

State of Hawai‘i
Department of Hawaiian Home Lands

Financial and Compliance Audit
June 30, 2023

State of Hawai'i
Department of Hawaiian Home Lands

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Part I

Financial Section





Independent Auditor's Report

The Auditor
State of Hawai'i

The Hawaiian Homes Commission
Department of Hawaiian Home Lands

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Hawaiian Home Lands, State of Hawai'i (the Department), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department as of June 30, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 the Department'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.

Auditor's Responsibilities 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 auditor's 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 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 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 the Department'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 the Department'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.

Emphasis of Matter

As discussed in Note A, the financial statements of the Department include only the governmental activities, each major fund, and the aggregate remaining fund information of the Department, and are not intended to present fairly the financial position of the State of Hawai'i (the "State") as of June 30, 2023, and the changes in its financial position for the year then ended in conformity with



accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 through 17 and pages 24 through 25, respectively, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"), and is not a required part of the basic financial statements.

The combining non-major fund financial statements and the schedule of expenditures of federal awards are the responsibilities of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2024 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Akamine, Oyadomari and Kosaki CPAs Inc.

Honolulu, Hawai'i
March 22, 2024



State of Hawai‘i
Department of Hawaiian Home Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2023

The following Management’s Discussion and Analysis (MD&A) is designed to provide an overview of the financial performance of the State of Hawai‘i, Department of Hawaiian Home Lands (the Department) for the fiscal year ended June 30, 2023. Please read it in conjunction with the Department’s financial statements, which follow this section.

Financial Highlights for Fiscal Year 2023

- The Department’s net position, the amount of assets exceeding liabilities, totaled \$1.14 billion. Of this amount, \$571.4 million is unrestricted, \$119.9 million is restricted, and \$448.9 million is net investment in capital assets.
- The Department’s net position increased \$207.8 million over the course of this year’s operations.
- The total revenues of the Department increased by \$161.0 million, or 141%.
- The total fund balance of the Department’s governmental funds increased by \$191.3 million.

Overview of the Financial Statements

This MD&A serves as an introduction to the Department’s basic financial statements. The basic financial statements are comprised of three components: (1) department-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information (combining financial statements – non-major governmental funds) in addition to the basic financial statements.

The first two statements are department-wide financial statements that provide both long-term and short-term information about the Department’s overall financial status and operations.

The fund financial statements focus on individual parts of the Department, reporting the Department’s status and operations in more detail than the department-wide financial statements. These statements detail how general departmental services were financed in the short-term as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Department-Wide Financial Statements

The department-wide financial statements provide a broad view of the Department’s operations. The statements provide both short-term and long-term information about the Department’s financial position and activities, which assists in assessing the Department’s economic condition at the end of the fiscal year and operations for the year then ended. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting.

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The department-wide financial statements include two statements:

- The statement of net position presents all of the Department’s assets and liabilities. The difference between the assets and liabilities is reported as net position.
- The statement of activities presents information showing how the Department’s net position changed during the fiscal year. This statement presents a comparison between direct expenses and program revenues for each division of the Department.

The activities of the Department are mostly supported by state appropriation, rental income from commercial land leases, and intergovernmental revenues. The Department’s basic services fall under these types of activities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with legal requirements.

The fund financial statements provide more detailed information about the Department’s status and operations. Certain of the Department’s funds were established under State of Hawai‘i (State) Law or by bond covenants. Other funds of the Department are established by the Hawaiian Homes Commission Act. These funds manage money for particular purposes.

The Department only has governmental funds which finance the Department’s basic services. Governmental funds are used to account for essentially the same functions reported as governmental activities in the department-wide financial statements. However, unlike the department-wide financial statements, the fund financial statements focus on near-term inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Department’s short-term financing requirements.

Because the focus of fund financial statements is narrower than that of the department-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the department-wide financial statements. By doing so, readers may better understand the long-term impact of the Department’s short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Department has 15 governmental funds, nine of which are separately disclosed as major funds for presentation purposes. Each major fund is presented in a separate column in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balance. These funds are briefly described as follows:

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- **General Fund** – The General Fund is authorized and appropriated by the State Legislature each year for planning, development, management and general support for the Hawaiian Homestead Program.
- **Hawaiian Home General Loan Fund** – Act 249, SLH 1986, amended this revolving loan fund and consolidated all loan funds other than the Hawaiian Home Loan Fund in 1986. The major source of receipts for this fund is through principal repayment. The Department can make loans from the revolving funds for the construction of homes, home repairs or additions, or for the development and operation of a farm, ranch or agriculture operation.
- **Hawaiian Home Lands Trust Fund** – This fund was established by Act 14, Special Session 1995, which settles all claims made on behalf of the Hawaiian Home Land Trust against the State between August 21, 1959 and July 1988. It requires that the State make twenty annual deposits of \$30 million or their discounted equivalent into the Hawaiian Home Lands Trust Fund. Proceeds of the fund may be used by the Department for capital improvements and other purposes undertaken in furtherance of the Hawaiian Homes Commission Act of 1920, as amended.
- **Hawaiian Home Operating Fund** – This fund was established through a merger of the Hawaiian Home Development Fund and Hawaiian Home Operating Fund in 1986. Any interest or earnings arising out of investments from the Hawaiian Home Loan Fund are to be credited to and deposited into the Hawaiian Home Operating Fund. All monies received by the Department from any other source, other than those prescribed in other funds of the Hawaiian Homes Commission Act are deposited into this fund. The Department uses the fund for the construction, operation and maintenance of revenue-producing activities that are intended to serve principally occupants on Hawaiian home lands. The fund is also used to finance improvements and developments necessary to serve present and future occupants of Hawaiian home lands.
- **Hawaiian Home Receipts Fund** – All interest monies from loans or investments received by the Department from any fund, except the Hawaiian Home Loan Fund, Hawaiian Home Administration Account, Native Hawaiian Rehabilitation Fund, Department of Hawaiian Home Lands Revenue Bond Special Fund and Hawaiian Home Lands Trust Fund, are deposited into this fund. All monies in this fund are transferred quarterly to other funds as authorized by the Hawaiian Homes Commission Act.
- **Hawaiian Home Administration Account** – The revenue sources of this fund are the entire receipts from any leasing or other dispositions of “available lands” and any interest or other earnings arising out of investments from this fund. The Department expends the monies for salaries and all other administrative expenses of the Department, excluding capital improvements, in the absence of general funds appropriated for operating and administrative costs.
- **Hawaiian Home Trust Fund** – Monies deposited into this fund are available for transfers into any other fund or account authorized by the Hawaiian Homes Commission Act or for

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any public purpose to further the purposes of the Hawaiian Homes Commission Act. Public purpose includes using the Hawaiian Home Trust Fund as a reserve for loans insured or guaranteed by the HUD Federal Housing Administration, Veteran Administration or any other federal agency authorized to insure or guarantee loans. A major portion in the Hawaiian Home Trust Fund is the reserve for loans insured by the HUD Federal Housing Administration.

- **Hawaiian Home Lands Bond Fund** – The Hawaiian Home Lands Bond Funds are funded through budget bills passed by the State Legislature and approved by Governor. The appropriations can be used for construction projects and GIAs (Grant-in-Aid) Projects.
- **Waitlist Reduction Act Fund** - The purpose of Act 279, SLH 2022 as stated in the legislation is to provide a multi-pronged approach to reducing the Department’s waitlist. The \$600 million appropriation will address the needs of those on the Department’s waitlist and those beneficiaries still waiting.

The accompanying notes to the financial statements are part of the financial statements. The notes provide additional information that is essential to gain a full understanding of the information provided in the department-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information consisting of the combining balance sheet and combining statement of revenues, expenditures and changes in fund balances in connection with non-major governmental funds and schedule of expenditures of federal awards.

Financial Analysis of the Department as a Whole

Net Position

The Department’s total net position increased by \$207.8 million to \$1.14 billion between fiscal years 2023 and 2022, primarily due to additional State appropriations from Act 279, SLH 2022. A large portion of the Department’s net position (39%) reflects its investment in capital assets such as land, buildings, infrastructure, furniture and equipment, and construction-in-progress. The Department uses these capital assets to provide improvements on a special class of public lands, which are leased to native Hawaiians; consequently, these assets cannot be sold. Although the Department’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

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The following is a comparative statement of net position:

Summary of Statement of Net Position
(in millions)

	<u>2023</u>	<u>2022</u>	<u>Increase (Decrease)</u>
Current and other assets	\$ 753.3	\$ 557.6	\$ 195.7
Leases receivable, noncurrent portion	292.3	277.8	14.5
Capital assets	490.3	469.7	20.6
Deferred outflows of resources	2.2	2.5	(0.3)
Total assets and deferred outflows of resources	<u>\$ 1,538.1</u>	<u>\$ 1,307.6</u>	<u>\$ 230.5</u>
Long-term liabilities	\$ 331.5	\$ 317.3	\$ 14.2
Other liabilities	66.4	57.9	8.5
Total liabilities	<u>397.9</u>	<u>375.2</u>	<u>22.7</u>
Net position			
Net investment in capital assets	\$ 448.9	\$ 432.8	\$ 16.1
Restricted	119.9	132.5	(12.6)
Unrestricted	571.4	367.1	204.3
Total net position	<u>\$ 1,140.2</u>	<u>\$ 932.4</u>	<u>\$ 207.8</u>

Change in Net Position

The Department’s total program revenues increased from \$52.0 million in fiscal year 2022 to \$54.0 million in fiscal year 2023 (see statement of activities). Approximately 37% of the Department's program revenues came from interest income, 24% came from grants and contributions, 34% came from the general lease program and 5% came from other sources. Total general revenues increased by 257% to \$220.8 million due to additional State appropriations for waitlist reduction.

Statement of Activities

The statement of activities presents how the Department’s net position changed during the current fiscal year. Revenues and expenses are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. As such, the statement includes information for some items that will result in cash flows in future fiscal periods (e.g., uncollected lease payments).

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The following is a comparative summary of changes in net position:

Summary of Changes in Net Position
(in millions)

	<u>2023</u>	<u>2022</u>	Increase (Decrease)
Revenues			
Program revenue			
Administration and support services	\$ 23.1	\$ 20.0	\$ 3.1
Homestead services	4.2	4.3	(0.1)
Land development	-	1.7	(1.7)
Land management	26.7	26.0	0.7
Appropriations, net of lapses and transfers	<u>220.8</u>	<u>61.8</u>	<u>159.0</u>
Total revenues	<u>274.8</u>	<u>113.8</u>	<u>161.0</u>
Expenses			
Administration and support services	\$ 21.0	\$ 26.0	\$ (5.0)
Homestead services	25.9	25.1	0.8
Land development	4.5	7.0	(2.5)
Home construction	13.0	5.3	7.7
Land management	<u>2.6</u>	<u>4.5</u>	<u>(1.9)</u>
Total expenses	<u>67.0</u>	<u>67.9</u>	<u>(0.9)</u>
Excess of revenues over expenses	207.8	45.9	161.9
Net position			
Beginning of year	<u>932.4</u>	<u>886.5</u>	<u>45.9</u>
End of year	<u><u>\$ 1,140.2</u></u>	<u><u>\$ 932.4</u></u>	<u><u>\$ 207.8</u></u>

As noted, net position increased by \$207.8 million from operations, a 22.3% growth this year, compared to an increase of \$45.9 million, a 5.2% growth in fiscal year 2022. The fiscal year 2023 increase is primarily due to an increase in State appropriations for waitlist reduction.

Financial Analysis of the Department’s Governmental Funds

Governmental Funds

The focus of the Department’s governmental funds is to provide information on short-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Department’s financing requirements. In particular, unassigned fund balances may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

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As of the end of fiscal year 2023, the Department's governmental funds reported a combined increase in fund balance of \$191.3 million. The changes in fund balance for the governmental funds differ from the change in net position for governmental activities. The differences relate to certain financial resources and expenditures such as debt financing and capital outlays that are included in the changes in fund balances but are not reported in the changes in net position.

Comparison of Balance Sheet
(in millions)

	Assets			Liabilities and Deferred Inflows of Resources			Fund Balances		
	2023	2022	Change	2023	2022	Change	2023	2022	Change
	General Fund	\$ 3.1	\$ 3.9	\$ (0.8)	\$ 0.7	\$ 1.2	\$ (0.5)	\$ 2.4	\$ 2.7
General Loan Fund	112.2	131.0	(18.8)	14.7	41.3	(26.6)	97.5	89.7	7.8
Land Trust Fund	145.7	150.7	(5.0)	2.5	1.7	0.8	143.2	149.0	(5.8)
Operating Fund	55.5	51.6	3.9	4.9	5.3	(0.4)	50.6	46.3	4.3
Receipts Fund	8.7	9.0	(0.3)	5.9	6.3	(0.4)	2.8	2.7	0.1
Administration Account	333.7	322.3	11.4	295.7	284.5	11.2	38.0	37.8	0.2
Trust Fund	52.7	50.8	1.9	40.9	39.0	1.9	11.8	11.8	-
Bond Fund	81.7	95.8	(14.1)	4.2	1.5	2.7	77.5	94.3	(16.8)
Waitlist Reduction Act Fund	183.4	-	183.4	1.8	-	1.8	181.6	-	181.6
Other Funds	81.3	59.3	22.0	5.1	3.3	1.8	76.2	56.0	20.2
Total	\$ 1,058.0	\$ 874.4	\$ 183.6	\$ 376.4	\$ 384.1	\$ (7.7)	\$ 681.6	\$ 490.3	\$ 191.3

Comparison of Statement of Revenues, Expenditures, and Changes in Fund Balances
(in millions)

	Revenues			Expenditures			Other Financing Sources and Lapsed Appropriations			Change in Fund Balances		
	2023	2022	Change	2023	2022	Change	2023	2022	Change	2023	2022	Change
General Fund	\$ 12.7	\$ 13.9	\$ (1.2)	\$ 11.3	\$ 12.5	\$ (1.2)	\$ (1.7)	\$ (1.8)	\$ 0.1	\$ (0.3)	\$ (0.4)	\$ 0.1
General Loan Fund	-	-	-	(0.9)	(1.0)	0.1	6.9	4.8	2.1	7.8	5.8	2.0
Land Trust Fund	3.5	1.2	2.3	9.3	8.4	0.9	-	-	-	(5.8)	(7.2)	1.4
Operating Fund	1.7	2.5	(0.8)	19.4	26.6	(7.2)	22.0	15.0	7.0	4.3	(9.1)	13.4
Receipts Fund	7.0	4.5	2.5	-	-	-	(6.9)	(4.8)	(2.1)	0.1	(0.3)	0.4
Administration Account	26.5	26.6	(0.1)	5.7	6.1	(0.4)	(20.6)	(13.6)	(7.0)	0.2	6.9	(6.7)
Trust Fund	-	-	-	-	-	-	-	-	-	-	-	-
Bond Fund	8.5	48.2	(39.7)	21.9	3.5	18.4	(3.4)	-	(3.4)	(16.8)	44.7	(61.5)
Waitlist Reduction Act Fund	193.8	-	193.8	12.2	-	12.2	-	-	-	181.6	-	181.6
Other Funds	24.1	17.7	6.4	11.4	18.0	(6.6)	7.5	0.3	7.2	20.2	(0.0)	20.2
Total	\$ 277.8	\$ 114.6	\$ 163.2	\$ 90.3	\$ 74.1	\$ 16.2	\$ 3.8	\$ (0.1)	\$ 3.9	\$ 191.3	\$ 40.4	\$ 150.9

Overall, the assets for the Department increased by \$183.6 million, liabilities and deferred inflows of resources decreased by \$7.7 million, and fund balance increased by \$191.3 million.

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Budgetary Highlights

In fiscal year 2023, the General Fund received appropriations amounting to \$12.7 million. This amount was expended according to the budget except \$276,697 was lapsed.

In the Hawaiian Home Administration Account, the actual revenue exceeded the budgeted amount by \$21.6 million and expenditures were approximately \$814,000 under the budgeted amount. The overall favorable variance of \$20.8 million was the result of actual revenue exceeding budgeted amounts.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2023, the Department had invested \$931.5 million in a broad range of capital assets, including land, building and improvements, furniture and equipment, and infrastructure. This amount represents a net increase (including additions, deductions and reclassifications) of \$43.4 million, or 4.9%, over last year.

Capital Assets		(in millions)		Increase
	2023	2022	(Decrease)	
Buildings and improvements	\$ 31.5	\$ 31.6	\$ (0.1)	
Furniture and equipment	6.2	6.1	0.1	
Motor vehicles	2.0	1.8	0.2	
Infrastructure	721.6	711.1	10.5	
Total depreciable assets	761.3	750.6	10.7	
Less: Accumulated depreciation	(441.2)	(418.4)	(22.8)	
Net depreciable assets	320.1	332.2	(12.1)	
Land	59.5	49.2	10.3	
Land improvements	33.4	33.4	-	
Construction in progress	77.3	54.9	22.4	
Total capital assets	\$ 490.3	\$ 469.7	\$ 20.6	

In fiscal year 2023, the Department expended \$43.4 million for various capital assets, including \$10.3 million for the purchase of parcels of land in Village 8, Kapolei, and Kaumana Properties, Hilo, \$300 thousand for the purchase of trailers, forklift, excavator, trucks, light tower for Moloka‘i District Office and office furniture & filing system for Kaua‘i District Office, \$10.3 million for La‘i‘ōpua Village 4 (Hema Subd), \$8.0 million for Ho‘olehua Water System Improvements, \$2.1 million for Ho‘olehua Veterans & Homestead Residents Center, \$1.4 million for Anahola Farm Lots Water Project, and \$1.5 million for Honomu Subsistence Agricultural Subd.

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Capital Assets (continued)

Transfers from Construction in Progress to Infrastructure include \$5.0 million for Ho‘olehua Water Systems Improvements, \$2.3 million for Pana‘ewa Site Improvements, and \$2.2 million for Waiokeola Stream & Drainage Channel Improvements.

Long-Term Debt

During fiscal year 2023, the Department incurred a note payable to the US Department of Agriculture in connection with water system improvement projects.

Outstanding Debt
(in millions)

	2023	2022	Increase (Decrease)
Bonds payable, net	\$ 24.5	\$ 26.7	\$ (2.2)
Lease liability	11.7	12.7	(1.0)
Note payable	7.5	-	7.5
Total outstanding debt	\$ 43.7	\$ 39.4	\$ 4.3

Currently Known Facts or Decisions

As stewards of the Hawaiian Home Lands, the Department of Hawaiian Home Lands is committed to upholding and furthering the fundamental mission of returning native Hawaiians to the land, a vision originally conceived by our esteemed founder, Prince Jonah Kūhiō Kalaniana‘ole.

The historic \$600 million allocation by Hawai‘i’s state legislature was instrumental in allowing the Department to implement a strategy that prioritizes the building of affordable housing units for those we serve. Running parallel to the Department’s newly instated capacity to fast-track the production of homes is the renewed confidence in DHHL’s aptness and expertise in home development by state and county leaders.

While significant progress has been made in the 100-years following the enactment of the Hawaiian Homes Commission Act, the language and intent of the Act have yet to fully meet its expectations and deliver on its promises. To date nearly 10,000 homestead leases have been awarded. As a Department, we acknowledge the need for further action. Consequently, we are leveraging funds and resources at both the state and federal level to create housing solutions that address the diverse needs of our beneficiaries.

State of Hawai‘i
Department of Hawaiian Home Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2023

Currently Known Facts or Decisions (continued)

The federal government is continuing to fund DHHL at near record levels of \$21.3 million in Fiscal Year 2023. By successfully utilizing NAHASDA funds and demonstrating tangible progress in expanding housing options for native Hawaiian beneficiaries, DHHL positions itself as a reliable and capable steward of federal resources. This not only strengthens its case for future funding but also aligns with its broader objectives of increasing housing availability and affordability for native Hawaiians, in line with the goals set forth by the Hawaiian Homes Commission Act.

While the receipt of these funds has been the focal point of discussions concerning DHHL this year, it should not overshadow the Department's ongoing efforts, including groundbreaking, lot awards, sustained partnerships, and key land acquisitions.

In May the Department broke ground on its first Act 279 project, Pu‘uhona Homestead, in Waikapū, Maui; On Kaula another product of Act 279, Hanapēpē Phase II; and on O‘ahu, a groundbreaking for Ka‘uluokaha‘i II-C in east Kapolei.

Sixty-four beneficiaries became lessees in 2023: 15 in Pana‘ewa on Hawai‘i Island, the Department’s first subsistence agricultural lots project; 24 in the Villages of La‘i ‘Ōpua, a rent-to-own community also on Hawai‘i Island; and 25 pastoral lots in Kahikinui, Maui; a first in more than two decades.

Conversations between the Department, Stanford Carr Development and the City and County of Honolulu continued as DHHL’s long-awaited high-rise rental project, the old Bowl-O-Drome site in Mō‘ili‘ili, sought final council approval.

Furthermore, the Pu‘uhona Homestead project was the result of a 44-acre land acquisition through the transfer of affordable housing credits from the County of Maui.

State of Hawai‘i
Department of Hawaiian Home Lands
Statement of Net Position
June 30, 2023

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Assets

Cash in State Treasury (Note C)	\$ 622,973,026
Receivables	
Loans, net of allowance for losses of \$15,405,000 (Note D)	90,860,839
General leases and licenses, net of allowance for losses of \$6,330,000	11,695,775
Accrued interest - loans	7,817,003
Accrued interest - leases and licenses, net of allowance for losses of \$2,605,000	4,591,049
Accrued interest - investment pool	1,047,420
Other, net of allowance for losses of \$2,338,000	8,376,634
Inventory of land improvements acquired from former lessees (Note F)	3,067,667
Inventory of homes for sale and development	169,554
Restricted cash and short-term investments held outside of State Treasury (Note E)	2,614,647
Prepaid expenses	51,681
Leases receivable, noncurrent portion, net of allowance for losses of \$99,162,000 (Note L)	292,251,668
Capital assets, net (Note G)	490,287,461
Total assets	1,535,804,424

Deferred outflows of resources

Deferred loss on refunding	2,245,886
Total assets and deferred outflows of resources	\$ 1,538,050,310

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Liabilities

Vouchers and contracts payable	\$ 15,787,839
Interest payable	84,375
Temporary deposits payable	40,908,650
Other liabilities	6,133,079
Due within one year	
Bonds payable (Note I)	1,970,000
Lease liability (Note J)	915,000
Accrued vacation	548,258
Due in more than one year	
Bonds payable, net of premium (Note I)	22,483,547
Lease liability, net of premium (Note J)	10,745,166
Note payable (Note L)	7,455,000
Accrued vacation	1,100,436
Total liabilities	108,131,350

Commitments and contingencies (Notes N and O)

Deferred inflows of resources

Unearned general lease and license revenues	289,718,976
---------------------------------------------	-------------

Net position

Net investment in capital assets	448,964,634
Restricted for	
Capital projects	84,921,683
Loans and loan commitments	29,657,211
Debt reserve agreements	2,800,680
Guaranteed and insured loans	2,500,000
Unrestricted	571,355,776
Total net position	1,140,199,984
Total liabilities, deferred inflows of resources, and net position	\$ 1,538,050,310

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



State of Hawai'i
Department of Hawaiian Home Lands
Statement of Activities
for the year ended June 30, 2023

Functions/Programs	Program Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Administration and support services	\$ 21,002,862	\$ 9,916,431	\$ 13,215,004	\$ 2,128,573
Homestead services	25,855,362	4,238,801	-	(21,616,561)
Land development	4,526,946	-	-	(4,526,946)
Home construction	12,960,919	-	-	(12,960,919)
Land management	2,639,104	26,641,004	-	24,001,900
Total governmental activities	\$ 66,985,193	\$ 40,796,236	\$ 13,215,004	\$ (12,973,953)
General revenues:				
State appropriations, net of lapsed appropriations of \$3,620,903				\$ 220,777,062
Transfers and adjustments, net				-
Total general revenues				220,777,062
Change in net position				207,803,109
Net position at July 1, 2022				932,396,875
Net position at June 30, 2023				\$ 1,140,199,984

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



State of Hawai'i
Department of Hawaiian Home Lands
Balance Sheet
Governmental Funds
June 30, 2023

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Lands Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Hawaiian Home Trust Fund	Hawaiian Home Lands Bond Funds	Waitlist Reduction Act Fund	Other Funds	Total
ASSETS											
Cash in State Treasury	\$ 3,134,267	\$ 43,216,999	\$ 143,658,851	\$ 54,802,546	\$ 611,735	\$ 23,681,336	\$ 40,124,024	\$ 81,667,517	\$ 183,352,886	\$ 48,722,865	\$ 622,973,026
Receivables											
Loans, net of allowance for losses of \$15,405,000	-	65,778,700	-	-	-	-	-	-	-	25,082,139	90,860,839
General leases and licenses, net of allowances for losses of \$6,330,000	-	-	-	-	-	11,695,775	-	-	-	-	11,695,775
Accrued interest - loans	-	-	-	47,057	7,665,441	-	-	-	-	104,505	7,817,003
Accrued interest - leases and licenses, net of allowance for losses of \$2,605,000	-	-	-	-	-	4,366,994	-	-	-	224,055	4,591,049
Accrued interest - investment pool	-	-	461,947	11,425	419,043	100,901	-	-	-	54,104	1,047,420
Due from other funds	-	-	-	-	-	-	12,583,459	-	-	-	12,583,459
Other, net of allowance for losses of \$2,338,000	7,626	150,000	1,436,938	618,621	-	126,157	-	-	-	6,037,292	8,376,634
Inventory of land improvements acquired from former lessees	-	3,067,667	-	-	-	-	-	-	-	-	3,067,667
Inventory of homes for sale and development	-	-	169,554	-	-	-	-	-	-	-	169,554
Leases receivable, noncurrent	-	-	-	-	-	292,251,668	-	-	-	-	292,251,668
Restricted cash and short-term investments held outside of State Treasury	-	-	-	-	-	1,462,632	-	-	-	1,152,015	2,614,647
Total assets	\$ 3,141,893	\$ 112,213,366	\$ 145,727,290	\$ 55,479,649	\$ 8,696,219	\$ 333,685,463	\$ 52,707,483	\$ 81,667,517	\$ 183,352,886	\$ 81,376,975	\$ 1,058,048,741
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES											
Liabilities											
Vouchers and contracts payable	\$ 767,575	\$ -	\$ 2,529,152	\$ 4,341,553	\$ -	\$ 1,117,694	\$ -	\$ 4,155,400	\$ 1,783,563	\$ 1,787,277	\$ 16,482,214
Due to other funds	-	12,446,845	-	136,614	-	-	-	-	-	-	12,583,459
Temporary deposits payable	-	-	-	-	-	-	40,908,650	-	-	-	40,908,650
Other liabilities	-	2,225,874	-	418,927	-	234,897	-	-	-	3,253,381	6,133,079
Total liabilities	767,575	14,672,719	2,529,152	4,897,094	-	1,352,591	40,908,650	4,155,400	1,783,563	5,040,658	76,107,402
Deferred inflows of resources											
Unearned general lease and license revenues	-	-	-	-	-	289,718,976	-	-	-	-	289,718,976
Unavailable revenues	-	-	-	33,625	5,911,148	4,609,804	-	-	-	86,999	10,641,576
Total deferred inflows of resources	-	-	-	33,625	5,911,148	294,328,780	-	-	-	86,999	300,360,552
Fund balances											
Restricted for											
Capital projects	-	-	-	-	-	-	-	77,512,117	-	14,864,566	92,376,683
Federal loan programs	-	-	-	-	-	-	-	-	-	29,657,211	29,657,211
Debt agreements	-	-	-	186,033	-	1,462,632	-	-	-	1,152,015	2,800,680
Guaranteed and insured loans	-	150,000	-	-	-	-	2,350,000	-	-	-	2,500,000
Committed to											
Waitlist reduction	-	-	-	-	-	-	-	-	181,569,323	-	181,569,323
Capital projects	-	-	-	-	-	-	-	-	-	8,085,084	8,085,084
Geothermal resources	-	-	-	-	-	-	-	-	-	324,897	324,897
Assigned to											
Home loans and homestead services	-	97,390,647	-	-	2,785,071	-	9,448,833	-	-	4,596,913	114,221,464
Land management	3,059,297	-	-	50,362,897	-	36,541,460	-	-	-	-	89,963,654
Home construction and land development	-	-	143,198,138	-	-	-	-	-	-	17,568,632	160,766,770
Unassigned	(684,979)	-	-	-	-	-	-	-	-	-	(684,979)
Total fund balances	2,374,318	97,540,647	143,198,138	50,548,930	2,785,071	38,004,092	11,798,833	77,512,117	181,569,323	76,249,318	681,580,787
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,141,893	\$ 112,213,366	\$ 145,727,290	\$ 55,479,649	\$ 8,696,219	\$ 333,685,463	\$ 52,707,483	\$ 81,667,517	\$ 183,352,886	\$ 81,376,975	\$ 1,058,048,741

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



State of Hawai'i
Department of Hawaiian Home Lands
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
June 30, 2023

Total fund balances - governmental funds \$ 681,580,787

Amounts reported for governmental activities in the statement of net position
are different because:

- (1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. These assets consist of:

Infrastructure assets	\$ 721,621,199	
Land	59,465,791	
Land improvements	33,406,582	
Buildings and improvements	31,467,572	
Construction-in-progress	77,305,877	
Other capital assets	8,209,778	
Accumulated depreciation	<u>(441,189,338)</u>	490,287,461

- (2) Prepaid expenses are not current financial resources and therefore are not reported in the governmental funds. 51,681

- (3) Deferred loss on refunding of bonds payable is not reported in the governmental funds, but are reported in the statement of net position net of accumulated amortization as deferred outflows of resources. 2,245,886

- (4) Certain revenues not collected within 60 days after the end of the year are deferred in the funds. 11,335,951

- (5) Accrued interest payable is not recognized in governmental funds. (84,375)

- (6) Some long-term liabilities and deferred charges are not due and payable in the current period and therefore are not reported in the funds, including:

Lease liability	\$ (11,660,166)	
Bonds payable	(24,453,547)	
Note payable	(7,455,000)	
Accrued vacation	<u>(1,648,694)</u>	<u>(45,217,407)</u>

Total net position \$ 1,140,199,984

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



State of Hawai'i
Department of Hawaiian Home Lands
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the year ended June 30, 2023

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Lands Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Hawaiian Home Trust Fund	Hawaiian Home Lands Bond Funds	Waitlist Reduction Act Fund	Other Funds	Total
Revenues											
State appropriations	\$ 12,695,125	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,502,840	\$ 193,750,000	\$ 9,450,000	\$ 224,397,965
General leases	-	-	-	-	-	13,374,420	-	-	-	-	13,374,420
Licenses and permits	-	-	-	-	-	3,741,963	-	-	-	-	3,741,963
Interest from loans, leases, and notes	-	-	-	26,746	4,014,143	8,344,925	-	-	-	171,744	12,557,558
Investment income	-	-	3,472,539	82,778	2,998,453	789,756	-	-	-	460,330	7,803,856
Intergovernmental revenues	-	-	-	-	-	-	-	-	-	13,210,725	13,210,725
Real property sold	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	1,576,968	-	202,414	-	-	-	828,347	2,607,729
Total revenues	12,695,125	-	3,472,539	1,686,492	7,012,596	26,453,478	-	8,502,840	193,750,000	24,121,146	277,694,216
Expenditures											
Current											
Administration and support services	6,215,554	-	718,469	1,325,678	-	3,567,169	-	120,000	-	7,487,357	19,434,227
Homestead services	3,458,499	(955,559)	-	1,032,289	-	645,838	-	-	-	(4,083)	4,176,984
Land development	941,344	-	686,331	2,371,354	-	539,610	-	-	-	-	4,538,639
Land management	726,225	-	-	760,308	-	939,636	-	-	-	125,103	2,551,272
Capital outlay	-	-	7,863,626	13,918,570	-	-	-	21,812,243	12,180,677	763,247	56,538,363
Debt service											
Principal	-	-	-	-	-	-	-	-	-	1,875,000	1,875,000
Interest	-	-	-	-	-	-	-	-	-	1,131,250	1,131,250
Total expenditures	11,341,622	(955,559)	9,268,426	19,408,199	-	5,692,253	-	21,932,243	12,180,677	11,377,874	90,245,735
Excess (deficiency) of revenues over (under) expenditures	1,353,503	955,559	(5,795,887)	(17,721,707)	7,012,596	20,761,225	-	(13,429,403)	181,569,323	12,743,272	187,448,481
Other financing sources (uses)											
Proceeds from debt issuance	-	-	-	-	-	-	-	-	-	7,455,000	7,455,000
Transfers in	-	6,925,000	-	22,900,000	-	1,397,299	-	-	-	7,040,916	38,263,215
Transfers out	(1,414,219)	-	-	(900,000)	(6,925,000)	(22,000,000)	-	-	-	(7,023,996)	(38,263,215)
Total other financing sources (uses)	(1,414,219)	6,925,000	-	22,000,000	(6,925,000)	(20,602,701)	-	-	-	7,471,920	7,455,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(60,716)	7,880,559	(5,795,887)	4,278,293	87,596	158,524	-	(13,429,403)	181,569,323	20,215,192	194,903,481
Lapsed appropriations	(276,697)	-	-	-	-	-	-	(3,344,206)	-	-	(3,620,903)
Net change in fund balances	(337,413)	7,880,559	(5,795,887)	4,278,293	87,596	158,524	-	(16,773,609)	181,569,323	20,215,192	191,282,578
Fund balances at July 1, 2022	2,711,731	89,660,088	148,994,025	46,270,637	2,697,475	37,845,568	11,798,833	94,285,726	-	56,034,126	490,298,209
Fund balances at June 30, 2023	\$ 2,374,318	\$ 97,540,647	\$ 143,198,138	\$ 50,548,930	\$ 2,785,071	\$ 38,004,092	\$ 11,798,833	\$ 77,512,117	\$ 181,569,323	\$ 76,249,318	\$ 681,580,787

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



State of Hawai‘i
Department of Hawaiian Home Lands
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures, and Changes in Fund Balances to the Statement of Activities
 for the year ended June 30, 2023

Change in fund balances - governmental funds \$ 191,282,578

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

- (1) Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these transactions are:

Capital outlay	\$ 43,577,444	
Depreciation expense	<u>(22,947,776)</u>	
Excess of depreciation expense over capital outlay		20,629,668

- (2) The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but it is not reported on the statement of activities. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:

Net decrease in prepaid bond insurance	\$ (5,908)	
Net decrease in deferred loss on refunding	(256,754)	
Net decrease in capital lease obligation	1,059,281	
Net decrease in bonds payable	2,241,236	
Net increase in note payable	<u>(7,455,000)</u>	
		(4,417,145)

- (3) The governmental funds report revenues only if they are collected within 60 days after the end of the year. The statement of activities reports revenues when earned, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for interest income. 714,989

- (4) The net decrease in accrued vacation is reported in the statement of activities and does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds. 35,100

- (5) Long-term debt payment accruals are included as an expenditure for governmental funds but are included in bonds payable and capital lease obligation in the statement of net position. (442,081)

Change in net position \$ 207,803,109

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



State of Hawai'i
Department of Hawaiian Home Lands
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
General Fund (Unaudited)
for the year ended June 30, 2023

	<u>Budgeted Amounts Original and Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
State appropriations	\$ 15,720,516	\$ 12,695,125	\$ (3,025,391)
Expenditures:			
Administration and support services	8,623,755	4,987,831	3,635,924
Homestead services	3,630,929	3,466,162	164,767
Land development	2,109,416	973,304	1,136,112
Land management	1,356,416	506,263	850,153
Total expenditures	<u>15,720,516</u>	<u>9,933,560</u>	<u>5,786,956</u>
Excess of appropriations over expenditures	<u>\$ -</u>	<u>\$ 2,761,565</u>	<u>\$ 2,761,565</u>

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



State of Hawai‘i
Department of Hawaiian Home Lands
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Hawaiian Home Administration Account (Unaudited)
for the year ended June 30, 2023

	Budgeted Amounts Original and Final	Actual (Budgetary Basis)	Variance with Final Budget - Favorable (Unfavorable)
Revenues	\$ 4,824,709	\$ 26,453,478	\$ 21,628,769
Expenditures:			
Administration and support services	2,607,209	3,749,438	(1,142,229)
Homestead services	876,500	652,847	223,653
Land development	640,000	563,335	76,665
Land management	701,000	677,827	23,173
Total expenditures	4,824,709	5,643,447	(818,738)
Excess of revenues over expenditures	\$ -	\$ 20,810,031	\$ 20,810,031

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



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Department of Hawaiian Home Lands, State of Hawai‘i (the Department) is headed by the Hawaiian Homes Commission (HHC). The Department was established by Section 24 of Act 1 (the Hawaii State Government Reorganization Act of 1959), Second Special Session Laws of Hawaii 1959, and is responsible for the administration of the Hawaiian Homes Commission Act of 1920 enacted by the United States Congress. The Hawaiian Homes Commission Act (HHCA) sets aside certain public lands as Hawaiian home lands to be utilized in the rehabilitation of native Hawaiians. The financial statements include the public trusts controlled by the HHC.

The Department is part of the executive branch of the State of Hawai‘i (the State). The Department’s financial statements are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which include the Department’s assets, liabilities, net position, and financial activities.

The accompanying financial statements of the Department have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) for state and local governments as prescribed by the Governmental Accounting Standards Board (GASB).

Department-Wide Financial Statements

The department-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 have been met. The effects of interfund activity have been removed from the department-wide financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

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.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Fund Financial Statements

The governmental fund 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, the Department considers revenues other than federal grants to be available if they are collected within 60 days of the current fiscal year-end. Principal revenue sources considered susceptible to accrual include lease payments, sales, interest on loans and investments, and interest receivable. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as revenue when available and entitlement occurs, which is generally within 12 months of the end of the current fiscal year. All other federal reimbursement-type grants are recorded as intergovernmental receivables and revenues when the related expenditures or expenses are incurred as of fiscal year-end and funds are available.

As of June 30, 2023, fund balances of the governmental funds are classified as follows:

- **Nonspendable** – Amounts that cannot be spent because they are either in nonspendable form or they are legally or contractually required to be maintained intact.
- **Restricted** – Amounts that are restricted for specific purposes due to constitutional provisions or enabling legislation or constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments.
- **Committed** – Amounts that can be used only for specific purposes determined by a formal action of the State Legislature. The State Legislature is the highest level of decision-making authority for the Department. Commitments may be established, modified, or rescinded only through formal acts by the State Legislature.
- **Assigned** – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Department’s adopted policy, only the HHC may assign amounts for specific purposes.
- **Unassigned** – All other spendable amounts.

When both restricted and unrestricted balances are available for use, it is the Department’s policy to use restricted fund balances first, then unrestricted fund balances. Furthermore, committed fund balances are reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted classifications can be used.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting

The accounts of the Department are organized on the basis of funds, each of which is considered a separate accounting entity. The Department uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

The financial activities of the Department that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the General Fund are accounted for.

Special Revenue Funds

Special revenue funds are used to account for proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Revenues are primarily from general leases, licenses, and permits granted for commercial, residential, agricultural, and pastoral uses, and interest and investment income. The Department’s major special revenue funds are as follows:

- **Hawaiian Home General Loan Fund** – The Hawaiian Home General Loan Fund is used to account for Department loans made to native Hawaiian homesteaders.
- **Hawaiian Home Lands Trust Fund** – The Hawaiian Home Lands Trust Fund accounts for funds from the State to be expended by the Department, as provided by law upon approval by the Commission and used for capital improvements and other purposes undertaken in furtherance of the HHCA.
- **Hawaiian Home Operating Fund** – The Hawaiian Home Operating Fund is used to account for operations of the Department and is funded by monies transferred from the Hawaiian Home Receipts Fund.
- **Hawaiian Home Receipts Fund** – The Hawaiian Home Receipts Fund is used to account for receipts of investment interest and loan interest payments from the Department loans to homesteaders.
- **Hawaiian Home Administration Account** – The Hawaiian Home Administration Account is used to account for commercial general leases, revocable permits, and licenses of “available” lands as defined under the HHCA. Lease revenues are used to fund operations of the Department.



State of Hawai‘i
Department of Hawaiian Home Lands

Notes to Financial Statements

June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting (continued)

Special Revenue Funds (continued)

- **Hawaiian Home Trust Fund** – The Hawaiian Home Trust Fund is used to account for the loan principal and interest payments the Department collects on assumed loans from the Department of Housing and Urban Development (HUD) as part of the mortgage loan insurance agreement. The amounts maintained in this fund provide for payment of any mortgage insurance claims and expenditures incurred by HUD in connection with the lessee borrowings.
- **Hawaiian Home Lands Bond Funds** – The Hawaiian Home Lands Bond Funds are authorized and appropriated by the State Legislature for construction projects or grant-in-aid funds for projects or grants which benefit the Department’s beneficiaries or community organizations.
- **Waitlist Reduction Act Fund** - The purpose of Act 279, SLH 2022 as stated in the legislation is to provide a multi-pronged approach to reducing the Department’s waitlist. The \$600 million appropriation will address the needs of those on the Department’s waitlist and those beneficiaries still waiting.

Appropriations

An appropriation is an authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types.

Encumbrances at June 30, 2023 for the Department’s governmental funds were as follows:

	Contracts	Claims
General Fund	\$ 1,124,881	\$ 1,999,386
Land Trust Fund	20,958,538	1,787,604
Operating Fund	26,838,310	6,123,118
Administration Account	993,184	1,567,717
Bond Fund	74,448,204	-
Waitlist Reduction Act Fund	89,484,469	93,868,417
Other Funds	33,248,919	7,097,701
Total	\$ 247,096,505	\$ 112,443,943



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash in State Treasury

Cash in State Treasury reported in the statement of net position and the governmental funds balance sheet represents the Department’s equity in cash and investments held by the State Treasury (see Note C).

The State Director of Finance is responsible for the safekeeping of all cash in the State Treasury in accordance with State laws. Currently, separate accounts are not maintained in the State Treasury for the Department’s general operating and capital appropriations. Although these appropriations are available to the Department to expend, custody and ownership of the funds remains with the State. Unspent general and capital appropriations that continue to be available to the Department for expenditure at the end of the fiscal year are reported as cash in State Treasury in the accompanying fund and department-wide financial statements.

Restricted Cash and Investments

Cash and short-term investments held with an escrow agent for the repayment of certain obligations have been classified as restricted assets (see Note E).

The Department invests funds held by the Bank of New York Mellon related to the certificates of participation and revenue bonds in U.S. Treasury money market funds. The investments are carried at fair value and are valued at the last reported sale price on the last business day of the year or at the last bid price if no sale was reported on that date. Unrealized gains are considered investment income and the funds are restricted to funding future capital lease or revenue bond payments.

Fair Value Measurements

For financial assets reported at fair value, the Department defines fair value as the price that would be received to sell an asset in the principal or most advantageous market in an orderly transaction between market participants. The Department measures fair value using assumptions developed based on market data obtained from independent external sources and the reporting entity’s own assumptions. The hierarchy is broken down into levels based on the reliability of the inputs as follows:

- **Level 1** – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- **Level 2** – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- **Level 3** – Unobservable inputs for an asset or liability reflecting management’s own assumptions. Level 3 inputs are used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

The department-wide financial statements present receivables and revenue from lease rents and mortgage interest under the accrual method of accounting. In the governmental fund financial statements, lease rent and mortgage interest are recognized as revenues when they are measurable and available. The available criterion is satisfied when revenues are collectible during the period or soon enough thereafter to pay liabilities of the current period. Amounts not collected within 60 days after the end of the year approximated \$10,642,000 as of June 30, 2023, and are recorded as deferred inflows of resources in the governmental funds balance sheet.

The Department presents receivables net of an allowance for uncollectible accounts based on the Department’s estimate of the amount of uncollectible receivables.

Inventory of Homes for Sale and Development

Inventory of homes for sale and development are stated at the lower of cost or estimated net realizable value and includes the costs of land development and home construction, capitalized interest, real estate taxes, and direct overhead costs incurred during development and home construction.

Intrafund and Interfund Transactions

Transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements. Interfund balances of \$12,446,845 and \$136,614 as of June 30, 2023 represent loans receivable and other receivables, respectively, temporarily funded with balances from other funds.

All interfund transfers are reflected in the governmental fund financial statements but are eliminated in the department-wide financial statements.

Capital Assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets, are reported in the department-wide financial statements. The capitalization thresholds are \$5,000 for equipment and \$100,000 for infrastructure, and buildings and improvements with estimated useful lives of greater than one year. Maintenance and repairs are charged to operations when incurred. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets (continued)

Capital assets are depreciated on the straight-line method over the assets' estimated useful life as follows:

Vehicles	5 years
Machinery and equipment	5 - 7 years
Buildings and improvements	15 - 40 years
Infrastructure	15 - 30 years

The Department also has land in various parts of the State, some of which were transferred to it at no cost or at nominal cost.

Leases

Lessee

The Department has a policy to recognize a lease liability and a right-to-use asset (lease asset) in the government-wide financial statements. The Department recognizes lease liabilities with an initial, individual value of \$100,000 or more for land and building leases and \$25,000 or more for equipment and others, 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 the lease, the Department 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.

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 Department has determined is reasonably certain to be exercised. In this case, the lease asset is amortized over the useful life of the underlying asset.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lessee (continued)

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

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

The Department monitors changes in circumstances that would require a remeasurement of its leases 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 in capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

Lessor

The Department is a lessor for leases of land. The Department recognizes leases receivable and deferred inflows of resources in the financial statements. 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, the Department 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 lease term using the straight-line method.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Lessor (continued)

Key estimates and judgments include how the Department determines (1) the rate used to discount the expected lease receipts to present value, (2) lease term, (3) lease receipts, and (4) rate of collectability.

- The Department uses the State’s incremental borrowing rate as the discount rate for leases.
- The lease terms include the noncancellable period of the leases. Lease receipts included in the measurement of the lease receivable are composed of fixed payments from lessees.

The Department monitors changes in circumstances that would require a remeasurement of its leases 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.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows (inflows) of resources represent a consumption of (benefit to) net position that applies to a future period. The Department defers recognition of the loss on debt refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the straight-line method. The unamortized loss is recognized as a deferred outflow of resources on the statement of net position. The Department’s deferred inflows of resources represent (1) revenues which did not meet the available criterion for recognition under the modified accrual basis of accounting and (2) deferred income for leases receivable.

Temporary Deposits Payable

As part of the mortgage loan insurance agreement, the Department assumes delinquent mortgage loans from HUD. The temporary deposits payable balance represents the amount of loans assumed, less any payments made to HUD, for the payment of future mortgage insurance claims.

Compensated Absences

It is the State’s policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. Accumulated sick leave as of June 30, 2023 was approximately \$5,229,000. All vacation pay is accrued when incurred in the department-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-term Obligations

In the Department-Wide financial statements, long-term obligations are reported as liabilities in the statement of net position. Initial-issue bond premiums and discounts, as well as prepaid insurance costs, are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Bond issuance costs, except any portion related to prepaid insurance costs, are expensed in the period incurred. Amortization of bond premiums or discounts, prepaid insurance costs, and deferred amounts on refunding are included in expenses.

In the governmental fund financial statements, bond premiums, discounts and prepaid insurance costs are recognized as expenditures during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

New Accounting Pronouncements

GASB Statement No. 94

During fiscal year 2023, the Department implemented GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. This Statement did not have a material effect on the Department’s financial statements.

GASB Statement No. 96

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This Statement did not have a material effect on Department’s financial statements.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 99

The GASB issued Statement No. 99, *Omnibus*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately while other requirements are effective for fiscal years beginning after June 15, 2022 and June 15, 2023, respectively. The requirements that were effective immediately and beginning after June 15, 2022 did not have a material effect on the Department’s financial statements. For the remaining requirements, the Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 100

The GASB issued Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 101

The GASB issued Statement No. 101, *Compensated Absences*. The primary objective of the Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 102

The GASB issued Statement No. 102, *Certain Risk Disclosures*. The primary objective of the Statement is to provide users of government financial statements with information about risks related to a government’s vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2024. The Department has not determined the effect this Statement will have on its financial statements.



State of Hawai‘i
Department of Hawaiian Home Lands

Notes to Financial Statements

June 30, 2023

NOTE B - BUDGETING AND BUDGETARY CONTROL

The Department’s annual budget is prepared on the cash basis utilizing encumbrance accounting. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected by the Department as budgeted revenues are those estimates as compiled by the State Director of Finance. Budgeted expenditures for the Department’s General Fund and the Hawaiian Homes Administration Account, a special revenue fund, are provided to the Department of Budget and Finance, State of Hawai‘i, for accumulation with budgeted amounts of the other State agencies and included in the Governor’s executive budget that is subject to legislative approval. In addition, the budget for all expenditures of the Department’s funds is also presented annually to the HHC for approval. Budgetary information for funds other than the General Fund and Hawaiian Homes Administration Account are not subject to legislative approval; therefore, budgetary reconciliations for those funds are not included in the financial statements. For purposes of budgeting, the Department’s budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with GAAP.

To the extent not expended or encumbered, General Fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions which may terminate the authorization for other appropriations.

Since the budgetary basis differs from GAAP, budget and actual amounts in the statements of revenues and expenditures – budget and actual, are presented on the budgetary basis. The following schedule reconciles the budgetary amounts of the General Fund and the Hawaiian Home Administration Account to the amounts presented in accordance with GAAP:

	General Fund	Hawaiian Home Administration Account
Excess of revenues over expenditures - actual on budgetary basis	\$ 2,761,565	\$ 20,810,031
Current year's appropriations encumbered at June 30, 2023	1,999,386	1,853,788
Current year's encumbrances included in vouchers payable	(1,121,909)	(352,646)
Expenditures for liquidation of prior year's encumbrances	(2,529,648)	(1,549,948)
Fiscal 2022 expenditures funded by fiscal 2023 budget	976,995	-
Fiscal 2023 expenditures funded by fiscal 2024 budget under Section 78-13 HRS	(732,886)	-
	\$ 1,353,503	\$ 20,761,225
Excess of revenues over expenditures - GAAP basis		



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE B - BUDGETING AND BUDGETARY CONTROL (continued)

Under Hawai‘i Revised Statutes (HRS) Section 78-13, staff salaries and wages amounting to approximately \$733,000 in the General Fund, for the period from June 16, 2023 through June 30, 2023, are to be funded with monies budgeted for fiscal year 2024. Accordingly, these amounts are excluded from the statements of revenues and expenditures – budget and actual of the General Fund, but are included in the departmental and governmental fund financial statements in accordance with GAAP.

Salaries and wages amounting to approximately \$977,000 in the General Fund, for the period from June 16, 2022 to June 30, 2022, were funded with monies budgeted for fiscal year 2023. Accordingly, these amounts are included in the statements of revenues and expenditures – budget and actual of the General Fund, for the year ended June 30, 2023.

NOTE C - CASH IN STATE TREASURY

The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director’s judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that depository banks pledge as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity, and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as these funds are held in the State cash pool, the Department does not manage these investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the Department level. The risk disclosures of the State’s cash pool are included in the State’s Annual Comprehensive Financial Report (ACFR) for the fiscal year ended June 30, 2023. The State’s ACFR can be found at the Department of Accounting and General Services’ (DAGS) website: <https://ags.hawaii.gov/accounting/annual-financial-reports/>.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE D - LOANS RECEIVABLE

Loans receivable consist of 1,251 loans amounting to approximately \$104,172,000 made to native Hawaiian homesteaders for the purposes specified in the HHCA. Loans are for a maximum amount of approximately \$452,000 and for a maximum term of 40 years. Loan payments expected to be collected within the next fiscal year approximates \$4,125,000. Interest rates on outstanding loans range up to 10%. The Department’s loan portfolio consists of loans that the Department has originated and that generally are collateralized by improvements on the leased properties located in the State. Loan commitments as of June 30, 2023 were approximately \$147,000. The Department has provided an allowance for loan losses of approximately \$15,045,000 as of June 30, 2023. The allowance for loan losses is a valuation reserve, which has been provided through charges to operations in the department-wide financial statements. The reserve is based on management’s assessment of loan balances deemed uncollectible as of June 30, 2023.

In connection with the COVID-19 pandemic, the HHC authorized borrowers to defer payments on the Department’s loans receivable from April 2020 to June 2021. No application or further approvals were necessary for borrowers to obtain deferment. Payment requirements resumed in July 2021 at the original payment amounts. The interest accrued during the deferral period is due upon maturity of the loan.

NOTE E - RESTRICTED CASH AND SHORT-TERM INVESTMENTS HELD OUTSIDE STATE TREASURY

Restricted investments held outside of the State Treasury consist of money market funds held at a financial institution outside of the State of Hawai‘i. As of June 30, 2023, the fair value of these investments was approximately \$2,615,000 and was determined using Level 1 inputs.

NOTE F - INVENTORY OF LAND IMPROVEMENTS ACQUIRED FROM FORMER LESSEES

Under certain circumstances, the Department purchases homes from former lessees due to voluntary and involuntary cancellations of land leases. The homes are subsequently resold to qualified lessees. As of June 30, 2023, the Department’s inventory of homes purchased from former lessees had a book value aggregating approximately \$3,068,000.



State of Hawai'i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE G - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2023 was as follows:

	Beginning Balance June 30, 2022	Additions	Disposals/ Transfers	Ending Balance June 30, 2023
Capital assets not being depreciated -				
Land	\$ 49,206,634	\$ 10,259,157	\$ -	\$ 59,465,791
Land improvements	33,406,582	-	-	33,406,582
Works of art, historical treasures	29,426	-	-	29,426
Construction in progress	54,864,947	33,016,528	(10,575,598)	77,305,877
Total capital assets, not being depreciated	<u>137,507,589</u>	<u>43,275,685</u>	<u>(10,575,598)</u>	<u>170,207,676</u>
Capital assets, being depreciated -				
Buildings and improvements	31,582,572	-	(115,000)	31,467,572
Infrastructure	711,045,601	-	10,575,598	721,621,199
Furniture and equipment	6,139,010	74,575	-	6,213,585
Motor vehicles	1,809,009	232,936	(75,178)	1,966,767
Total capital assets, being depreciated	<u>750,576,192</u>	<u>307,511</u>	<u>10,385,420</u>	<u>761,269,123</u>
Less: accumulated depreciation for -				
Buildings and improvements	(17,104,837)	(1,005,802)	109,250	(18,001,389)
Infrastructure	(394,085,065)	(21,694,160)	-	(415,779,225)
Furniture and equipment	(5,797,099)	(103,052)	-	(5,900,151)
Motor vehicles	(1,438,989)	(144,762)	75,178	(1,508,573)
Total accumulated depreciation	<u>(418,425,990)</u>	<u>(22,947,776)</u>	<u>184,428</u>	<u>(441,189,338)</u>
Total capital assets, being depreciated, net	<u>332,150,202</u>	<u>(22,640,265)</u>	<u>10,569,848</u>	<u>320,079,785</u>
Capital assets, net	<u>\$ 469,657,791</u>	<u>\$ 20,635,420</u>	<u>\$ (5,750)</u>	<u>\$ 490,287,461</u>

Depreciation expense for the year ended June 30, 2023 was charged to functions of the Department as follows:

Administration and support services	\$ 1,164,556
Homestead services	21,694,160
Land development	-
Land management	89,060
Total depreciation	<u>\$ 22,947,776</u>



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE H - LONG-TERM OBLIGATIONS

For the year ended June 30, 2023, changes in long-term obligations were as follows:

	Certificates of Participation	Bonds Payable	Note Payable	Accrued Vacation
Balances at July 1, 2022	\$ 12,719,447	\$ 26,694,783	\$ -	\$ 1,683,794
Increase	-	-	7,455,000	671,393
Decrease	(1,059,281)	(2,241,236)	-	(706,493)
Balances at June 30, 2023	<u>\$ 11,660,166</u>	<u>\$ 24,453,547</u>	<u>\$ 7,455,000</u>	<u>\$ 1,648,694</u>

Obligations for accrued vacation are generally liquidated by the General Fund, the Hawaiian Home Operating Fund, and the Hawaiian Home Administration Account.

NOTE I - BONDS PAYABLE

The Department’s outstanding revenue bonds consist of annual increments which mature on April 1, 2024 through 2032. Revenue bonds maturing on or after April 1, 2028 may be redeemed by the Department on or after April 1, 2027. The revenue bonds are payable from and secured by the Department’s revenues generated from general leases and available lands. Interest expense of approximately \$1,022,000 is reported as administration and support services expense in the statement of activities.

Details of the Department’s revenue bonds as of June 30, 2023 are as follows:

\$30,940,000 revenue bonds dated August 25, 2017; due in annual principal and interest installments of \$2,541,000 to \$3,011,000 from April 1, 2024 through April 1, 2032; interest at 3% to 5% payable semi-annually.	\$ 21,250,000
Unamortized premium on revenue bonds	<u>3,203,547</u>
Total revenue bonds	24,453,547
Less: Current portion	<u>(1,970,000)</u>
Long-term portion	<u>\$ 22,483,547</u>



State of Hawai‘i
Department of Hawaiian Home Lands

Notes to Financial Statements

June 30, 2023

NOTE I - BONDS PAYABLE (continued)

The annual requirements of the revenue bonds are as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,970,000	\$ 1,038,000	\$ 3,008,000
2025	2,070,000	939,000	3,009,000
2026	2,175,000	836,000	3,011,000
2027	2,280,000	727,000	3,007,000
2028	2,395,000	613,000	3,008,000
2029	2,515,000	493,000	3,008,000
2030	2,640,000	367,000	3,007,000
2031	2,770,000	235,000	3,005,000
2032	2,435,000	106,000	2,541,000
	<u>\$ 21,250,000</u>	<u>\$ 5,354,000</u>	<u>\$ 26,604,000</u>

NOTE J - LEASE LIABILITY

In December 2006, the Department entered into a 25-year facility lease agreement with Wells Fargo Bank, National Association, to lease an office facility which was constructed and completed in April 2008.

In August 2017, Wells Fargo Bank transferred the lease by assignment to The Bank of New York Mellon Trust Company, National Association (BNY Mellon). The Department and BNY Mellon amended the lease payment schedule resulting in present value savings to the Department of approximately \$4,061,000. The Department is required to make semi-annual interest payments and annual principal payments until expiration in November 2031. Interest on the outstanding balance accrues at rates between 4% and 5%. Upon expiration of the lease, the title of the facility will be transferred from the lessor to the Department.

The cost basis and accumulated depreciation of the leased assets at June 30, 2023 was as follows:

Buildings and improvements	\$ 18,075,512
Infrastructure	3,357,955
Furniture and equipment	4,079,799
Less: Accumulated depreciation	<u>(15,157,772)</u>
	<u>\$ 10,355,494</u>

Interest expense of approximately \$334,000 is reported as administration and support services expense in the statement of activities.



State of Hawai‘i
Department of Hawaiian Home Lands

Notes to Financial Statements

June 30, 2023

NOTE J - LEASE LIABILITY (continued)

The following is a schedule of future minimum lease payments related to this agreement:

Year ending June 30,		
2024	\$	1,398,000
2025		1,397,000
2026		1,397,000
2027		1,396,000
2028		1,396,000
Thereafter		5,588,000
Total minimum lease payments		12,572,000
Less: Amount representing interest		(2,447,000)
Unamortized premium on certificates of participation		1,535,000
Present value of minimum lease payments		11,660,000
Less: Current portion		(915,000)
Long-term portion	\$	10,745,000

NOTE K – NOTE PAYABLE

In December 2022, the Department entered into a note payable to the U.S. Department of Agriculture (USDA) in connection with capital improvements to water systems. The note provides for annual interest-only payments until December 2024 and annual payments of \$346,658 each December thereafter with any remainder due upon maturity in December 2057. Interest accrues on outstanding balances at 2.75% per annum.

The annual requirements of the note payable are as follows:

Year ending June 30,	Principal	Interest	Total
2024	\$ -	\$ 205,000	\$ 205,000
2025	-	205,000	205,000
2026	142,000	205,000	347,000
2027	146,000	201,000	347,000
2028	149,000	197,000	346,000
2029-2034	988,000	1,092,000	2,080,000
2035-2040	1,162,000	918,000	2,080,000
2041-2046	1,368,000	712,000	2,080,000
2047-2052	1,609,000	471,000	2,080,000
2053-2058	1,891,000	186,000	2,077,000
	\$ 7,455,000	\$ 4,392,000	\$ 11,847,000



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE L - GENERAL LEASES AND LICENSES

The Department’s general leasing operations (Section 204 of the HHCA) consist principally of the leasing of its available lands not required to be leased to native Hawaiians for residential, agricultural, or pastoral purposes; that is, lands other than homestead leases pursuant to Section 207 of the HHCA. The general leases have varying terms extending through July 2084. Some leases include provisions for adjustments of future lease payments based on fair market values at specified intervals.

The future principal and income from general leases adjusted for collectability as of June 30, 2023 is as follows:

<u>Year ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 11,765,465	\$ 8,604,947	\$ 20,370,412
2025	5,844,169	8,443,269	14,287,438
2026	5,795,302	8,263,961	14,059,263
2027	5,911,373	8,078,520	13,989,893
2028	6,473,702	7,904,635	14,378,337
2029 - 2033	35,446,322	36,156,545	71,602,867
2034 - 2038	23,475,035	31,924,611	55,399,646
2039 - 2043	22,681,365	28,506,676	51,188,041
2044 - 2048	21,574,020	25,324,156	46,898,176
2049 - 2053	25,513,072	21,863,614	47,376,686
2054 - 2058	30,355,800	17,795,091	48,150,891
2059 - 2063	28,300,006	13,652,954	41,952,960
2064 - 2068	33,796,230	9,235,218	43,031,448
2069 - 2073	21,262,233	4,958,352	26,220,585
2074 - 2078	18,027,012	2,413,193	20,440,205
2079 - 2083	7,261,319	329,737	7,591,056
2084 - 2088	465,018	6,748	471,766
	<u>\$ 303,947,443</u>	<u>\$ 233,462,227</u>	<u>\$ 537,409,670</u>

NOTE M - EMPLOYEE BENEFIT PLANS

Substantially all employees of the Department participate in the State’s various employee benefit plans, including the Employees’ Retirement System (ERS) of the State of Hawai‘i, postemployment healthcare and life insurance plan, and a deferred compensation plan. For more information on the State’s benefit plans, refer to the State of Hawai‘i and ERS’ ACFR. The State’s ACFR can be found at the DAGS website: <https://ags.hawaii.gov/accounting/annual-financial-reports/>. The ERS’ ACFR can be found at: <https://ers.ehawaii.gov/resources/financials>.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE M - EMPLOYEE BENEFIT PLANS (continued)

Employees’ Retirement System

The ERS is a cost-sharing, multiple-employer defined benefit public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. All contributions, benefits, and eligibility requirements are established by HRS Chapter 88 and can be amended by legislative action.

- **State Policy** – The actuarial valuation of the ERS does not provide pension information by department or agency. Accordingly, the State’s policy on the accounting and reporting for pension benefits is to allocate a portion of the net pension liability, pension expense, and deferred inflows and outflows of resources required under GASB Statement No. 68, as amended, only to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State’s ACFR. The basis for the allocation is the number of covered employees for each component unit and proprietary fund for pension benefits.
- **Contributions** – Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Contributions by the Department to the pension plan were approximately \$1,923,000 for the year ended June 30, 2023.
- **Required Supplementary Information and Disclosures** – The State’s ACFR includes the required footnote disclosures and supplementary information on the State’s pension plan.

Deferred Compensation Plan

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all eligible 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 has the duty of due care that would be required of an ordinary prudent investor.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE M - EMPLOYEE BENEFIT PLANS (continued)

Postemployment Healthcare and Life Insurance Benefits

The State contributes to the Hawai‘i Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The eligibility requirements for retiree health benefits are based on date of hire.

- **State Policy** – The actuarial valuation of the EUTF does not provide other postemployment benefit (OPEB) information by department or agency. Accordingly, the State’s policy on the accounting and reporting for OPEB is to only allocate a portion of the State’s Annual Required Contribution (ARC), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State’s ACFR. The basis for the allocation is the number of covered employees for each component unit and proprietary fund.
- **Contributions** – Contributions are financed on a pay-as-you-go basis. Contributions by the Department to the EUTF for the year ended June 30, 2023 were approximately \$2,490,000.
- **Required Supplementary Information and Disclosures** – The State’s ACFR includes the required footnote disclosures and supplementary information on the State’s OPEB plan.

NOTE N - COMMITMENTS AND CONTINGENCIES

Litigation

The Department is a party to various legal proceedings, the outcome of which, in the opinion of management, will not have a material adverse effect on the Department’s financial position. Losses, if any, are either covered by insurance or will be paid from legislative appropriations of the State’s General Fund.

For purposes of securing information about the Hawaiian Home Lands Trust Individual Claims discussed as a separate note in prior audits of the Department, please see the discussion about Individual Claims and the lawsuits relating to them, including the claims against the State and the Department in *Kalima et al. v. State of Hawai‘i, et al.*, Civil No. 00-1-1041-03 (1st Cir.), in the State’s ACFR on the DAGS website.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE N - COMMITMENTS AND CONTINGENCIES (continued)

Insurance

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. 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. At June 30, 2023, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Department's portion of the State's workers' compensation liability was not material at June 30, 2023.

Guaranteed and Insured Loans

The Department is a party to a mortgage loan insurance agreement with HUD. The agreement provides that HUD will perform underwriting processing for the insurance program and will administer an insurance fund for mortgages originated and held by HUD-approved lenders. The Department will maintain and provide the necessary and proper funds for payment of any mortgage insurance claims and expenditures incurred by HUD in connection with the lessee borrowers. The Department has reserved cash of approximately \$2,350,000 in the trust fund and has deposited \$150,000 with HUD. As of June 30, 2023, loans outstanding totaled approximately \$538,024,000 under this agreement, of which approximately \$31,678,000 has been reported as delinquent.

The Department is also a party to a Native Hawaiian Home Loan Guarantee Program (HUD Section 184) agreement with HUD. The agreement provides that HUD will guarantee certain loans in which homestead leases issued by the Department pursuant to the Hawaiian Homes Commission Act is used as collateral for the loan. As of June 30, 2023, loans outstanding totaled approximately \$124,736,000 under this agreement, of which approximately \$4,469,000 has been reported as delinquent.

The Department is contingently liable for certain loans originated by the Rural Development Agency of the USDA for which the Department has guaranteed repayment. The Department has estimated the balance of these loans is between \$50,000,000 and \$70,000,000 as of June 30, 2023. The Department was unable to obtain the delinquent balance as of June 30, 2023.

As of June 30, 2023, the Department was also contingently liable for approximately \$2,554,000 in loans originated by financial institutions and other lenders for which it had guaranteed repayment. Approximately \$1,026,000 of these loans have been reported delinquent as of June 30, 2023.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2023

NOTE N - COMMITMENTS AND CONTINGENCIES (continued)

Guaranteed and Insured Loans (continued)

As of June 30, 2023, the Department cumulatively paid approximately \$8,186,000 for delinquent mortgage loan payments of lessees. These payments are carried as loans receivable from lessees and bear similar terms as stipulated in the lessees' mortgage notes with the lenders.

The Department has certain loans for which the collateral for the loans is not covered by casualty insurance. The number of such loans was not known as of June 30, 2023.

Other

In December 2008, the Department entered into a collaborative financing arrangement with the Office of Hawaiian Affairs, State of Hawai‘i (OHA) in which OHA will provide funds for the Department's use in the planning, design, and construction of infrastructure for homesteads for native Hawaiians on properties owned and controlled by the Department. Under the agreement, OHA will pay the Department on an annual basis the lesser of \$3,000,000 or the debt service of bonds, including refunding bonds, issued by the Department to finance infrastructure for housing for native Hawaiians. The Department received \$3,000,000 from OHA during the year ended June 30, 2023, and as of June 30, 2023, the Department received a cumulative total of approximately \$40,987,000 from OHA.

NOTE O - ASSESSMENTS FOR CENTRAL SERVICE AND ADMINISTRATIVE EXPENSES

The State of Hawai‘i has asserted that the Department is liable for its pro rata share of central service and administrative expenses incurred by the State in accordance with Sections 36-27 and 36-30, HRS. Pursuant to Section 36-31, HRS, the Department maintains that their funds are trust funds and are not subject to the special fund assessments. Accordingly, no provision for any liability has been made in the accompanying financial statements.

Effective July 1, 1998, Act 27, SLH 1998 amended Section 213 of the Hawaiian Homes Commissions Act and reclassified certain special funds as trust funds.

As of June 30, 2023, the Department's estimate of the accumulated asserted assessments since the inception of these laws approximated \$27,026,000.

NOTE P - SUBSEQUENT EVENTS

The Department has evaluated subsequent events through March 22, 2024, which is the date the financial statements were available to be issued.



Supplemental Information



State of Hawai'i
Department of Hawaiian Home Lands
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2023

Supplemental Information

	Department of Hawaiian Home Lands Revenue Bond Special Fund	Federal Grants	Planning and Development for Hawaiian Homesteads	Geothermal Resources on Hawaiian Home Lands	Hawaiian Home Loan Fund	Native Hawaiian Rehabilitation Fund	Temporary Deposits	East West Collector Road Fund	Total Other Governmental Funds
ASSETS									
Cash in State Treasury	\$ 11,447,982	\$ 14,999,608	\$ 9,016,920	\$ 450,000	\$ 3,674,550	\$ 5,886,141	\$ 3,245,314	\$ 2,350	\$ 48,722,865
Receivables									
Loans, net of allowance for losses of \$65,000	-	24,151,709	-	-	930,430	-	-	-	25,082,139
Accrued interest - leases and licenses, net of allowance for losses of \$0	-	-	-	-	-	224,055	-	-	224,055
Accrued interest - investment pool	35,480	104,505	-	-	-	18,624	-	-	158,609
Other	-	6,037,292	-	-	-	-	-	-	6,037,292
Restricted cash and short-term investments held outside of State Treasury	1,152,015	-	-	-	-	-	-	-	1,152,015
Total assets	<u>\$ 12,635,477</u>	<u>\$ 45,293,114</u>	<u>\$ 9,016,920</u>	<u>\$ 450,000</u>	<u>\$ 4,604,980</u>	<u>\$ 6,128,820</u>	<u>\$ 3,245,314</u>	<u>\$ 2,350</u>	<u>\$ 81,376,975</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES									
Liabilities									
Vouchers and contracts payable	\$ -	\$ 684,338	\$ 931,836	\$ 125,103	\$ -	\$ 46,000	\$ -	\$ -	\$ 1,787,277
Other liabilities	-	-	-	-	8,067	-	3,245,314	-	3,253,381
Total liabilities	-	684,338	931,836	125,103	8,067	46,000	3,245,314	-	5,040,658
Deferred inflows of resources									
Unavailable revenues	-	86,999	-	-	-	-	-	-	86,999
Total deferred inflows of resources	-	86,999	-	-	-	-	-	-	86,999
Fund balances									
Restricted for									
Capital projects	-	14,864,566	-	-	-	-	-	-	14,864,566
Federal loan programs	-	29,657,211	-	-	-	-	-	-	29,657,211
Debt agreements	1,152,015	-	-	-	-	-	-	-	1,152,015
Committed to									
Capital projects	-	-	8,085,084	-	-	-	-	-	8,085,084
Geothermal resources	-	-	-	324,897	-	-	-	-	324,897
Assigned to									
Home loans and homestead services	-	-	-	-	4,596,913	-	-	-	4,596,913
Home construction and land development	11,483,462	-	-	-	-	6,082,820	-	2,350	17,568,632
Total fund balances	<u>12,635,477</u>	<u>44,521,777</u>	<u>8,085,084</u>	<u>324,897</u>	<u>4,596,913</u>	<u>6,082,820</u>	<u>-</u>	<u>2,350</u>	<u>76,249,318</u>
Total liabilities and fund balances	<u>\$ 12,635,477</u>	<u>\$ 45,293,114</u>	<u>\$ 9,016,920</u>	<u>\$ 450,000</u>	<u>\$ 4,604,980</u>	<u>\$ 6,128,820</u>	<u>\$ 3,245,314</u>	<u>\$ 2,350</u>	<u>\$ 81,376,975</u>



State of Hawai'i
Department of Hawaiian Home Lands
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
for the year ended June 30, 2023

Supplemental Information

	Department of Hawaiian Home Lands Revenue Bond Special Fund	Federal Grants	Planning and Development for Hawaiian Homesteads	Geothermal Resources on Hawaiian Home Lands	Hawaiian Home Loan Fund	Native Hawaiian Rehabilitation Fund	Temporary Deposits	East West Collector Road Fund	Total Other Governmental Funds
Revenues									
State appropriations	\$ -	\$ -	\$ 9,000,000	\$ 450,000	\$ -	\$ -	\$ -	\$ -	\$ 9,450,000
Interest from loans, leases, and notes	-	171,744	-	-	-	-	-	-	171,744
Investment income	321,730	-	-	-	-	138,600	-	-	460,330
Intergovernmental	3,000,000	10,210,725	-	-	-	-	-	-	13,210,725
Other	-	378,611	-	-	-	449,736	-	-	828,347
Total revenues	3,321,730	10,761,080	9,000,000	450,000	-	588,336	-	-	24,121,146
Expenditures									
Current									
Administration and support services	-	6,149,713	931,836	-	-	405,808	-	-	7,487,357
Homestead services	-	-	-	-	(4,083)	-	-	-	(4,083)
Land management	-	-	-	125,103	-	-	-	-	125,103
Capital outlay	-	763,247	-	-	-	-	-	-	763,247
Debt service									
Principal	1,875,000	-	-	-	-	-	-	-	1,875,000
Interest	1,131,250	-	-	-	-	-	-	-	1,131,250
Total expenditures	3,006,250	6,912,960	931,836	125,103	(4,083)	405,808	-	-	11,377,874
Excess (deficiency) of revenues over (under) expenditures	315,480	3,848,120	8,068,164	324,897	4,083	182,528	-	-	12,743,272
Other financing sources (uses)									
Proceeds from debt issuance	-	7,455,000	-	-	-	-	-	-	7,455,000
Transfers in	3,006,346	4,017,650	16,920	-	-	-	-	-	7,040,916
Transfers out	(3,006,346)	(4,017,650)	-	-	-	-	-	-	(7,023,996)
Total other financing sources	-	7,455,000	16,920	-	-	-	-	-	7,471,920
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	315,480	11,303,120	8,085,084	324,897	4,083	182,528	-	-	20,215,192
Net change in fund balances	315,480	11,303,120	8,085,084	324,897	4,083	182,528	-	-	20,215,192
Fund balances at July 1, 2022	12,319,997	33,218,657	-	-	4,592,830	5,900,292	-	2,350	56,034,126
Fund balances at June 30, 2023	\$ 12,635,477	\$ 44,521,777	\$ 8,085,084	\$ 324,897	\$ 4,596,913	\$ 6,082,820	\$ -	\$ 2,350	\$ 76,249,318



Schedule of Expenditures of Federal Awards



State of Hawai'i
Department of Hawaiian Home Lands
Schedule of Expenditures of Federal Awards
for the year ended June 30, 2023

Federal Grantor/Pass-through Grantor/Program Title	Assistance Listing Number	Award Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
Hoolehua Water Project	10.760	61-002-990266483-4	\$ -	\$ 13,938,821
Anahola Farm Lots Water Project	10.760	61-002-990266483-5	-	2,383,507
Total U.S. Department of Agriculture			<u>-</u>	<u>16,322,328</u>
U.S. Department of Housing and Urban Development				
Native Hawaiian Housing Block Grant, Year 14	14.873	15HBGHI001	3,462,500	6,881,776
Native Hawaiian Housing Block Grant, Year 16	14.873	17HBGHI001	-	347,256
Total U.S. Department of Housing and Urban Development			<u>3,462,500</u>	<u>7,229,032</u>
U.S. Department of the Treasury				
(C-19) Homeowner Assistance Program	21.023	HAF0457A	631,650	631,650
Total U.S. Department of the Treasury			<u>631,650</u>	<u>631,650</u>
Total Expenditures of Federal Awards			<u>\$ 4,094,150</u>	<u>\$ 24,183,010</u>

See notes to the schedule of expenditures of federal awards.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2023

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Department and is presented on the cash basis of accounting. The information on this schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Loans Outstanding

The Department had the following loan balances outstanding as of June 30, 2023. Loans made during the year are included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
<i>Receivable from homesteaders</i>		
U.S. Department of Housing and Urban Development		
Native Hawaiian Housing Block Grant	14.783	\$ <u>30,371,589</u>
<i>Payable to Federal government</i>		
U.S. Department of Agriculture		
Hoolehua Water Project	10.760	\$ <u>7,455,000</u>

3. Indirect Costs

The Department has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.



Part II

Government Auditing Standards





Report of Independent Auditor 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*

The Auditor
State of Hawai‘i

The Hawaiian Homes Commission
Department of Hawaiian Home Lands

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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawai‘i, Department of Hawaiian Home Lands (the “Department”) as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Department’s basic financial statements, and have issued our report thereon dated March 22, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department’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 the Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Department’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 Department’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 or significant deficiencies. However, material weaknesses or significant deficiencies may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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 Department'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 Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Akamine, Oyadomari and Kosaki CPAs Inc.

Honolulu, Hawai'i
March 22, 2024





**Report of Independent Auditor on Compliance for
Each Major Program and on Internal Control Over Compliance
Required by the Uniform Guidance**

The Auditor
State of Hawai'i

The Hawaiian Homes Commission
Department of Hawaiian Home Lands

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the State of Hawai'i, Department of Hawaiian Home Lands' (the "Department") 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 the Department's major federal programs for the year ended June 30, 2023. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Department complied, in all material respects, with the types of 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Department 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 the Department'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 the Department's federal programs.

Auditor's 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 the Department'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 generally accepted auditing standards, *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 the Department's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 the Department'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 the Department'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 the Department'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

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 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. 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.

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. Given these limitations, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses or significant deficiencies, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

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.

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.

Akamine, Oyadomari and Kosaki CPAs Inc.

Honolulu, Hawai'i
March 22, 2024



Part III
Schedule of Findings and Questioned Costs



State of Hawai‘i
Department of Hawaiian Home Lands
 Schedule of Findings and Questioned Costs
 for the year ended June 30, 2023

Section I – Summary of Auditor’s Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting

- Material weaknesses identified? yes X no
- Significant deficiencies identified? yes X none reported

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal control over major programs:

- Material weaknesses identified? yes X no
- Significant deficiencies identified? yes X none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?

 yes X no

Identification of major federal programs:

CFDA

<u>Number</u>	<u>Name of Federal Program or Cluster</u>
10.760	Anahola Farm Lots Water Project
10.760	Ho‘olehua Water Project
14.873	Native Hawaiian Housing Block Grant

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X yes no



State of Hawai‘i
Department of Hawaiian Home Lands
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2023

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None.

Section IV – Status of Prior Year Findings and Questioned Costs

Internal Control over Financial Reporting

No matters reported.

Federal Award Finding and Questioned Costs

None.

