUT US



- Independent investment advisory firm registered with the Securities & Exchange Commission
- Established in 2016 from the acquired assets of Gray & Company, an institutional consulting firm founded in 1991
- Office in Honolulu, HI, and corporate headquarters located in Atlanta, GA
- Full-service minority owned investment advisor serving institutional investor clients, including cities, labor unions, hospital systems, universities, and mission-specific non-profit organizations
- Comprehensive and holistic approach to investment advisory services including support of underrepresented and underutilized investment managers to provide diversity to our clients' portfolios.

REVIEW AND UPDATE ON INVESTMENT EDUCATION

Investment Education Review

- Investment Program Observations
 - Commonfund Forum, March 10-12, 2024
- Investment Beliefs
- NHTF Identify
- Network Fund Profiles

- Private Equity Program Observations
 - Design Characteristics
 - Pacing Model Illustration

Investment Oversight Preview

- RMC April 17, 2020: PIMCO; State Street
- RMC May 1, 2024: Northern Trust
- RMC May 22, 2024: JP Morgan; Goldman Sachs
- RMC June 26, 2024: Top Tier
- RMC July 10, 2024: Commonfund

Investment Program Observations

Takeaways:

Specific

- Single manager forum
- Attendees mostly tax-exempted entities
- Limited networking opportunities

General

- Well organized and executed
- Topical sessions for Commonfund strengths
- Great invited speakers
- Ideal location for Northeast and Midwest attendees

Commonfund Forum 2024, March 10-12, 2024:

- General Sessions: Global Economy; Former Federal Reserve President; Perceptions; Robotics and AI; Geopolitical Environment
- Selected Sessions: Private Markets (Venture Capital; Secondaries; Co-investments); Credit Markets and Interest Rates; Real Estate Alpha; Governance
- OHA Bespoke Session: Commonfund Staff on ways to work with Commonfund (Alternatives manager; OCIO)

Investment Beliefs

Takeaways:

Investment beliefs reflect how the capital markets are understood and interpreted through the investment portfolio,

- Broadly held by entity
- Communicates activities and strategies
- Educates leadership and staff
- Positions entity in the marketplace
- Provides continuity through time

- **Investment Beliefs Statements** articulate the fundamental perceptions of trustees and their institutions on the nature of financial markets and the role they play in these markets...help trustees, fiduciaries, and others responsible clarify their views on the nature of financial markets through which they must operate and how these markets function. (Koedijk et al., 2009)

- Not a **Mission Statement**

- Fundamental goals
- Reason for existence

- Not an **Investment Policy Statement**

- Roadmap to how to achieve investment goals
- Operational guidelines sometimes included

- **Examples** of Investment Belief Statements

- https://iri.hks.harvard.edu/files/iri/files/iri_investment_beliefs_statements.pdf
- <https://www.calstrs.com/investment-beliefs;>
https://www.calstrs.com/files/89dc58bd6/calstrs_investment_beliefs.pdf
- See appendix for sample discussion

Defining the Native Hawaiian Trust Fund

Takeaways:

Identification by comparison: legal obligations; source of funding; investment mandate; operational activities

Entity	Legal Enabling	File Form 990	FOIA or Sunshine	Source of Investment Funds	Spending Policy	Multi-Asset Portfolio	Mandated Obligation	Comp and Benefits
NHTF	State	No	Yes	State	Yes	Yes	No	State/Internal
ERS	State	No	Yes	Public Entities	No	Yes	Yes	State
EUTF	State	No	Yes	Public Entities	No	Yes	Yes	State
UH Foundation	Not State	Yes	Yes	Private Donations	Yes	Yes	Yes	Internal
KSBE Endowment	Not State	Yes	No	Private Donations	Yes	Yes	Yes	Internal
Hawaii Community Foundation	Not State	Yes	No	Private Donations	Yes	Yes	Yes	Internal
Alaska Permanent	State	No	Yes	State	No	Yes	No	State/Internal

Alaska Permanent Fund

Contact Details

801 West 10th Street, Suite 302

Juneau, AK 99801

United States

<https://apfc.org>



The Alaska Permanent Fund was created by the people of Alaska in 1976 as a way to save a portion of the state's oil revenues for the needs of future generations. It uses oil royalties to make investments in bonds, stocks, real estate, infrastructure, and private entities. The returns on these investments are used to grow and finance the Fund. Additionally, since 1983, the Alaska Permanent Fund Dividend Division has distributed a portion of the earnings to Alaskans annually in the form of a dividend. The Fund is currently worth more than \$54 billion.

In 1980, the Alaska State Legislature created the Alaska Permanent Fund Corporation to manage the investments of the Permanent Fund outside of the State Treasury. The investments are guided by a six-member board of trustees, appointed by the Governor, but once appointed, the four public board members can only be removed for cause.

Asset classes are managed by a dedicated team of investment professionals focused on achieving best-in class overall performance. Investments are spread across most markets, countries, and currencies to achieve broad exposure to global growth and value creation, taking advantage of the Fund's long-term horizon and size to generate high returns and maintain wealth for future generations.

The Fund is invested across public and private assets, and the asset allocation consists of eight asset classes:

1. Public Equities
2. Fixed-Income
3. Private Equity
4. Real Estate
5. Private Income: Infrastructure, Private Credit, & Income Opportunities
6. Absolute Return Strategies
7. Tactical Opportunities
8. Cash.

The goal is to have well-diversified investments that distribute risk and generate the highest possible return within the mandate given by the Board of Trustees.

The Permanent Fund is divided into two parts: Principal (non-spendable) and Earnings Reserve (spendable), both of which are fully invested in the same pool of assets. The Alaska Constitution articulates that the Principal shall only be used for income-producing investments. The Earnings Reserve account, established in Alaska Statutes, may be spent through appropriations approved by the Legislature. In a state with primarily non-renewable resources, the Permanent Fund generates renewable revenue. In most years since its creation, the Fund has been the second-largest producer of state revenue, trailing only taxes and royalty payments generated by the oil and gas industry. The Permanent Fund is a progressive concept providing renewable revenue for Alaska; when oil and gas revenues are diminishing, the Fund is still growing. The Fund's successful adaptation to the varied global economic climates fortifies its significance to the State's future.

New Mexico State Investment Council

Contact Details

841 Plaza la Prensa

Santa Fe, NM 87507

Phone: [\(505\) 476-9500](tel:(505)476-9500)

<https://www.sic.state.nm.us/>



The New Mexico State Investment Council (SIC) is a Sovereign Wealth Fund (SWF) that manages the investments for New Mexico's four permanent funds: the Land Grant Permanent Fund, the Severance Tax Permanent Fund, the Tobacco Settlement Permanent Fund, and the Water Trust Fund. As of 2021, New Mexico's permanent funds, governmental client investments, endowments, and reserve funds managed by the SIC are valued at \$34 billion. The SIC manages the investments for 23 New Mexico government related clients, which currently have a combined value of \$1.5 billion.

The SIC is an institutional investor, receiving public dollars, in the form of royalties and taxes from natural resources and income from sales and leases of public lands and minerals, and those funds are invested on behalf of the people of New Mexico. The surplus created by the state's oil and gas revenues resulted in the creation of the SIC, which was established in 1958.

The SIC is the fiduciary for its client – the State of New Mexico and its citizens. Its investment model emphasizes a portfolio comprised largely of diversified performance-oriented assets. These assets provide substantial benefits to New Mexico in various ways, most significantly being the more than \$1 billion in public school funding and tax savings delivered to New Mexicans every year.

The State Investment Council is chaired by the Governor and includes the State Treasurer; the Commissioner of Public Lands; the Secretary for the New Mexico Department of Finance and Administration; the Chief Financial Officer for a state university; four public members appointed by the Legislative Council; and two public members appointed by the Governor.

The SIC is focused on optimizing the earnings of New Mexico's permanent funds – funds that contribute to the state's overall operating budget – while preserving and growing the real value of the funds for future generations of New Mexicans.

- The SIC is a professional institutional investment “firm” which manages more than \$30 billion in permanent, “rainy-day” and governmental funds for New Mexico.
- Annually, the permanent funds provide a significant portion of the state budget – about 15% historically – and in FY22 will distribute over \$1.1 billion to the general fund & beneficiaries.
- On average, these annual benefits save each New Mexico household about \$1,300 in taxes every year.
- The permanent funds have grown in value by more than \$17 billion over the last ten years, while also distributing more than \$8.9 billion to the state during that time.
- As the funds grow, so does the amount they contribute to the state: from \$370 million in FY2000, to more than \$1.1 billion today.
- Fund investments have earned 8% annually over the past ten years, while the Council has restructured the portfolio to lower long-term fund volatility and reduce investment risk.
- These “sovereign wealth funds” – the third largest in the United States.

Alabama Trust Fund

Contact Details

Executive Office of the Treasurer

600 Dexter Avenue, Room S-106

Montgomery, Alabama 36104

Phone: (334) 242-7500

<https://treasury.alabama.gov/alabama-trust-fund/>



Discovery of natural gas in Mobile Bay in 1978 led to active drilling and development of the large gas reserves below Alabama's coastal waters. The State received bids totaling \$449 million in 1981 for the rights to develop offshore tracts. In 1982, voters approved the creation of the Alabama Heritage Trust Fund (AHTF) with the revenues from this first sale of drilling rights. The AHTF income was used to finance a \$520 million bond issue for capital outlay projects. On August 14, 1984, the state received more than \$347 million from leases awarded on offshore tracts.

In 1985, the voters of the state approved Amendment 450 creating the Alabama Trust Fund (ATF) as an irrevocable, permanent trust fund. The ATF was established to capture future revenues from sales of offshore drilling rights and from royalties on the resulting gas production. This amendment also terminated the Heritage Trust Fund in 2001 with all trust capital transferred to the ATF. The initial corpus of the ATF was \$333,583,680. In December 2001, the Heritage Trust Fund transferred \$467,002,694 in trust capital to the ATF.

The trust fund initially received as principal 99 percent of all oil and gas capital payments paid to the State, with the remaining one percent to the Department of Conservation-Lands Division. Several subsequent amendments have modified this.

Alabama Trust Fund Board of Directors

Kay Ivey, Governor, Chair, Montgomery, AL

Bill Poole, State Finance Director, Vice Chair, Montgomery, AL

Young Boozer, State Treasurer, Secretary, Montgomery, AL

John Hornsby, Birmingham, AL

Daniel Hughes, Montgomery, AL

Alvin Hope, Mobile, AL

Linda Green, Huntsville, AL

Guice Slawson, Jr., Montgomery, AL

John Norris, Birmingham, AL

Board Duties

- The Trust Fund shall be under the management and control of the board.
- All powers necessary for the management shall be vested solely in the board.

Wisconsin Board of Commissioners of Public Lands

Contact Details

101 East Wilson Street – 2nd Floor Madison, WI 53703

(608) 266-1370

bcpl.wisconsin.gov



The Board of Commissioners of Public Lands, otherwise known as BCPL, is a state agency responsible for investing Wisconsin's school trust funds in support of public education, for managing the state's remaining school trust lands, and for maintaining an extensive archive of land records. The board was established by Article X, Sections 7 and 8 of the Wisconsin Constitution, ratified in 1848, making it Wisconsin's oldest extant state agency.

The [Board of Commissioners of Public Lands](#) (BCPL), Wisconsin's oldest state agency, is comprised of Secretary of State Sarah Godlewski, State Treasurer John Leiber, and Attorney General Josh Kaul. We proudly carry on the pioneering commitment of our state's early leaders to a constitutionally protected form of public education financing that originated with millions of acres of land granted by the federal government.

Nearly all of the [School Trust Lands](#) were sold over 100 years ago. The proceeds were used to establish the [School Trust Funds](#). The [Common School Fund](#) continues to grow with revenue from unclaimed property, clear proceeds of civil and criminal fees, fines and forfeitures. The [Normal School Fund](#) continues to grow through revenue from timber production on School Trust Lands.

We manage these Funds and the remaining School Trust Lands for the benefit of public school libraries, the University of Wisconsin, and the state's citizens. See our [Common School Fund Brochure](#) and our [Normal School Fund Brochure](#) for details.

We also maintain a rich archive of [historical records](#) related to the agency's past and present land holdings.

With only 9.5 full-time employees we manage over \$1.4 billion in Trust Fund assets and 77,000 acres of School Trust Lands.

This small state agency is an integral part of Wisconsin's history and economy. Our financial investments, land management practices, and archive benefit every citizen of the state.

We [generate investment income](#) for distribution as public school library aid.

- We [loan money](#) to municipalities and school districts for public purpose projects.
- We contribute to Wisconsin's [sustainable timber economy](#), combat forest fragmentation, and secure public access to large blocks of northern forests.
- We manage an [extensive archive](#) consulted by land owners, surveyors, researchers, and others interested in this rich source of historical information about the state's land and early settlers

North Dakota Legacy Fund

Contact Details

1600 East Century Avenue, Suite 3 | PO Box 7100 |
Bismarck, ND 58507-7100
701.328.9885
rio@nd.gov

In 2009, the Legislative Assembly passed House Concurrent Resolution No. 3054, which placed the question of creating the Legacy Fund on the 2010 general election ballot. North Dakota voters approved the measure which created a perpetual source of state revenue from the finite natural resources of oil and natural gas. The Legacy Fund was created as Article X, Section 26, of the Constitution of North Dakota.

The first constitutionally mandated transfer of Legacy Fund earnings to the General Fund occurred in July of 2019. The total amount transferred for the 2017-2019 biennium was \$455,263,216. This amount increased to \$871,687,384 for the 2019-2021 biennium. The 68th Legislative Session updated the definition of earnings to reflect 7% of the 5 year average valuation of the fund and directed the earnings to flow into the Legacy Earnings Fund. The transfer for the 2021-2023 biennium was \$486,568,637.

The investment of the Legacy Fund is under the purview of the Retirement and Investment Office. The State Investment Board (SIB) is responsible for administration of the fund. The Legacy and Budget Stabilization Fund Advisory Board serves as the client board and determines the asset allocation.

The North Dakota Legacy Fund is a sovereign wealth fund of the U.S. state of North Dakota. Contributions to the fund must include "[t]hirty percent of total revenue derived from taxes on oil and gas production or extraction." The fund was established by ballot initiative in 2010. The fund is modeled after the Norwegian Sovereign Wealth Fund. As of June 30, 2023, the fund is valued at \$8.999 billion. Projections made at the time the Legacy Fund was established estimate that it will be worth between \$75 and \$105 billion by 2039; between \$149 and \$240 billion by 2050; and between \$240 and \$450 billion by 2060. The fund intends to diversify wealth obtained from oil extraction into other sectors. Money in the fund could not be spent by the state legislature until 2017.

North Dakota is a commodity-based economy. North Dakota experienced an uptick in oil extraction from 2008-2014. The legacy fund was established to ensure that the financial windfall gained from the Bakken Oil Boom would benefit the state in the long-run, even if oil prices collapse.

In 2023, the North Dakota Legislative Assembly passed House Bill 1379, a bill which divvied Legacy Fund earnings for the 2023-24 biennium while providing a roadmap for use of future interest payments. Before House Bill 1379, the first \$150 million in Legacy Fund earnings are spent on infrastructure bonds and funding the state employee retirement system. The next \$60 million fund roads and highways under the old law.

House Bill 1379 keeps these allocations in place, while also establishing \$485 million in new spending beginning July 1, 2023.[6] The first \$200 million funds tax relief. The next \$30 million is allocated for grants and loans aimed at cutting carbon output in the energy sector. The next \$10 million funds public university research in the state. The next \$10 million funds companies deemed to be advancing technology. The next \$10 million funds workforce development in the state. The next \$90 million funds "legacy projects," such as tourism or other economic development. The next \$100 million funds the repair of bridges. The next \$15 million funds infrastructure enhancements tied to value-added agriculture. The final \$15 million funds bioscience innovation grants. Any funds after this point go into a rainy day fund.

APPENDIX

INVESTMENT BELIEF PROMPTS

Selective prompts referenced from 2011 Initiative for Responsible Investing by Harvard University

- Do you believe investing can best serve the interests of your beneficiaries? How do you define the interests of your beneficiaries?
- How often and in what form do you believe it is important to communicate your investment beliefs and practices to beneficiaries, investors, or the general public?
- Do you believe that markets are efficient in setting prices, and if so, how much of the time and to what degree?
- Do you believe that investment is a zero-sum game? Can alpha or excess returns be achieved over time?
- Do you believe active management can add value to the risk-adjusted returns of a portfolio? If so, under what circumstances?
- Do you believe that asset allocation plays an important role in determining overall portfolio returns? If so, to what degree relative to security selection?
- What do you believe an appropriate definition of risk in financial markets should be?
- What do you believe the benefits of diversification should be and what do you believe the appropriate role of diversification in an investment policy should be?
- Do you believe stable, honest and transparent financial markets make an important contribution to a healthy economy?
- How do you assure that the interests of future, as well as present, beneficiaries are served and that your decisions are impartial in their benefits to future as well as present beneficiaries?
- Do you believe that the incorporation of social and environmental factors into the investment process can shift it toward long-term horizons?
- Is it important to work with asset managers whose investment beliefs correspond with yours? Do you believe that conflicts of interest between you and your asset managers are a potential danger?

INVESTMENT GLOSSARY

- A -

Advisor: In the NHTF, an advisor refers to each fiduciary "manager- of-managers" firm hired to exercise investment discretion over a portion of the NHTF assets within the parameters set forth in its mandate.

Asset allocation: Implementation of an investment strategy that attempts to balance risk versus reward by adjusting the percentage of each asset in an investment portfolio according to the investor's risk tolerance, goals and investment time frame. The focus is on the characteristics of the overall portfolio.

Asset Allocator: An organization or individual that conducts asset allocation of dividing the capital in an investment portfolio among stocks, bonds, alternatives, and cash. The goal is to align your asset allocation with your tolerance for risk and time horizon.

Asymmetric Distribution: Asymmetrical distribution is a situation in which the values of variables occur at irregular frequencies and the mean, median, and mode occur at different points. An asymmetric distribution exhibits skewness. In contrast, a Gaussian or normal distribution, when depicted on a graph, is shaped like a bell curve and the two sides of the graph are symmetrical.

- B -

Beta: A measure of a stock's volatility in relation to the overall market. By definition, the market, such as the S&P 500 Index, has a beta of 1.0, and individual stocks are ranked according to how much they deviate from the market. A stock that swings more than the market over time has a beta above 1.0. If a stock moves less than the market, the stock's beta is less than 1.0.

INVESTMENT GLOSSARY

- B -

Black Swan Events: A black swan is an unpredictable event that is beyond what is normally expected of a situation and has potentially severe consequences. Black swan events are characterized by their extreme rarity, severe impact, and the widespread insistence they were obvious in hindsight.

- C -

Code of Ethics: OHA Trustees, OHA officers, and OHA employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of their investment program, or that could impair their ability to make impartial decisions.

Community Foundation: A community foundation is a public charity that typically focuses on supporting a geographical area, primarily by facilitating and pooling donations used to address community needs and support local nonprofits. Community foundations offer numerous types of grantmaking programs, frequently including donor-advised funds, endowments, scholarships, field-of-interest funds, giving circles and more. Community foundations are funded by donations from individuals, families, businesses and sometimes government grants. Community foundations offer a variety of programs designed to support the needs of the communities they serve, whether local or more broadly defined. Common areas of support include education and human services programs, such as literacy or aid for the homeless. A community foundation's grantmaking programs are supported both by donations designated for immediate distribution and income from the foundation's endowed funds.

Compound Returns: The compound return is the rate of return, usually expressed as a percentage, that represents the cumulative effect that a series of gains or losses has on an original amount of capital over a period of time. Compound returns are usually expressed in annual terms, meaning that the percentage number that is reported represents the annualized rate at which capital has compounded over time.

Consistent capital growth: This is the primary objective of the NHTF and is achieved by investing prudently in a wide range of asset classes to achieve proper diversification, thereby reducing volatility.

INVESTMENT GLOSSARY

-- D -

Discretionary investment management is a form of investment management in which buy and sell decisions are made by a portfolio manager or investment counselor for the client's account. The term "discretionary" refers to the fact that investment decisions are made at the portfolio manager's discretion. This means that the client must have the utmost trust in the investment manager's capabilities.

Dispersion of Returns: Dispersion is often interpreted as a measure of the degree of uncertainty, and thus risk, associated with a particular security or investment portfolio.

Distribution of Returns: A probability distribution is a statistical function that describes all the possible values and likelihoods that a random variable can take within a given range. This range will be bounded between the minimum and maximum possible values, but precisely where the possible value is likely to be plotted on the probability distribution depends on a number of factors. These factors include the distribution's mean (average), standard deviation, skewness, and kurtosis.

Diversification: Diversification is a risk management strategy that creates a mix of various investments within a portfolio. A diversified portfolio contains a mix of distinct asset types and investment vehicles in an attempt to limit exposure to any single asset or risk. The rationale behind this technique is that a portfolio constructed of different kinds of assets will, on average, yield higher long-term returns and lower the risk of any individual holding or security.

INVESTMENT GLOSSARY

- E -

Endowment: An endowment is a gift to a nonprofit organization to be used for a specific purpose. The term endowment is also used to refer to the total investable assets of a nonprofit institution like a university. The endowment, also known as the institution's "principal" or "corpus," is used for operations or programs that are consistent with the wishes of the donor(s). Most endowments are designed to keep the principal amount intact while the income is used to further the cause specified by the beneficiary. A restricted endowment must be held in perpetuity, with only the income available for spending.

- F -

Fiduciary Responsibility: A fiduciary is a person or organization that acts on behalf of another person or persons, putting their clients' interests ahead of their own, with a duty to preserve good faith and trust. Being a fiduciary thus requires being bound both legally and ethically to act in the other's best interests.

- H -

Hedge Fund: A hedge fund is a limited partnership of private investors whose money is managed by professional fund managers who use a wide range of strategies, including leveraging or trading of non-traditional assets, to earn above-average investment returns. Hedge fund investment is often considered a risky alternative investment choice and usually requires a high minimum investment or net worth, often targeting wealthy clients.

- I -

Investment Beliefs/Philosophy: An investment philosophy is a set of beliefs and principles that guide an investor's decision-making process. It is not a narrow set of rules or laws, but more a set of guidelines and strategies that take into account one's goals, risk tolerance, time horizon, and expectations. As such, investment philosophy often goes hand-in-hand with a compatible investing style. Popular investment philosophies include value investing, focusing on shares that the investor believes are fundamentally underpriced; growth investing, which targets companies that are in a growth or expansion phase; and investing in securities that provide a return in interest income. Technical analysis and fundamental analysis are another pair of investment philosophies.

INVESTMENT GLOSSARY

- I -

Investment Consultant: An investment consultant is a financial professional who provides investors with investment products, advice, and/or planning. Investment consultants do in-depth work on formulating investment strategies for clients, helping them fulfill their needs and reach their financial goals. Many financial advisors and financial planners would be considered investment consultants.

Investment Policy Statement (IPS): An IPS is a document drafted between a portfolio manager and a client that outlines general rules for the manager. This statement provides the general investment goals and objectives of a client and describes the strategies that the manager should employ to meet these objectives. Specific information on matters such as asset allocation, risk tolerance, and liquidity requirements are included in an investment policy statement.

- L -

Long-Term Objective: The investment portfolio shall be designed with the objective of protecting principal while earning a rate of return that is targeted to meet or exceed the real spending rate and the strategic benchmark index of the Fund over the long term in order to preserve the Fund's assets and ensure that sufficient liquidity will be available to cover future cash requirements; long-term is typically defined as over 1-year, but is often considered over five years for institutional investors with similarly matching lengths for liabilities and obligations.

Liquidity: Core liquidity refers to the cash and other financial assets that banks possess that can easily be liquidated and paid out as part of operational cash flows (OCF). Examples of core liquidity assets would be cash, government (Treasury) bonds, and money market funds.

Liquidity Requirement: Maintain adequate liquidity to meet all anticipated expenditures after sufficient notice.

- M -

Manager: In the NHTF a manager refers to any portfolio manager selected by the Advisor (Manager of Manager) to invest the Fund's assets.

Manager of Managers (MoM): A manager of managers (MoM) approach is a type of oversight investment strategy whereby a manager chooses managers for an investment program and regularly monitors their performance; in the NHTF, the MoM is referred to as the Advisor.

INVESTMENT GLOSSARY

- M -

Market Cycle: Market cycles include both a rising and a declining market; generally, a rising market will be defined as a period of at least two consecutive quarters of rising stock prices and a declining market will be defined as a period of at least two consecutive quarters of declining stock prices; therefore, a Market Cycle (the minimum period of evaluation) shall be at least one year and more typically three to six years.

Material: Material news is news that might affect the value of its securities or influence investors' decisions. It is any type of news that directly relates to moving the company's share price up or down or influences an investment decision.

- O -

Outsourced CIO (OCIO): An outsourced chief investment officer (OCIO) is a third-party provider that manages investment-related responsibilities for the clients of wealth management, investment management, and consulting firms. OCIOs assume multiple responsibilities related to investment management, particularly by evaluating portfolio managers and providing financial advisors with access to those managers.

- P -

Private Equities: Private equity describes investment partnerships that buy and manage companies before selling them. Private equity firms operate these investment funds on behalf of institutional and accredited investors. Private equity funds may acquire private companies or public ones in their entirety or invest in such buyouts as part of a consortium. They typically do not hold stakes in companies that remain listed on a stock exchange.

Prudent Person: A standard, defined as investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

INVESTMENT GLOSSARY

- P -

Public Pension Plan: The most common type of traditional pension is a defined-benefit plan. After employees retire, they receive monthly benefits from the plan, based on a percentage of their average salary over their last few years of employment. The formula also takes into account how many years they worked for that company. Employers, and sometimes employees, contribute to fund those benefits. As an example, a pension plan might pay 1% for each year of the person's service times their average salary for the final five years of employment. So an employee with 35 years of service at that company and an average final-years salary of \$50,000 would receive \$17,500 a year.

- R -

Regulatory Compliance Requirement: Compliance with all existing and future applicable state and federal regulations.

Risk Management: Risk management involves identifying, analyzing, and accepting or mitigating uncertainty in investment decisions. Put simply, it is the process of monitoring and dealing with the financial risks associated with investing. Risk management essentially occurs when an investor or fund manager analyzes and attempts to quantify the potential for losses in an investment, such as a moral hazard, and then takes the appropriate action (or inaction) to meet their objectives and risk tolerance.

- S -

Securities: The term "security" refers to a fungible, negotiable financial instrument that holds some type of monetary value. A security can represent ownership in a corporation in the form of stock, a creditor relationship with a governmental body or a corporation represented by owning that entity's bond; or rights to ownership as represented by an option.

Standard Deviation: Standard deviation is a statistical measurement that looks at how far a group of numbers is from the mean. Put simply, standard deviation measures how far apart numbers are in a data set. This metric is calculated as the square root of the variance.

INVESTMENT GLOSSARY

- S -

Standard of Care: For the NHTF, the standard of care used is the "prudent person" standard, defined as investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

Sovereign Wealth Fund: A sovereign wealth fund is a state-owned investment fund comprised of money generated by the government, often derived from a country's surplus reserves. SWFs provide a benefit for a country's economy and its citizens. The funding for a SWF can come from a variety of sources. Popular sources are surplus reserves from state-owned natural resource revenues, trade surpluses, bank reserves that may accumulate from budgeting excesses, foreign currency operations, money from privatizations, and governmental transfer payments. In general, sovereign wealth funds usually have a targeted purpose. Some countries have sovereign wealth funds that can be similar to venture capital for the private sector.

- T -

Tail Risk: Tail risk is a form of portfolio risk that arises when the possibility that an investment will move more than three standard deviations from the mean is greater than what is shown by a normal distribution. Tail risks include events that have a small probability of occurring and occur at both ends of a normal distribution curve.

- V -

Variance: A variance is the average of the squared differences from the mean. To figure out the variance, calculate the difference between each point within the data set and the mean. Once you figure that out, square and average the results.

Volatility: the NHTF may experience a drawdown of principal, although over a full market cycle, the Advisors in aggregate are expected to produce a total annual return that will exceed inflation as measured by the Consumer Price Index (CPI) by five percent. It is anticipated that the Fund will experience an annualized average volatility of approximately 13% annually with a maximum rolling 12-month annualized volatility of roughly 20% over a market cycle.

DISCLOSURE STATEMENT

Consequent Capital Management, LLC (“Consequent”) is located at 1050 Queen Street, Suite 100, Honolulu, HI 96814 and our headquarters is located at 3344 Peachtree Road NE, Suite 800, Atlanta, GA 30326. This presentation is for informational purposes only and does not constitute a complete description of Consequent’s investment services or performance. This presentation is in no way a solicitation or offer to sell investment advisory services except, where applicable, in states where we are registered or where an exemption or exclusion from such registration exists. Information throughout this site, whether stock quotes, charts, articles, or any other statement or statements regarding market or other financial information, is obtained from sources which providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the user. THERE ARE NO WARRANTIES, EXPRESSED OR IMPLIED, AS TO ACCURACY, COMPLETENESS, OR RESULTS OBTAINED FROM ANY INFORMATION POSTED ON THIS OR ANY “LINKED” presentation. Moreover, no client or prospective client should assume that any such discussion serves as the receipt of, or a substitute for, personalized advice from an investment professional. Consequent is not a law or accounting firm, and no portion of the presentation content should be interpreted as legal, accounting or tax advice. Please remember that different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment or investment strategy will be profitable or equal any historical performance level(s). Please call Consequent Capital Management, LLC at 404-883-2500 if you have any questions about this presentation or if you would like a free copy of Consequent’s most recent Form ADV.



Honolulu Office

1050 Queen Street · Suite 100 · Honolulu, HI · 96814

Corporate Headquarters Office

3344 Peachtree Road NE · Suite 800 · Atlanta, GA · 30326

P: (404) 883-2500

E: info@consequentgroup.com ·

W: consequentgroup.com

Committee on Resource ManagementTrustee John Waihe'e IV, *At-Large* - ChairTrustee Luana Alapa, *Moloka'i / Lāna'i* - Vice Chair**Members**Trustee Dan Ahuna, *Kaua'i / Ni'ihau*Trustee Kaleihikina Akaka, *O'ahu*Trustee Keli'i Akina, *At-Large*Trustee Brickwood Galuteria, *At-Large*Trustee Carmen Hulu Lindsey, *Maui*Trustee J. Keoni Souza, *At-Large*Trustee Mililani Trask, *Hawai'i Island*

**STATE OF HAWAII
OFFICE OF HAWAIIAN AFFAIRS**

**MEETING OF THE
COMMITTEE ON RESOURCE MANAGEMENT (RM)**

DATE: Wednesday March 27, 2024**TIME:** 1:30 p.m.

PLACE: Remote Meeting by Interactive Conference Technology
and in-person at OHA Maui Ola Boardroom
Nā Lama Kukui
560 N. Nimitz Hwy.
Honolulu, HI. 96817

viewable at <https://www.oha.org/livestream> OR

Listen by phone: (213) 338-8477, Webinar ID: 861 7259 5166

This virtual meeting can be viewed and observed via livestream on OHA's website at www.oha.org/livestream or listened to by phone at: (213) 338-8477, Webinar ID: 861 7259 5166. A physical meeting location, open to members of the public who would like to provide oral testimony or view the virtual meeting, will be available at 560 N. Nimitz Hwy., Suite 200, Honolulu HI 96817.

AGENDA**I. Call to Order****II. Approval of Minutes**

A. February 21, 2024

III. Unfinished Business – None**IV. New Business**

- A. Presentation by Auditors: Draft Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023, Sophia Kuo, Assurance Services Director, The Pun Group LLP
- B. Action Item RM #24-06: Approval of the OHA Financial Statements with Independent Auditor's Report for the Year ended June 30, 2023; and the OHA Report of Independent Certified Public Accountants in Accordance with Government Auditing Standards and Uniform Guidance, Year Ended June 30, 2023
- C. Action Item RM #24-07: Approval of OHA funding for an Event Sponsorship for the Restoration of the Heart of Maui with 98 Degrees and Friends
- D. Action Item RM #24-08: Approval of OHA funding for an Event Sponsorship for the Ho'olehua Homesteader's Association Scholarship Luau
- E. Action Item RM #24-09: Reappointment of Roberts "Bob" Leinau as a Non-OHA LLC Manager for Hi'ilei Aloha LLC for a 3-Year Term from May 10, 2024 to May 09, 2027

F. Consequent Capital Management (CCM) – Independent Board Investment Advisor

- 1. re: Changes in CCM personnel, Ken Simon, CEO
- 2. Discussion on a financial entity, Vijoy Chattergy, CIO (external)
- 3. Discussion on private equity investment programs, Gerry Flintoft, Head of Private Markets

V. Adjournment



Independent Board Consultant for
the Office of Hawaiian Affairs'
Native Hawaiian Trust Fund

Wednesday, March 27, 2024
1:30 a.m. HST

Meeting Agenda

Discussion of Private Equity Programs

- Design Characteristics
- Pacing Model Illustration

Private Equity Discussion Table Of Contents

I.	Private Markets Overview	4
II.	Private Equity	8
III.	Why Invest in Private Markets / Private Equity?	12
IV.	Outperformance	16
V.	Private Equity Portfolio Observations	18
VI.	Private Equity Preliminary Pacing Model Discussion	27

I. PRIVATE MARKETS OVERVIEW

Private Markets Defined

- Private markets are financial markets where investments are bought and traded privately (i.e. non-publicly).
- Whereas public markets feature mainstream investments, private markets feature more alternative assets.



- ▶ Private equity managers are typically independent organizations that often take an active role in the direction of a company seeking to create value, enhance returns and exit successfully



- ▶ Spans a spectrum of investment stages and strategies, which principally comprises buyouts (including leveraged buyouts ("LBOs")), which typically acquire control of established businesses with stable cash flows by utilizing debt financing, or venture capital, which invests private capital in start-up to growth stage companies



- ▶ Includes, but not limited to, leveraged buyouts, venture capital, mezzanine debt financing, distressed debt, real estate, development capital and special situations



- ▶ Alternative to public markets as means of gaining equity exposure in portfolios

Private Markets Sectors & Strategies

- The four (4) basic Private Market Sectors are Private Equity, Private Debt, Real Estate, and Infrastructure.
- Today, we are going to focus our discussion on Private Equity.

PRIVATE MARKETS SECTORS

PRIVATE EQUITY	PRIVATE DEBT	REAL ESTATE	INFRASTRUCTURE
<ul style="list-style-type: none">• Buyouts• Venture Capital & Growth Equity• Energy• Distressed & Restructuring	<ul style="list-style-type: none">• Corporate• Real Estate• Infrastructure	<ul style="list-style-type: none">• Core• Core Plus• Value Added• Opportunistic	<ul style="list-style-type: none">• Power & Utilities• Transport• Social• Natural Resources• Leasing

II. PRIVATE EQUITY

Private Equity And Its Place In Institutional Portfolios

What is Private Equity?

- Equity investments that are not publicly traded on exchanges
- Investors invest in Funds through Limited Partnerships, allowing them to participate in a portfolio of underlying assets
- General Partners provide financial and operational resources and expertise to maximize the value of portfolio companies

Private Equity In The Institutional Portfolio

- Enhance long-term returns; based on historical performance, potential premium return (3% - 5%) over public markets*
- Diversify against other traditional asset classes in the portfolio*
- Manage and match long term liabilities
- Leverage access to information in an inefficient market
- Increase opportunities through global expansion
- Differentiate from peers through regional innovation

* Diversification does not ensure against market loss. Past performance is not indicative of future results.

Private Equity Strategies

PE investments' characteristics result in different risk/return profiles

Private Equity Strategy	Distinguishing Characteristics
Buyout	<ul style="list-style-type: none">• Buyouts involve the acquisition of a controlling portion of a mature business, and may include public companies taken private in the buyout process• Managers create value by: Consolidation, operational improvement, alignment of managers' incentives, structural changes, financial optimization• Capturing value through financial engineering is a common practice among buyout managers, reaching an optimal capital structure
Growth Equity	<ul style="list-style-type: none">• Most often a minority investment in a relatively mature company• Purpose can be to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business
Venture Capital (VC)	<ul style="list-style-type: none">• VC provides financial backing to young companies and entrepreneurs looking to expand• Types of VC investments: Seed stage, Early Stage, Late Stage, Pre-IPO
Direct Co-Investment	<ul style="list-style-type: none">• Investments made directly in companies, typically alongside other private equity fund managers• Can be leveraged in proprietary investment programs, including funds of funds
Mezzanine	<ul style="list-style-type: none">• Usually invests in middle-stage companies, and is a less hands-on strategy• A form of debt financing with equity features (usually in the form of warrants)• Bridges the gap between funds provided by a senior lender, and funds provided by the company's management and private equity backers

Private Equity Strategies

Secondaries, Funds of Funds, and Listed Private Equity offer alternatives for achieving exposure

Private Equity Strategy	Distinguishing Characteristics
Secondaries	<ul style="list-style-type: none">• Secondary market for interests in limited partnerships before the limited partnership terminates for a variety of reasons: liquidity, a change in investment strategy or focus, or a re-balance of the portfolio• Shorter period of investment than with primaries, providing early return of capital• Secondaries can often be purchased at significant discounts to net asset values• Provides access to earlier vintage years to diversify a new portfolio
Funds of Funds (FoF)	<ul style="list-style-type: none">• A private equity fund of funds is set up to distribute investments among a selection of private equity fund managers creating a diversified portfolio (the PE industry's closest relative to a mutual fund)• Fund of funds managers have existing relationships with firms, providing investors with a route to invest in funds that may otherwise be closed to them• Controls risk and volatility and generally provides a more stable long-term return proposition than an investment in a single private equity fund
Listed Private Equity	<ul style="list-style-type: none">• Includes listed private equity firms like KKR, Blackstone and Apollo• Includes listed private equity fund of funds like Conversus, HarbourVest and SVG• Includes BDCs like American Capital, Ares and Prospect Capital

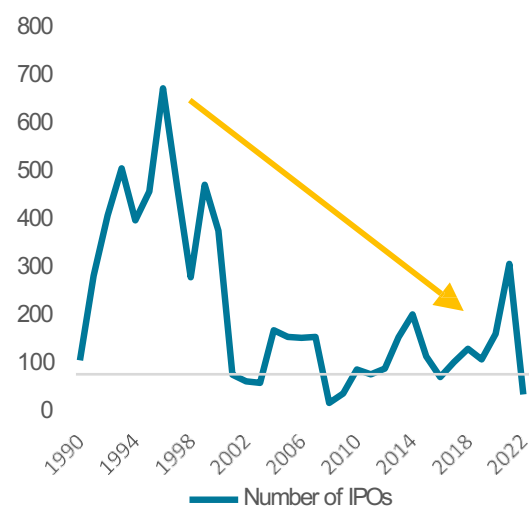
III. WHY INVEST IN PRIVATE MARKETS / PRIVATE EQUITY

Public Market Investment Options...

Are in Decline

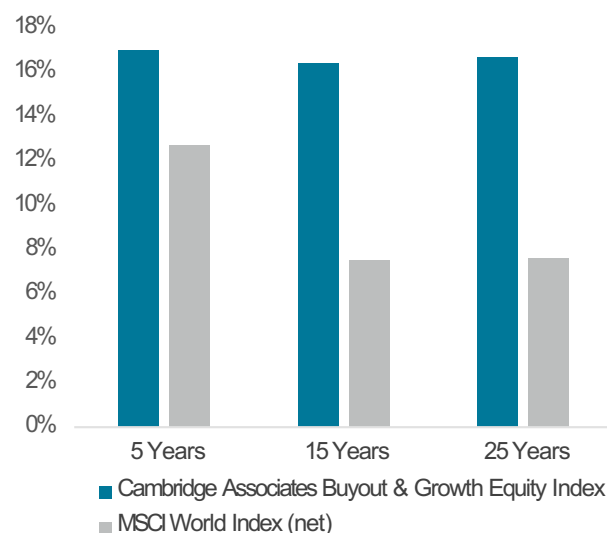
Much of the growth, value creation and opportunity has taken place in the private vs. public markets

NUMBER OF US IPOs
PER YEAR¹



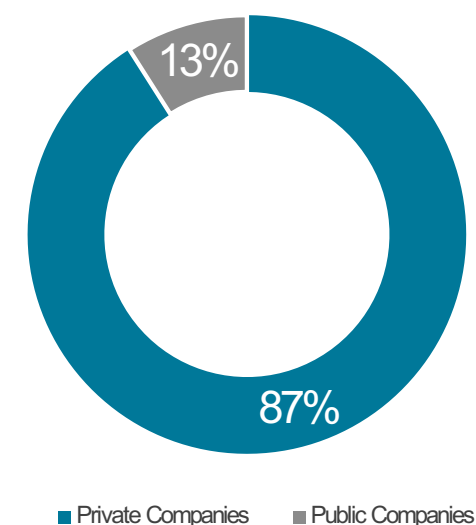
Companies have been staying private **2x** longer

PRIVATE EQUITY STRATEGIES
HISTORICAL ATTRACTIVE RETURNS²



More growth has taken place in the private markets

CURRENT BLEND OF US PRIVATE VS.
PUBLIC COMPANIES³



7x more private than public companies

Past performance is not indicative of future results. Indices shown for illustrative purposes only and returns do not represent fund performance. Investors cannot invest directly in an index.

1. Jay R. Ritter, January 2023. Initial Public Offerings: Updated Statistics. <https://site.warrington.ufl.edu/ritter/files/IPO-Statistics.pdf>

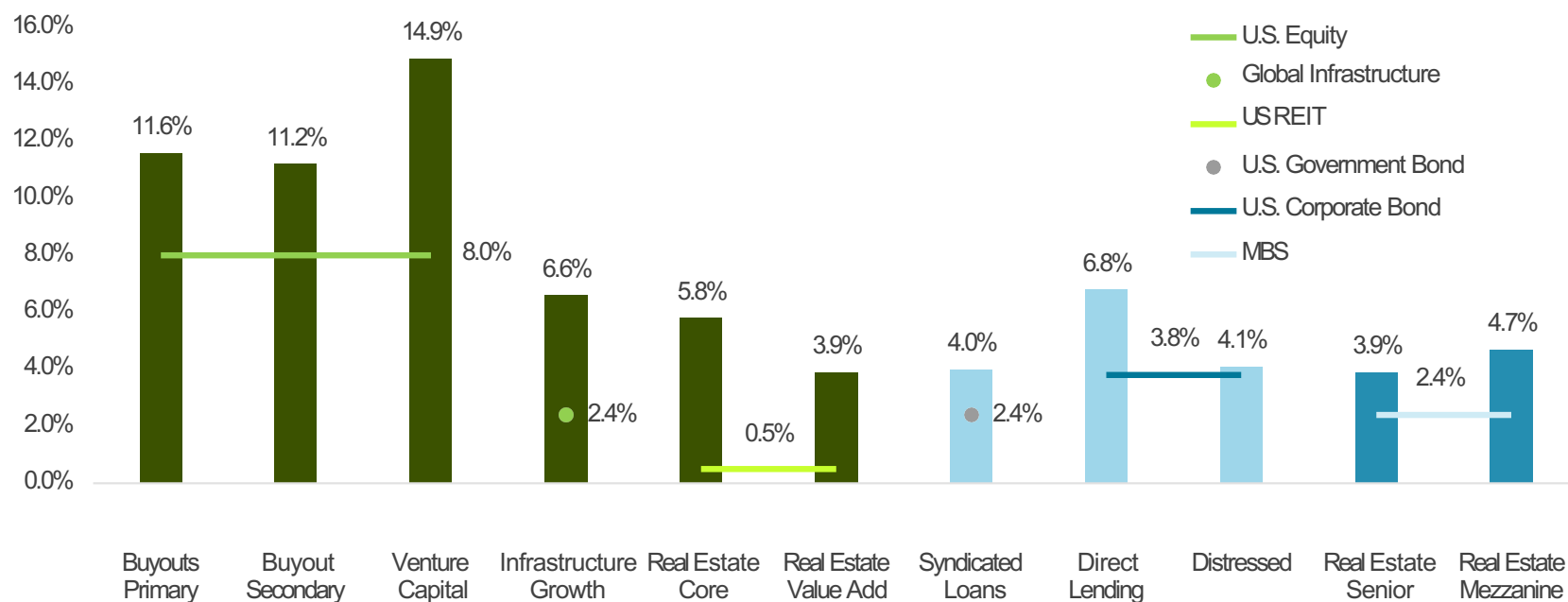
2. Source: Cambridge Associates as of March 31, 2022. The chart compares private equity index IRRs of the Cambridge Associates Buyout & Growth Equity Index vs. public equity time weighted returns of the MSCI World Index. There are differences between IRRs & average annual compound returns. IRR is the implied discount rate at which the present value of future cash flows equals the cost of the investment. Average annual compounded return calculations are time-weighted measures over the specified time horizon and are shown for reference and directional purposes only. Please refer to slide 35 for Index information.

3. Capital IQ (January 2022). Note: 87% represents private US companies with >\$100M in revenue.

Private Markets - Strong Relative Returns

Research shows private markets have historically produced attractive returns relative to their public market equivalents over a 15-year period.

HISTORICAL PRIVATE vs. PUBLIC MARKET RETURNS¹
ANNUALIZED RETURNS Q4 2007 – Q3 2022



1. Source: StepStone, Burgiss Private IQ, NCREIF, Cliffwater. Note: Historical data Q4 2007 – Q3 2022. Past performance is not indicative of future results and there can be no assurance that the investment will achieve comparable results or avoid substantial losses. For illustrative purposes only. "U.S. Equity" represents the S&P 500 Index; "Global Infrastructure" represents DJ Brookfield Global Infrastructure Index USD; "US REIT" represents "MSCI US REIT Index"; "U.S. Government Bond" represents the Barclays Capital US Agg Treasury Total Return Index; "U.S. Corporate Bond" represents the Bloomberg Barclays US Corporate Bond Index; and "MBS" represents the Bloomberg Barclays US MBS Index.

Private Equity

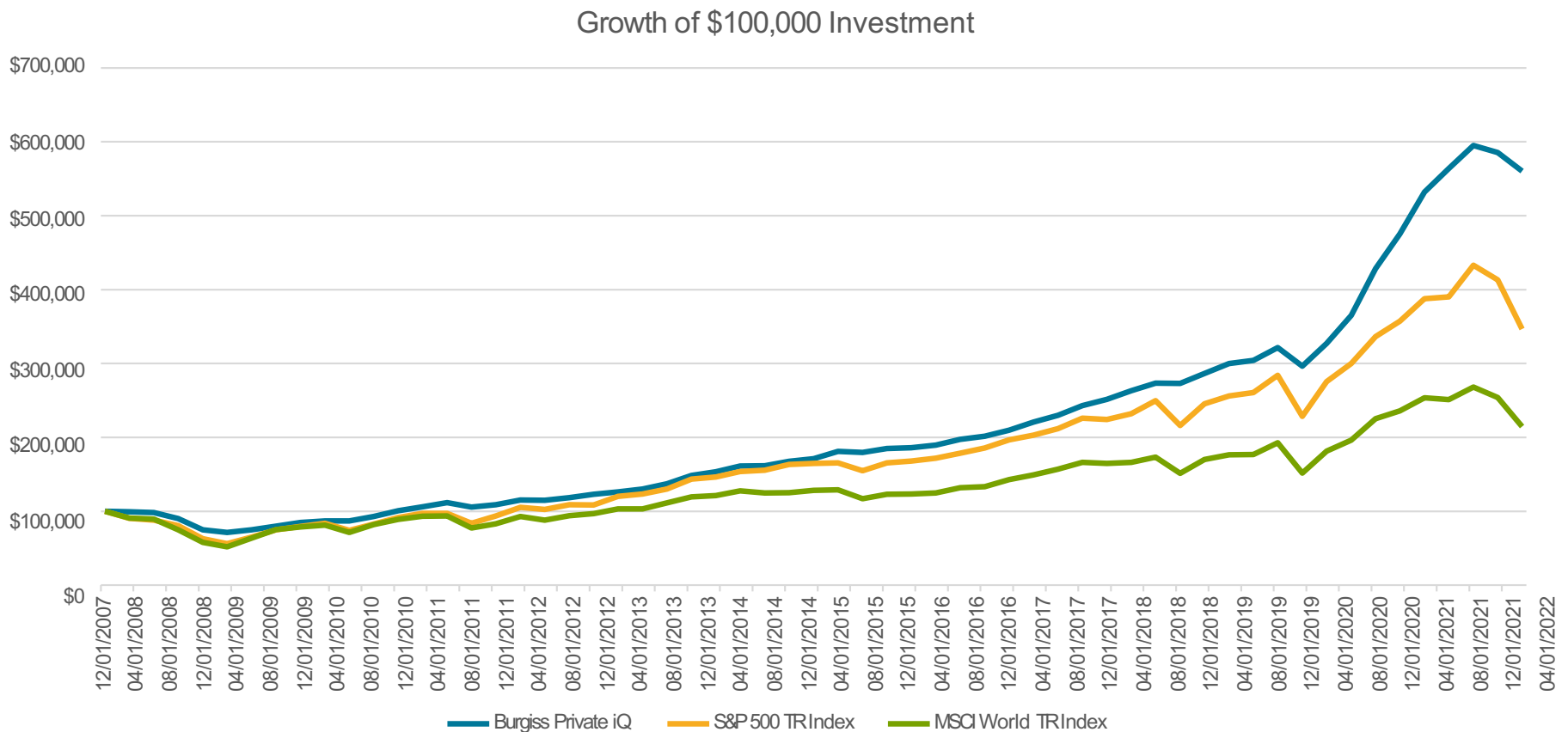
Why in the Institutional Portfolio

- **Enhance long-term returns**; based on historical performance, potential premium return over public markets
- **Diversify** against other traditional asset classes in the portfolio
- **Manage and match** long term liabilities
- **Leverage** access to information in an **inefficient market**
- **Increase opportunities** through global expansion
- **Differentiate** from peers through regional innovation

IV. OUTPERFORMANCE

Private Equity Has Historically Outperformed the Public Markets

Historically, private equity has significantly outperformed the S&P 500 and the MSCI World public equity index



Source: Burgiss Private iQ. December 31, 2007 – June 30, 2022.

Past performance is not indicative of future returns. Funds report unaudited quarterly data to The Burgiss Group when creating the Burgiss Manager Universe. The data is not transparent and cannot be independently verified. The Burgiss Group universe gets compiled four times a year to reflect the best data available. As part of that process, new data is added and transaction history is updated through the latest available quarter, the historical performance of the index is not fixed, cannot be replicated and will differ over time from the data presented in this communication. Burgiss' data universe captures only funds that have self-reported to the data vendor. Limitations Disclosure: Burgiss' data universe captures only funds that have self-reported to the data vendor.

V. PRIVATE EQUITY PORTFOLIO OBSERVATIONS

Private Equity Portfolio Observations

Current Status

- Shift from Segal Marco Advisors (SMA) to Northern Trust (NT) involved a shift in Private Equity classifications with a shift of Private Real Assets to the Global Real Assets Portfolio.
 - Had Private Real Assets remained in the Private Equity, the Percent of Total Portfolio would be 14.31% vs an Investment Policy Target of 19%. (12/31/23)
 - As we will see in our Private Equity Preliminary Pacing Model, OHA is receiving distributions from its Private Equity Portfolio and experiencing a “run-off” of its portfolio.
 - To increase its strategic allocation to Private Equity, OHA will need to “steadily” commit to new private equity investments and experience a muted “J-Curve” with negative cash flow from 2026 to 2030.

Observations / Considerations

- Align Private Equity Portfolio with Total Portfolio Organization once determined.
- Invest in Private Equity Performance Capabilities, possibly with Northern Trust.
- Implement rigorous Performance Reporting & Benchmarking by Managers (GPs) to enhance Portfolio Monitoring
- Commit to a steady Private Equity Commitment Pattern with a goal to maintain a “self sustaining” Private Equity portfolio within the next 4 to 7 years (see Preliminary Pacing Model Discussion).
- Develop a Private Markets / Private Equity Strategic Plan.
- Implement Private Equity Best Practices (To be discussed within a future PE Primer Discussion).

Private Equity Portfolio Structure

Private Equity Portfolio Reporting - Segal Marco Advisors

As of 12/31/2022

\$Ms	Mix of NAVs	% of PE Portfolio	Percent of Total Portfolio (% of Total Fund)	Target Allocations (% of Total Fund)	Target Allocations within PE Portfolio (% of PE Portfolio)
FOF - General	\$43.8	51.90%	8.89%	9%	47.37%
Multi-Strategy (Co-Inv. & Secondaries)	21.3	25.24%	4.32%	5%	26.32%
Total Private Debt	1.8	2.13%	0.37%	1%	5.26%
Total Private Real Assets	17.5	20.73%	3.55%	4%	21.05%
	\$84.4	100.00%	17.13%	19%	100.00%

Private Equity Policy Range

0 - 25.6%

Total Plan

\$492.8

100.00%

With Segal Marco Advisors, Private Real Assets was included in the Private Equity Portfolio with Private Equity as a Percent of Total Portfolio (% of Total Fund) at 17.13% vs an Investment Policy Target of 19%. (12/31/22)

Private Equity Portfolio Structure

Private Equity Portfolio Reporting - Northern Trust

As of 12/31/2023

\$Ms	Mix of NAVs	% of PE Portfolio	Percent of Total Portfolio (% of Total Fund)	Target Allocations (% of Total Fund)	Target Allocations within PE Portfolio (% of PE Portfolio)
Diversified (FOF - General)	\$29.7	47.75%	5.41%	9%	47.37%
Co-Investments (Multi-Strategy w/o Secondaries)	11.9	19.13%	2.17%	5%	26.32%
Venture Capital (Formerly w/in FOF - General)	19.3	31.03%	3.52%	1%	5.26%
Opportunistic Credit (Total Private Debt)	1.3	2.09%	0.24%	4%	21.05%
Totals	\$62.2	100.00%	11.34%	19%	100.00%

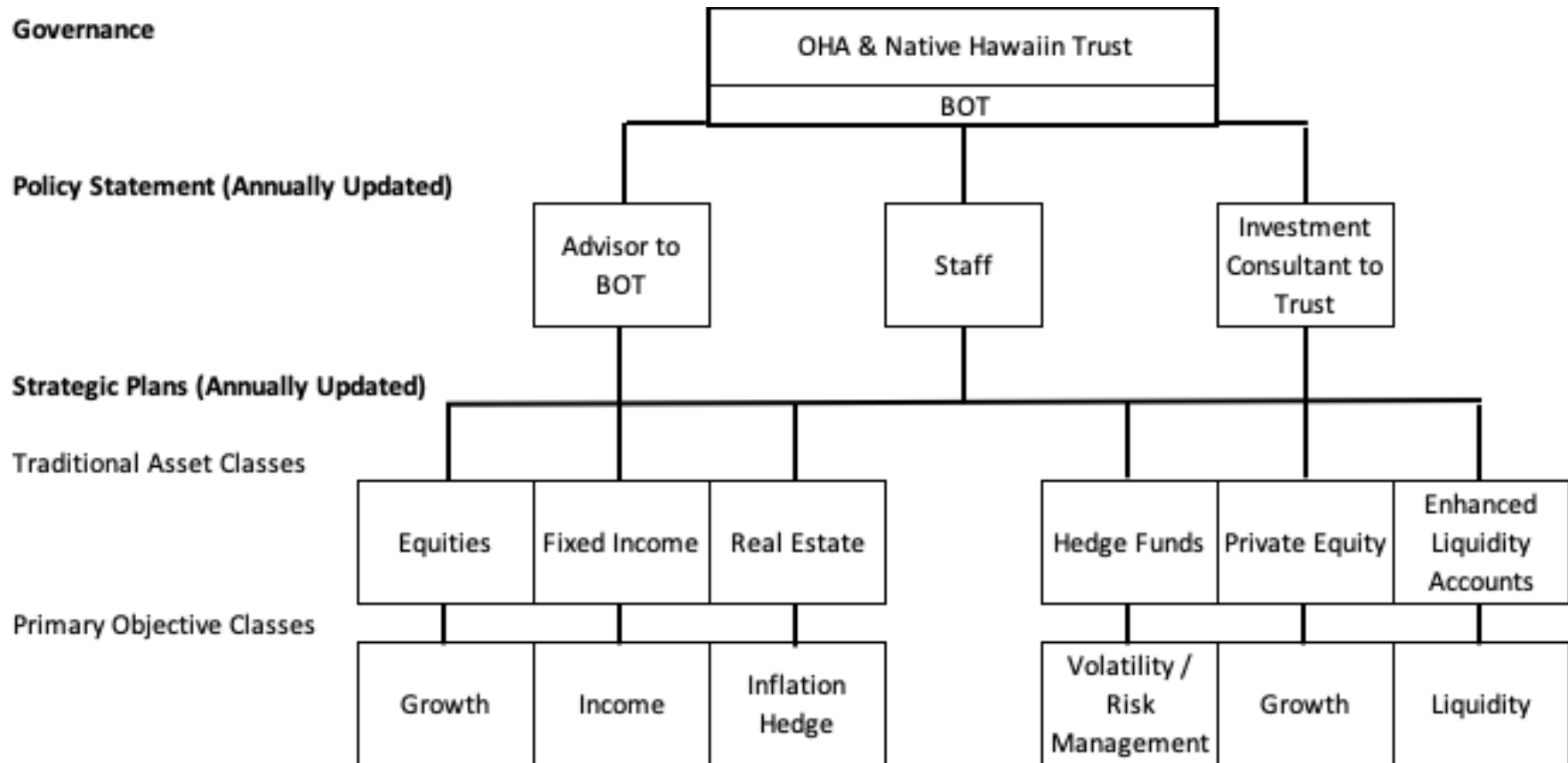
Private Equity Policy Range

0 - 25.6%

Total Plan	\$548.6	100.00%	Global Real Assets Total	Global Real Assets Target
Marketable Real Assets (Equities)	\$26.1	4.76%		
Total Private Real Assets (Moved to Global Real Assets)	\$16.3	2.97%	7.73%	5%
Total if Private Real Assets included in Private Equity		14.31%	19%	

With Segal Marco Advisors, Private Real Assets was included in the Private Equity Portfolio with Private Equity as a Percent of Total Portfolio (% of Total Fund) at 17.13% vs an Investment Policy Target of 19%. (12/31/22)

OHA Potential Organizational Structure Aligned w Governance



If the Total Fund Portfolio is organized by Primary Objective Classes, we would recommend that Private Real Assets be placed within Inflation Hedge and Real Estate and Private Debt be placed within Income and Fixed Income. Growth and Private Equity would then focus on Buyout, Venture Capital, Secondaries, and Co-Investment strategies.

Private Equity Benchmarking: Example - GSAM Funds 2004-2022

Total Cash Flows and Performance				
Total Contributions	Total Distributions + NAV	Net TVPI	Net IRR	Portfolio Direct Alpha
51,551,298	75,710,310	1.47	9.1%	4.2%
Portfolio direct alpha run vs blended public benchmark (MSCI World, Global HY, Leveraged Loan, & CMBS) for periods invested in corresponding products				

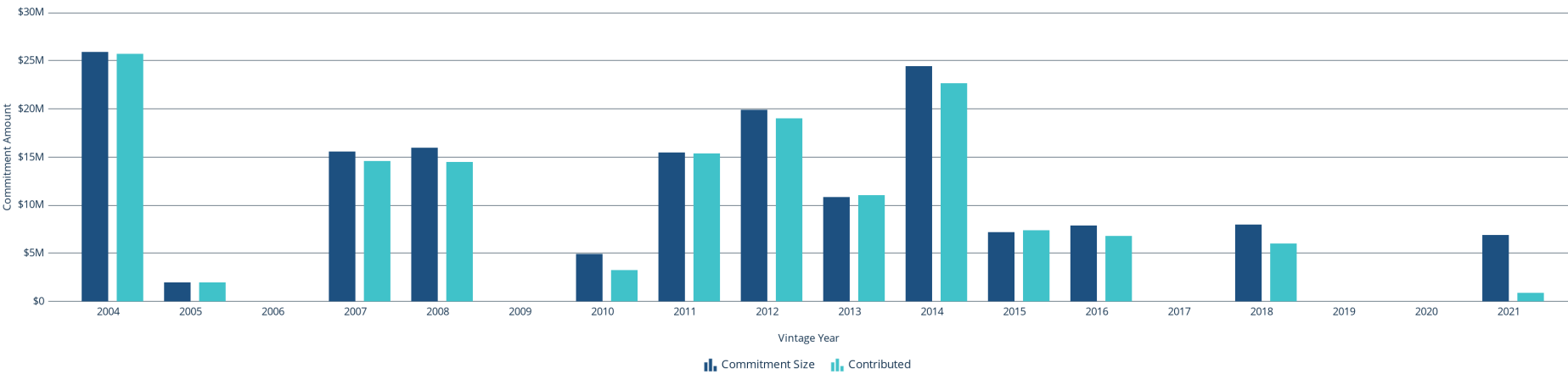
Benchmarking								
Fund Name	Vintage	06/30 IRR	IRR Quartile/Range	06/30 ROI	ROI Quartile/Range	BM Universe	06/30 Direct Alpha	Public Benchmark
Private Equity Co-Investment Partners II Offshore SCSp	2018	19.62%	14.9% - 19.9%	1.66	1.60 - 1.82	Cambridge Associates: Buyout	13.02%	MSCI World TR
Private Equity Co-Investment Partners III Offshore SCSpp	2022	N/M ¹	-	N/M	-	Cambridge Associates: Buyout	N/M ¹	MSCI World TR
Growth and Emerging Markets Private Equity Managers Offshore LP	2013	5.73%	< 9.2%	1.33	< 1.52	Cambridge Associates: Asia Buyout	-1.83%	MSCI World TR
Private Equity Partners 2004 Offshore Holdings LP	2005	7.31%	3.0% - 8.2%	1.49	1.17 - 1.54	Cambridge Associates: Buyout	N/A ²	MSCI World TR
Private Equity Partners 2005 Offshore LP	2006	3.61%	2.9% - 8.2%	1.26	1.18 - 1.62	Cambridge Associates: Buyout	-0.13%	MSCI World TR
Private Equity Partners (Asia) Offshore LP	2007	6.33%	1.0% - 7.4%	1.39	1.06 - 1.44	Cambridge Associates: Asia Buyout	-0.50%	MSCI World TR
Private Equity Partners IX Offshore LP	2007	9.08%	4.1% - 10.9%	1.59	1.25 - 1.61	Cambridge Associates: Buyout	0.40%	MSCI World TR
Private Equity Partners X Offshore LP	2008	10.19%	6.2% - 11.0%	1.71	1.66 - 2.03	Cambridge Associates: Buyout	2.37%	MSCI World TR
Vintage V Offshore LP	2008	13.35%	> 13.2%	1.73	1.52 - 1.77	Cambridge Associates: Secondary Funds	4.32%	MSCI World TR
Vintage VI, L.P.	2012	11.82%	8.3% - 12.6%	1.50	1.40 - 1.59	Cambridge Associates: Secondary Funds	4.68%	MSCI World TR
Vintage VII Offshore SCSp	2017	16.00%	13.8% - 17.8%	1.68	1.65 - 1.98	Cambridge Associates: Secondary Funds	7.92%	MSCI World TR
GS Mezzanine Partners V Offshore, L.P.	2007	9.37%	7.0% - 12.4%	1.30	1.15 - 1.33	Burgiss: Mezzanine	5.42%	Bloomberg Barclays Global HY
Broad Street Real Estate Credit Partners II Offshore Master Fund, L.P.	2013	8.17%	8.1% - 13.7%	1.20	< 1.20	Preqin: RE Debt	5.68%	Bloomberg Barclays CMBS IG
Broad Street Senior Credit Partners, L.P.	2015	7.49%	6.8% - 7.8%	1.27	1.23 - 1.28	Cambridge Associates: Senior Debt	3.46%	S&P Global Leveraged Loan

¹ Performance not material due to youth of the fund

Commitment Pattern

OHA is receiving distributions from its Private Equity Portfolio and experiencing a “run-off” of its current portfolio. Steady commitments lead to steady growth in Private Equity NAV and in the future steady distributions.

Historical Commitments



Created on: 20-Feb-2024 | Source: PitchBook Data

PitchBook

Vintage	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Commitment Amount	\$26.0	\$2.0	\$0.0	\$15.8	\$16.0	\$0.0	\$5.0	\$15.5	\$20.0	\$10.9	\$24.5	\$7.3	\$7.9	\$0.0	\$8.0	\$0.0	\$0.0	\$7.0

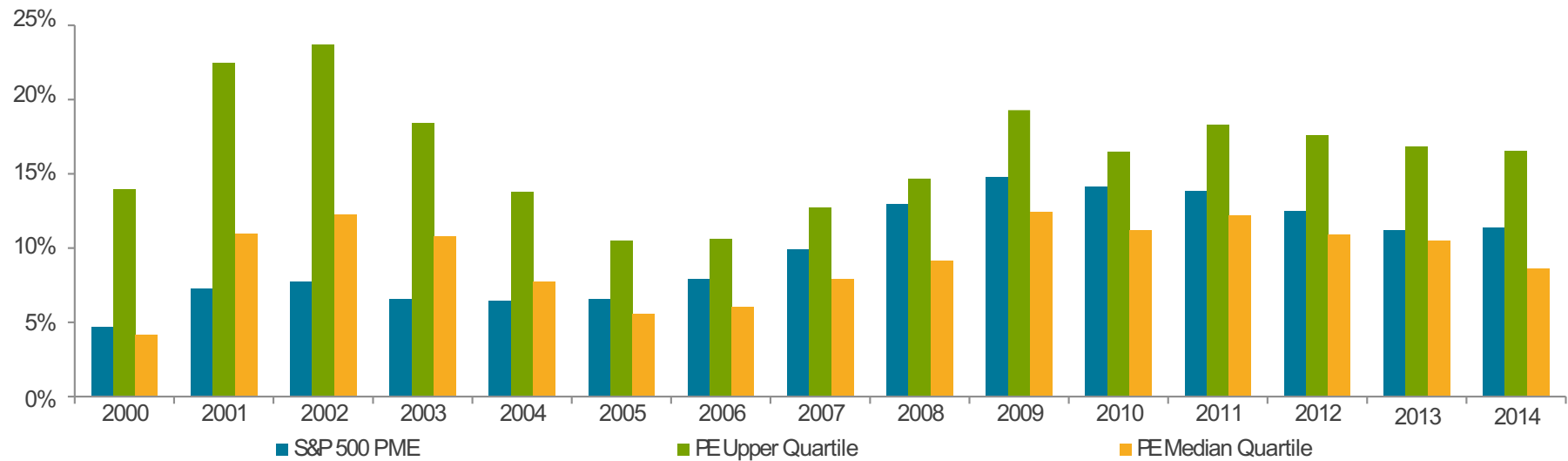
Commitment Pattern

Importance of Vintage Year Diversification

Many investors seek to build portfolios diversified by vintage year (i.e., portfolios that include funds that commenced investment operations during different years)

- Timing the private markets is difficult and not recommended
- Return patterns can be cyclical
- Future market conditions difficult to forecast — long-term nature of investment implies that prevailing economic and capital market conditions over the subsequent 5-10 years from date of initial commitment will strongly influence returns
- Vintage year diversification within a private equity portfolio serves to smooth out returns and avoids unduly concentrating risk in any one vintage period

ALL PRIVATE EQUITY – UPPER AND MEDIAN QUARTILE YEAR RETURNS¹



Source: Cambridge Associates, Thomson Reuters Datastream, Standard & Poor's. Note: Past performance is no guarantee of future results, real results may vary, there can be no assurance that any investments to be made will produce comparable, or any, investment returns. Returns are as of March 31, 2017, and calculated on an annual basis for All Private Equity investments from inception to Q2. S&P 500 figures represent the public market equivalent ("PME") of returns achieved across All Private Equity over the same time period. Vintage years post 2014 not included due to insufficient time for realizations to occur. Vintage years post 2014 not included due to insufficient time for realizations to occur.

Private Equity Portfolio Observations

Observations / Considerations

- Align Private Equity Portfolio with Total Portfolio Organization once determined.
- Invest in Private Equity Performance Capabilities, possibly with Northern Trust.
- Implement rigorous Performance Reporting & Benchmarking by Managers (GPs) to enhance Portfolio Monitoring
- Commit to a steady Private Equity Commitment Pattern with a goal to maintain a “self sustaining” Private Equity portfolio within the next 4 to 7 years (see Preliminary Pacing Model Discussion).
- Develop a Private Markets / Private Equity Strategic Plan.
- Implement Private Equity Best Practices (To be discussed within a future PE Primer Discussion).

VI. PRIVATE EQUITY PRELIMINARY PACING MODEL DISCUSSION

Private Equity Preliminary Pacing Model

In developing an Example, we ran a Preliminary PE Pacing Model for OHA starting in 2Q 2024 utilizing the following Target Allocations by Strategy and Geography:

Strategy	% of Asset Class Allocated	N. America	Europe	Asia/RoW	Totals
PE Buyouts	50%	60%	20%	20%	100%
PE Venture Capital	20%	60%	20%	20%	100%
PE Secondary SMA	15%	60%	20%	20%	100%
PE Co-Invest SMA	15%	60%	20%	20%	100%
Total	100%				

SMA = Separately Managed Account

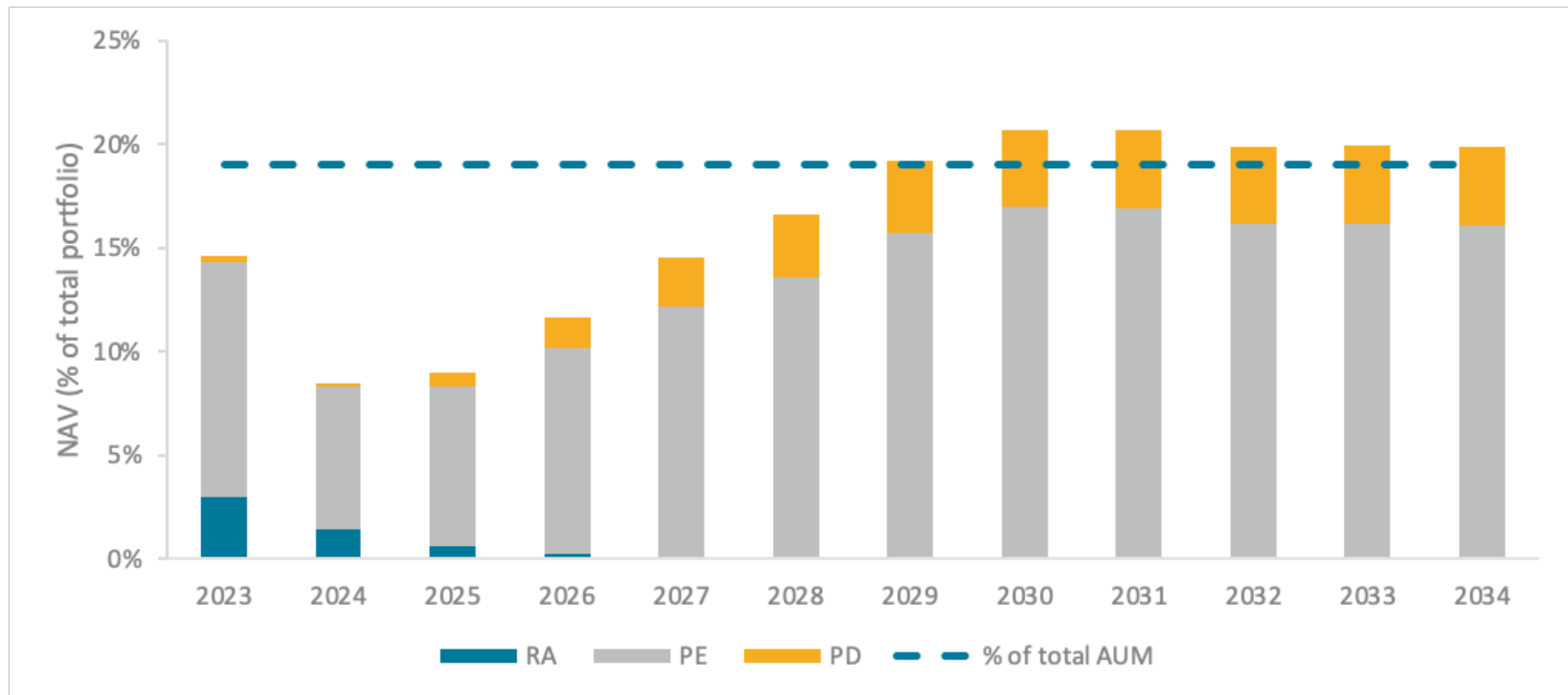
The Model also utilized the following assumptions:

Key Assumption	Amt. or %
Total Fund Portfolio Size (\$M)	\$549
Growth Per Year (%)	7%
Private Equity Exposure	80%
Private Debt Exposure	20%

Note: Private Equity Exposure includes Buyout, Venture Capital, Secondary, and Co-Investment Strategies.

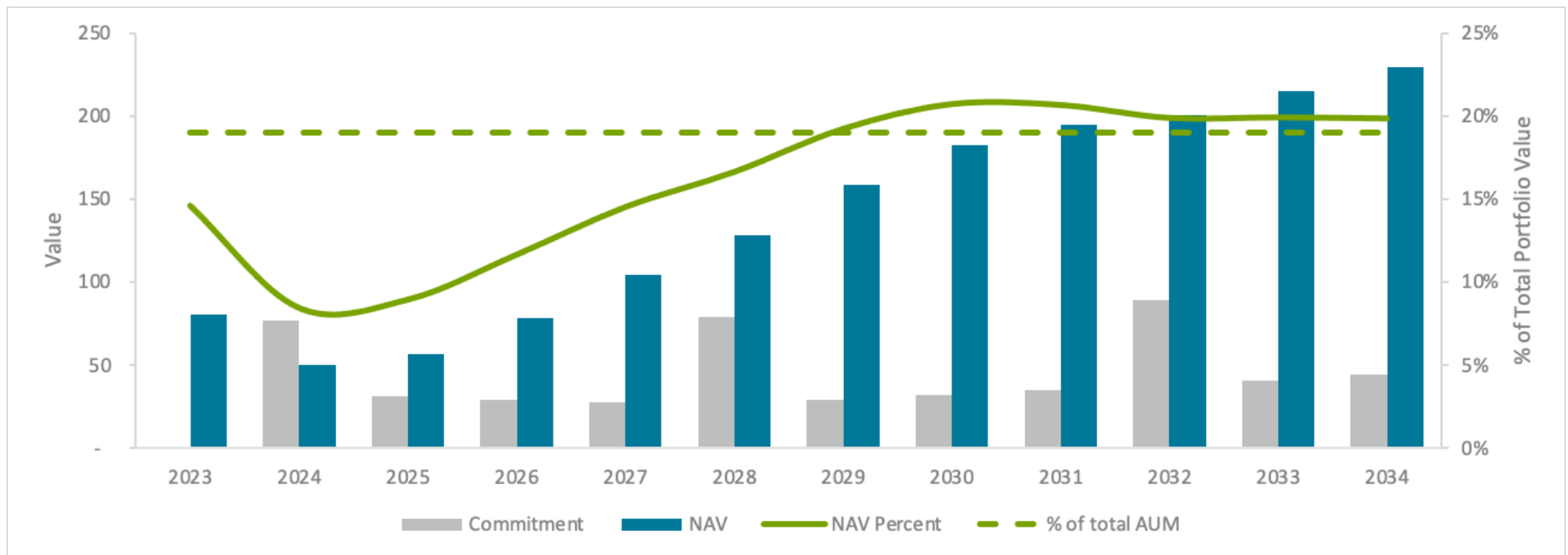
NAV by Asset Class

Per the model, it will take 5 to 6 years to get to the Target Exposure of 19%, absent a significant Secondaries and / or Co-Investment program to gain a significant near-term exposure.



Commitment & NAV

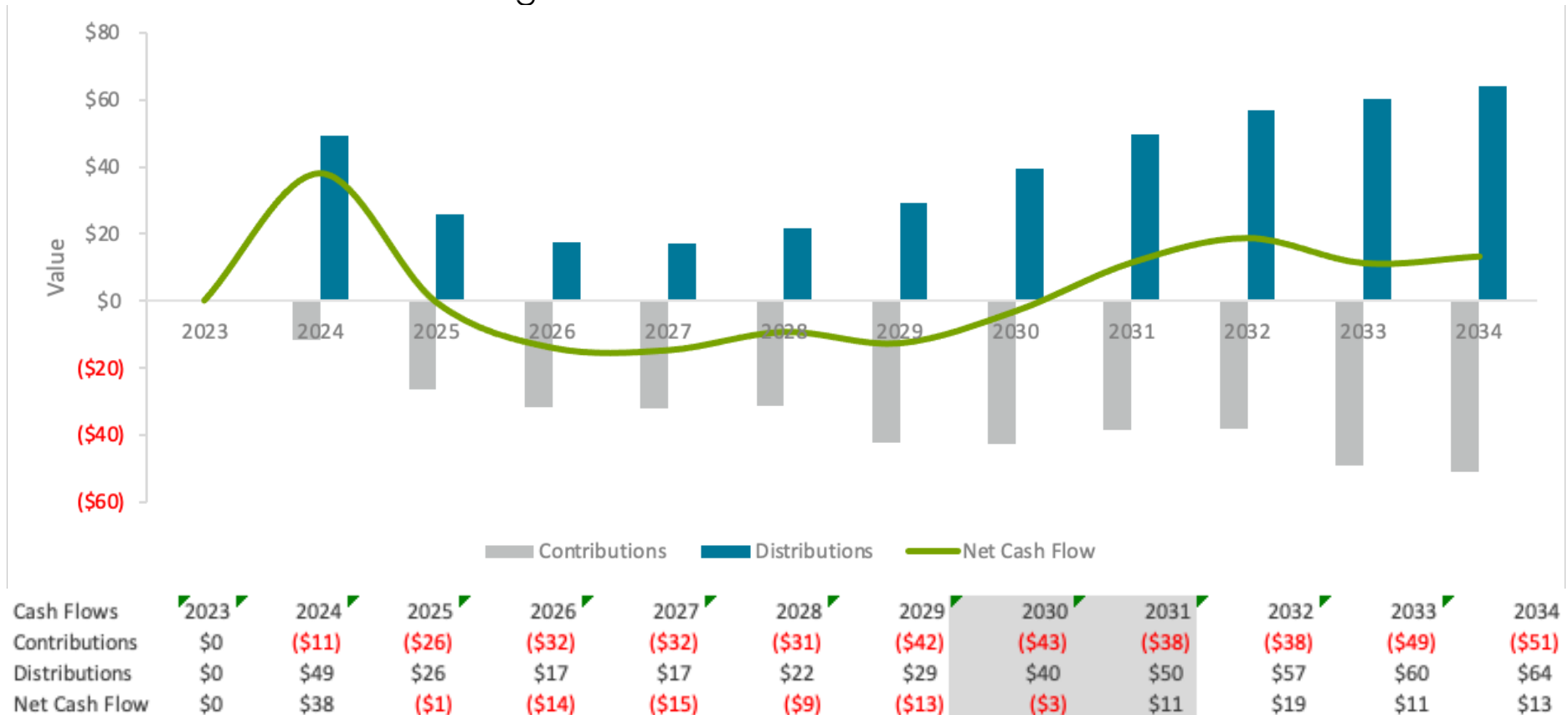
OHA is receiving distributions from its Private Equity Portfolio and experiencing a “run-off” of its current portfolio. Steady commitments lead to steady growth in Private Equity NAV and in the future steady distributions.



Commitment (\$M)	\$0	\$77	\$31	\$29	\$28	\$79	\$29	\$32	\$35	\$89	\$41	\$44
NAV Percent	15%	8%	9%	12%	15%	17%	19%	21%	21%	20%	20%	20%
Target % of total AUM	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%	19%

Net Cash Flow

OHA is receiving distributions from its Private Equity Portfolio and experiencing a “run-off” of its current portfolio. To achieve its strategic allocation to Private Equity, OHA will need to “steadily” commit to new PE investments and experience a muted “J-Curve” with negative cash flow from 2026 to 2030.



Note: The OHA Private Equity Portfolio will become “self sustaining” in 2030-2031 as Distributions exceed Contributions and OHA experiences Positive Net Cash Flows.

ABOUT US



- Independent investment advisory firm registered with the Securities & Exchange Commission
- Established in 2016 and acquired assets of Gray & Company, an institutional consulting firm founded in 1991
- We have an office in Honolulu, HI, and our corporate headquarters is located in Atlanta, GA
- Full-service minority owned investment advisor serving institutional investor clients, including cities, labor unions, hospital systems, universities, and mission-specific non-profit organizations
- Comprehensive and holistic approach to investment advisory services including support of underrepresented and underutilized investment managers to provide diversity to our clients' portfolios.

THANK YOU!



Consequent Capital Management · 3344 Peachtree Road NE Suite 800 · Atlanta, GA 30326 · +1 404 883 2500

DISCLOSURE STATEMENT

Consequent Capital Investment, LLC ("Consequent") is located at 3344 Piedmont Road NE, Suite 800, Atlanta, GA 30326. This presentation is for informational purposes only and does not constitute a complete description of Consequent's investment services or performance. This presentation is in no way a solicitation or offer to sell investment advisory services except, where applicable, in states where we are registered or where an exemption or exclusion from such registration exists. Information throughout this site, whether stock quotes, charts, articles, or any other statement or statements regarding market or other financial information, is obtained from sources which we, and our suppliers believe reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Nothing in this presentation should be interpreted to state or imply that past results are an indication of future performance. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the user. THERE ARE NO WARRANTIES, EXPRESSED OR IMPLIED, AS TO ACCURACY, COMPLETENESS, OR RESULTS OBTAINED FROM ANY INFORMATION POSTED ON THIS OR ANY "LINKED" presentation. Moreover, no client or prospective client should assume that any such discussion serves as the receipt of, or a substitute for, personalized advice from an investment professional. Consequent is not a law or accounting firm, and no portion of the presentation content should be interpreted as legal, accounting or tax advice.

Please remember that different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment or investment strategy will be profitable or equal any historical performance level(s).

Please call Consequent Capital Investment, LLC at 404-883-2500 if you have any questions about this presentation or if you would like a free copy of Consequent's most recent Form ADV.