

office of
hawaiian affairs

I HO'OKAHI PU'UWAI ME KA LŌKAHI – ONE IN HEART, UNIFIED



office of
2001 annual report
hawaiian affairs

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Board of Trustees



Rowena Akana
Vice Chairperson
Trustee, At-large

Haunani Apoliona
Trustee, At-large

Donald Cataluna
Trustee, Kaua'i & Ni'ihau

Linda K. Dela Cruz
Trustee, Hawai'i

Clayton Hee
Chairman
Trustee, O'ahu

Colette Machado
Trustee, Moloka'i
& Lāna'i



Charles Ota
Trustee, Maui

Oz Stender
Trustee, At-large

John D. Waihe'e IV
Trustee, At-large

**Board of trustee
positions held
during the fiscal
period being
reported.**

- Rowena Akana**
Trustee, At-large
- Haunani Apoliona**
Chairperson, Trustee, At-large
- Donald Cataluna**
Vice Chair, Trustee, Kaua'i & Ni'ihau
- Linda K. Dela Cruz**
Trustee, Hawai'i

**Administrator
during the fiscal
period being
reported:**

- Clayton Hee**
Trustee, O'ahu
- Colette Y. P. Machado**
Trustee, Moloka'i & Lāna'i
- Charles Ota**
Trustee, Maui
- Oz Stender**
Trustee, At-large
- John D. Waihe'e IV**
Trustee, At-large

Randall Ogata

Chairman's Message



Clayton Hee
Chairman
Board of Trustees

E ka lehulehu ē, aloha iā kākou pākahi a pau.

On behalf of the Board of Trustees, administration and staff, I am pleased to present this report of the Office of Hawaiian Affairs (OHA) highlighting its programs in FY 2001 (July 1, 2000-June 31, 2001). A full financial audit by Delloite and Touche detailing the activities of OHA's portfolio in FY 2001 follows.

The mission of the Office of Hawaiian Affairs is to work toward bettering the conditions of all Hawaiians. OHA focuses on such areas as economic development, housing, native rights, health, culture, government affairs and education. Administrative and trustee offices are maintained in Kaka'ako, Honolulu; and statewide community office are located in Hilo, Kona, Kahului, Kaunakakai and Lihu'e, providing access for beneficiaries. Statewide, OHA employs 110. In 1978, OHA was created by the State Constitutional Convention, and in 1979, ratified by the entire statewide electorate. Chapter 10 of Hawai'i Revised Statutes mandates OHA to "address the needs of the aboriginal class of people of Hawai'i." Over more than two decades of operation, the social, political, cultural and economic fabric of Hawai'i has changed profoundly. Over time, OHA has also changed.

OHA and the Hawaiian community have been particularly hard hit in recent months. Challenges to the rights and entitlements of Native Hawaiians will continue and punctuate the need for clear thinking, sound planning, fiscal prudence and firm leadership. The Barrett and Carroll challenges, and the reversal of Act 304 defining the revenue stream due Native Hawaiians are only the beginning.

The devastating terrorist attacks of Sept. 11 changed world as we know it forever. The resulting groundswell of patriotism across the country has been phenomenal. We join in the expressions of aloha to the thousands of lives lost, and the many more directly impacted by those tragedies. For Hawaiians, the reality of the Sept. 11 will impact the current federal recognition bill before Congress, designed to protect Native Hawaiian rights and entitlements.

As we focus on what lies on the horizon, I suggest we take a brief look back in our history for some direction. In 1792 at the battle of Kepaniwaio'iao, Kamehameha I, faced with seemingly insurmountable challenges, called out to his army, "I mua e nā pōki'i a inu i ka wai 'awa'awa – 'a'ohē hope e ho'i mai ai" saying to them, "Forward, my brothers, and drink of the bitter waters, for there is no turning back now." He faced his challenges head on, and in the end, was the victor.

Another exceptional Hawaiian was retired OHA trustee and long-time chair of the Budget and Finance Committee Abraham Aiona, who passed away June 21. Like Kamehameha I, Abe Aiona was a respected leader and much loved by his family. In matters of justice, he was uncompromising. His savvy for finance and investment catapulted OHA's portfolio to more than \$300 million during his tenure as trustee. He gave unselfishly, and is largely responsible for Moloka'i's kidney dialysis center for diabetes patients – the illness which he himself fought bravely to the end. Hawaiians are better off today because of Abe Aiona. To his family, I say a heartfelt mahalo nui.

OHA is committed to moving forward. This Fiscal 2001 annual report, "I Ho'okahi Pu'uwai me ka Lōkahi," is a snapshot in time of OHA's continuing mission and mandate to better the conditions of Hawaiians. I mua e nā pōki'i.

Me ka 'oia'io,

A handwritten signature in black ink that reads "Clayton Hee".

Clayton H.W. Hee
Chairman, Board of Trustees

Trustee Aides

Buzzy Agard, *Ota*

Crayn Akina, *Waihe'e*

Lilia Kapuni'ai (*chief of staff*), *Hee*

Gaye Miyasaki, *Akana*

'I'ini Nicholas, *Hee*

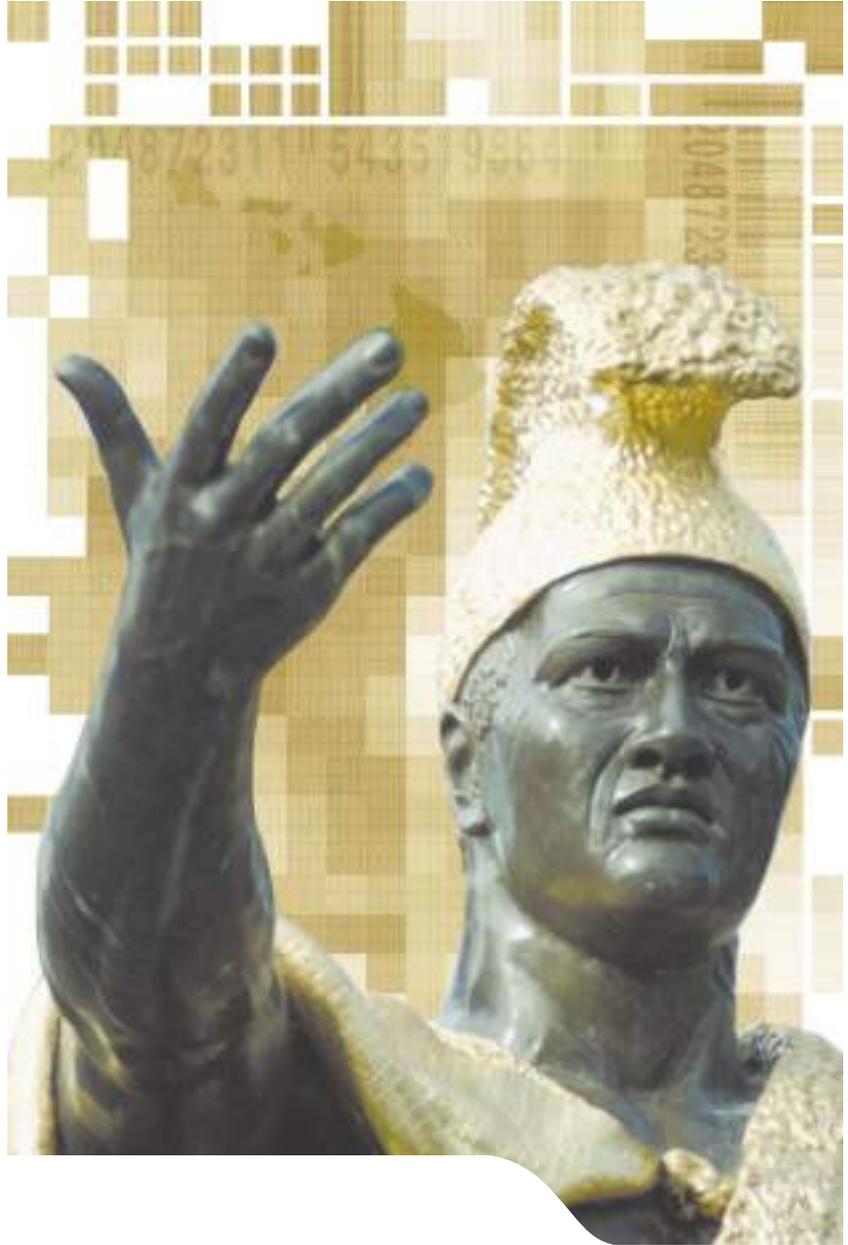
Kekai Perry, *Machado*

Ikaika Rawlins, *Stender*

Martha Ross, *Apoliona*

Marion Shim, *Cataluna*

Jojo Tanimoto, *Dela Curz*



Trustee Secretaries

Kiva Contreras, *Hee*

Lei-Ann Durant, *Stender*

Reynold Freitas, *Apoliona*

Gladys Rodenhurst, *Akana*

Francine Murray, *Waihee*

Bobbi Ray, *Cataluna*

LoriAnn Santos, *Machado*

Jessie A. Torres, *Dela Cruz*

Lori Vierra, (*private secretary*) *Hee*

Tiona Wailehua, *Ota*

Administration



Clyde W. Nāmu'o
Administrator

Administration Staff

Gwendolyn Ha, executive secretary
and personal assistant

Lani Akana, clerk typist

Barbara Yuen, secretary

About the Office of the Administrator:

The Office of the Administrator manages the internal operations of the Office of Hawaiian Affairs by providing leadership, guidance, direction and executive oversight. It implements the policies, rules and directives adopted by the Board of Trustees and guides the organization's operation within the parameters established by the board and in response to the concerns of OHA's beneficiaries. Additionally, the office works with other agencies, government and private, that also serve Hawaiians and native Hawaiians toward OHA's mission of bettering the conditions of all Hawaiians. It reports to the board on OHA's fiscal status and on the status of projects and programs. This includes developing and overseeing organizational structures and procedures; securing, supervising and inspiring staff in the skills and attitudes required to work together; and guiding the implementation of OHA's functional, master and strategic plans and processes.

Aloha. It is with great pleasure that we present the Fiscal 2001 Office of Hawaiian Affairs Annual Report. My term as administrator began August 2001. This document clearly illustrates the tradition of excellence that our staff has adhered to in service of our beneficiaries. It is a tradition and standard that I have embraced and will work to ensure continues and evolves to meet the needs of our entire community.

I know well the challenges that confront us as we reach for new opportunities to create, support and service our programs in ways that are sensitive to the needs of Hawaiians. I cherish the mantle of leadership that has been bestowed upon me. It is the same responsibility for effective leadership that our programs and operations must continue to shoulder as the only state organization with a mandate that works for the betterment of Hawaiians.

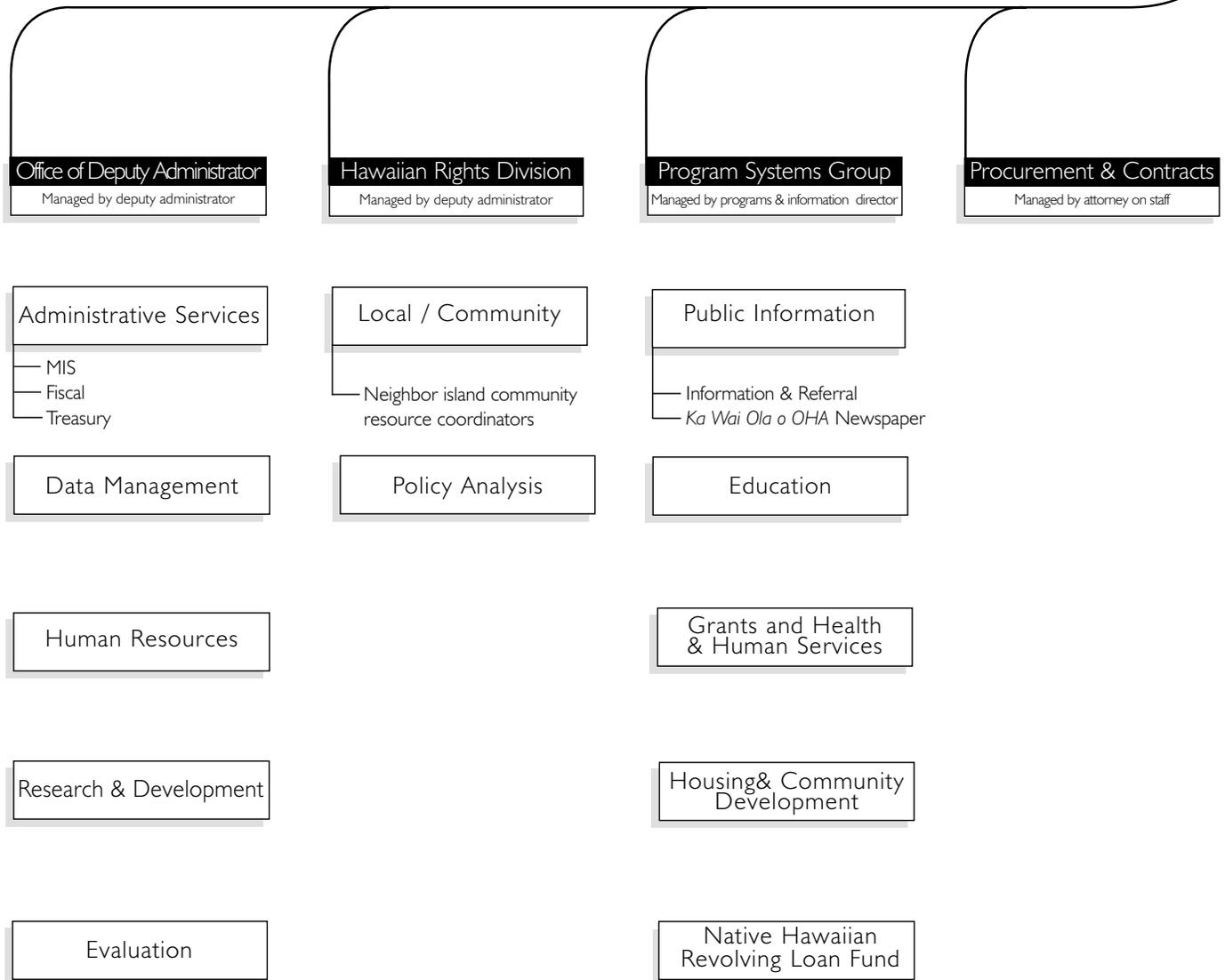
Please read this report as a statement of where we have been as well as a hint of where we intend to go. Our mandate is the betterment of Hawaiians; it is a mandate we take seriously and with great pride. Our beneficiaries and their future generations expect nothing less.

Clyde W. Nāmu'o

Organizational Chart

Board of Trustees

Office of Administrator



Note: The chart above depicts the present structure of the organization.

Administrative Services

Mission

To work in partnership with OHA divisions, beneficiaries and the public by meeting OHA's administrative and financial management needs and interests through delivery of responsive and effective services in:

Finance; procurement and small purchasing; treasury; accounting; grants and agreements; land management; information systems and technology; major contracting and acquisition.

Needs Served

Within the Office of Hawaiian Affairs, the ASO is integral to OHA's infrastructure, managing resources, using technology to streamline processes, attempting to fully integrate all aspects of financial information processing, and reporting. ASO's major functional areas are:

- Accounting is responsible for the day-to-day processing and auditing of accounting transactions, systems analysis, maintaining the general ledger and all aspects of producing accurate financial reports.
- Treasury includes reviews of OHA's Native Hawaiian Trust Fund, accounts receivable, credit and collections, and the coordination of OHA's annual budget development to effectively allocate resources within the organization, as guided by OHA's long-range and strategic plans.
- Financial management involves accounting and treasury working hand-in-hand in the development of financial plans in accordance with OHA's financial policies in order to safeguard and

maximize return on OHA's financial assets.

- Procurement and contracts ensures that OHA is in compliance with the State procurement code and that all contracts are properly executed as required by law and adequately monitored.
- Information systems includes the management, maintenance on development of the organization's local and statewide computer information network.

FY-01 Highlights

Each year, an independent certified public accounting firm conducts an audit of OHA's financial statements. The financial statements for the fiscal year ending June 30, 2001, are contained in this annual report.

On Oct. 31, 2000, OHA adopted the OHA Spending Policy to ensure the continued viability of the Office of Hawaiian Affairs' (OHA) Native Hawaiian Trust Funds by providing specific guidelines to balance the objectives of maintaining principal and producing large, stable, and predictable spending. In addition, the Board of Trustees centralized budget activities and provided multi-year funding stability to projects and programs via the adoption of a biennial Total Operating Budget (TOB) for FY-02 and FY-03.

Administrative Staff (currently assigned)

Joan Bolte, *chief financial officer*

Kaui Daunie, *information systems assistant*

Gerald Honda, *credit and collections specialist*

Mylene Lacuesta, *accounting assistant*

Theresa Linmark, *accounting assistant*



Waikiki Health Center

Lisa Perry is a nurse practitioner working with the Waikiki Health Center mobile clinic. Lisa and her colleagues provide basic health care to Hawaiians throughout O'ahu communities. Funded by an OHA grant, the mobile clinic has assured the basic right of health care to numerous families, who once had to do without.

Alan Lum, *information systems specialist*

Susan Maltezo, *financial analyst*

Gwen Valbuena, *accounting assistant*

Mona Yin, *accounting assistant*



Keiki o ka 'Āina Preschool

Momi Duran is the founder and head teacher at the Keiki o ka 'Āina preschool. Momi is committed to the education and emotional development of the children in her care, and she founded the preschool with her own personal resources.

Through an OHA grant program that supplements tuition costs for Hawaiian families, Momi has been able to offer her unique brand of care to a number of Hawaiian children.

Mission

To effectively manage the human resources and facilities service capabilities of the agency.

Needs Served

Human resources services include recruitment, wage and benefit administration, employee services, staff development, leave accounting and personnel record keeping, and related areas in accordance with applicable statutes, standards and guidelines. This office also coordinates the Volunteer Services Program on a statewide basis and secures volunteers to support OHA divisions and offices in meeting the needs of the beneficiaries.

Facility management services for the agency include repair and maintenance, telephone support, office equipment and supplies, messenger, postal, reception, and other related activities.

The Human Resources Office manages both the human and facility resources of the agency in conjunction with the Operations Division, Hawaiian Rights Division and the Program Systems Group.

Human Resources serves such agency needs as wage and benefit administration, employee performance

review, staff development, employment law compliance, leave accounting, personnel record keeping, volunteer, and related staff services.

Facility resources serve such agency needs as reception, messenger, office equipment and supplies, transportation services, mail, building maintenance and repair, and related services.

FY-01 Highlights

As one of the more recent offices, created in FY-99, the Human Resource Office developed and/or streamlined the following programs:

- Recruitment, examination and placement
- Orientation
- Leave Accounting
- Safety and Security
- Staff Development
- Volunteer Services
- Facilities Management
- Employee Development Report Program (EDRP)
- Merit Review System (MRS)

Human Resources Staff (currently assigned)

Alvin Kushima, *personnel manager*

Jennifer Chiwa, *secretary*

Winona Gaison, *receptionist*

JoAnne Medeiros, *secretary*

Tane Mosher, *personnel management specialist*

Tiana Young, *personnel assistant*

Public Information

Mission

The Public Information Office (PIO) assists in communicating OHA policies, programs and activities, as well as information on Hawaiian issues vital to the Hawaiian community and general public. It also supports all OHA divisions and offices with their media and information dissemination efforts and graphic design.

Needs Served

The PIO serves as OHA's outlet to the media and the general public. This applies to all news and event information of relevance to the Hawaiian community. The PIO, through its production of OHA's monthly newspaper, *Ka Wai Ola o OHA*, or through its advertising and media releases, serves all beneficiaries while providing valuable information to all Hawai'i residents. The increasing necessity for information via the Internet has opened access of information to beneficiaries and members of the general public around the globe. This increased emphasis was provided significant resources in fiscal 2001.

FY-01 Highlights

In fiscal 2001, the PIO was provided numerous opportunities to assist Hawaiians and the Office of Hawaiian Affairs. PIO sought every available avenue to promote OHA's priorities in working for the betterment of all Hawaiians. Some of the highlights include:

The PIO produced 12 editions of *Ka Wai Ola o*

OHA distributed to more than 60,000 addresses. *Ka Wai Ola* is also placed on OHA's official Web site, where it can be downloaded in PDF format, reaching Hawaiians and other interested readers around the globe.

New opportunities via the Internet were embraced with the creation and maintenance of two web sites at www.All4Aloha.com and www.NativeHawaiians.com, in addition to OHA's main site at www.OHA.org. Throughout the fiscal year, these sites collectively tallied more than 3 million hits or contacts with Internet users. Through a focused informational, educational and media campaign, the PIO shared with OHA's beneficiaries many of the community initiatives and funding efforts by OHA's trustees.

Public Information Office Staff (currently assigned)

Ryan Mielke, *programs and information director*

Manu Boyd, *public information specialist/editor*

Caitriona Kearns, *media production specialist*

Leialoha Lono'ae'a, *secretary*

Michael McDonald, *publications specialist*

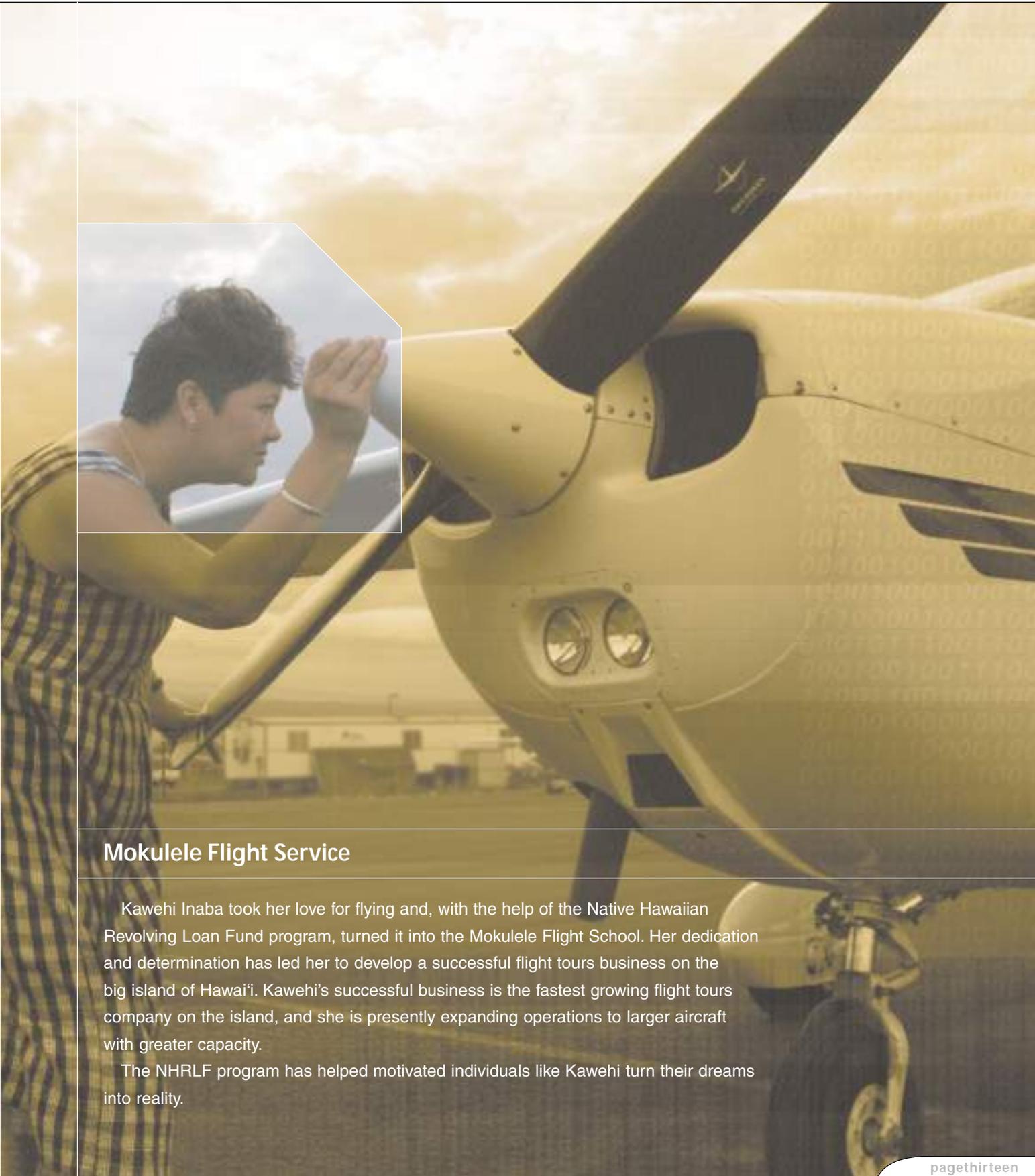
Naomi Sodetani, *publications editor*

Information and Referral Staff

Kathy Bush, *I&R representative*

Haunani Ching, *I&R representative*

Joanie Martinez, *I&R representative*



Mokulele Flight Service

Kawehi Inaba took her love for flying and, with the help of the Native Hawaiian Revolving Loan Fund program, turned it into the Mokulele Flight School. Her dedication and determination has led her to develop a successful flight tours business on the big island of Hawai'i. Kawehi's successful business is the fastest growing flight tours company on the island, and she is presently expanding operations to larger aircraft with greater capacity.

The NHRLF program has helped motivated individuals like Kawehi turn their dreams into reality.

Mission

To serve Native Hawaiians through grant awards to support cultural, educational and socio-economic programs as well as to assist health and human service agencies and organizations in providing effective services to OHA's beneficiaries.

Needs Served

The Grants Program provides grant awards to non-profit organizations whose projects benefit the Hawaiian community. Proposed projects address housing needs; offer educational opportunities; fill physical and mental health needs; assure opportunities for economic self-sufficiency; and promote Hawaiian art, culture, and language. To support this activity, OHA provides technical assistance with proposal writing and project planning. OHA also encourages Hawaiians to seek grants from all possible public and private sectors.

Through OHA's Health and Human Services programs, beneficiaries are afforded access to information and the appropriate services that will promote health as well as social and economic well-being. Native Hawaiians show disproportionately low levels of employment, home ownership, income security and education, and disproportionately high levels of substance and physical abuse, medical problems, impaired health and homelessness in comparison to other residents in the state. Native Hawaiians are unlikely to seek out services and are more apt to depend on their 'ohana. In keeping with tradition and with a sense of pride, they will do without until someone in the 'ohana seeks outside assistance.

FY-01 Highlights

This year OHA conducted 13 Grant workshops statewide for community members. OHA received 55 requests totaling more than \$5.3 million. The program staff and a panel of reviewers evaluated proposals. Recommendations were then presented to the Board of Trustees for approval.

The Board of Trustees approved \$670,508 in grants during the 2000-2001 fiscal year. Awards were made in the areas of culture, education, health, social services and economic development to the following organizations:

- The Alcoholic Rehabilitation Services of Hawai'i, Inc., dba Hina Mauka
- Boys & Girls Club of Hawai'i
- Hāna Cultural Center
- Hawai'i Maritime Center
- Hawai'i State Library, Hawai'i & Pacific
- Kā Moloka'i Makahiki
- Kahuku Hospital
- Lālākea Foundation
- Mālama Nā Mākua a Keiki Family Recovery Center
- Moloka'i Livestock Cooperative
- Star of the Sea Early Learning Center
- Wai'anae Coast Comprehensive Health Center
- Waikīkī Health Center
- Winners at Work

Grants and Health & Human Services Staff (currently assigned)

Nancy Holt, *grants and health & human services supervisor*

Esben Borsting, *grants and health & human services specialist*

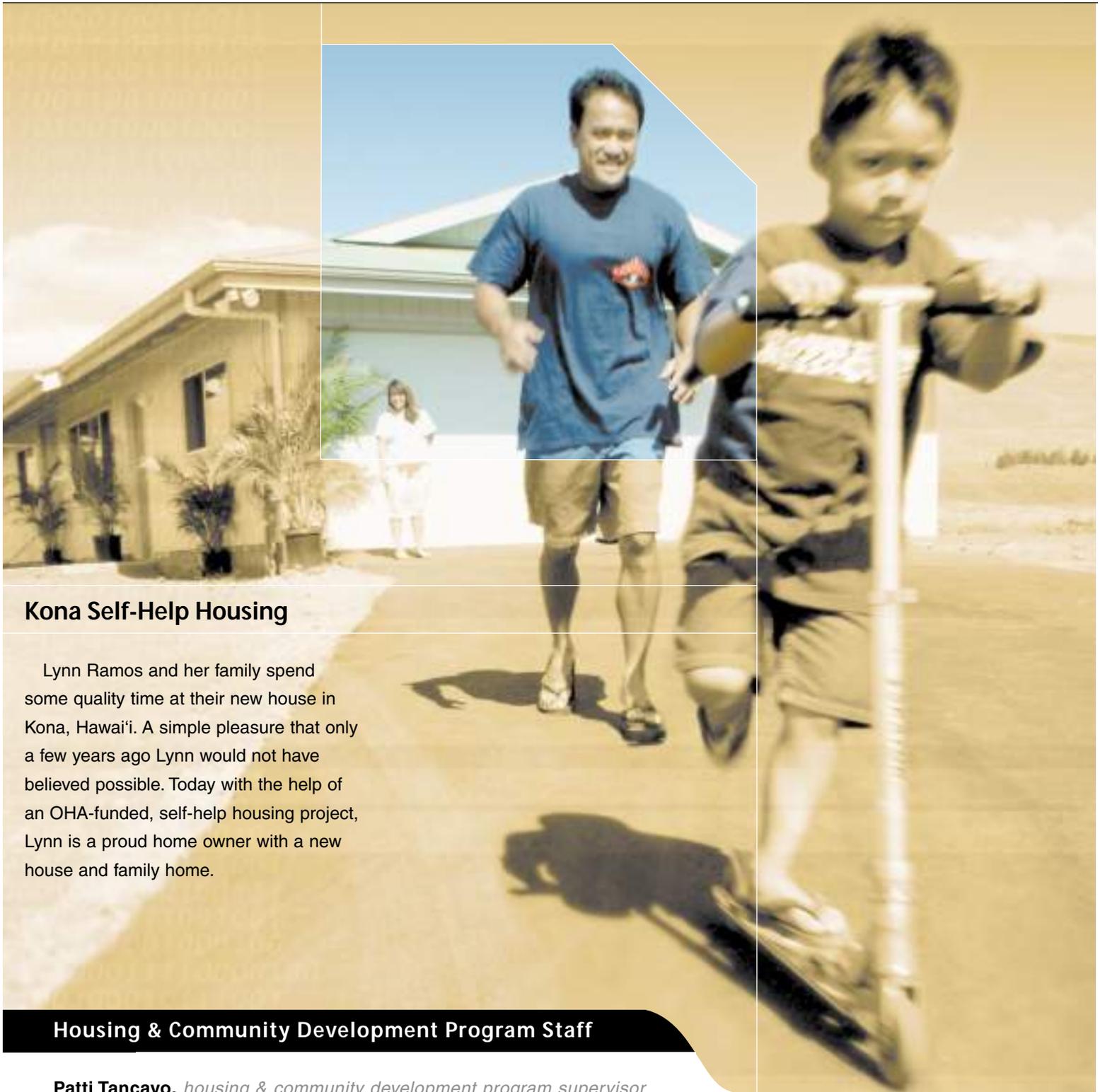
Lani Ho'omana, *grants and health & human services assistant*

Michele Oka, *grants and health & human services assistant*



Lunalilo Home

May Higgins is just one of the many residents enjoying a relaxing Sunday afternoon in the comfortable surroundings of the newly renovated and refurbished Lunalilo home. This long established home in Hawai'i Kai has recently undergone major renovations with the assistance of an OHA grant, enabling the facility to offer residents state-of-the-art care with all the comforts of home.



Kona Self-Help Housing

Lynn Ramos and her family spend some quality time at their new house in Kona, Hawai'i. A simple pleasure that only a few years ago Lynn would not have believed possible. Today with the help of an OHA-funded, self-help housing project, Lynn is a proud home owner with a new house and family home.

Housing & Community Development Program Staff

Patti Tancayo, *housing & community development program supervisor*

Leona Kalima, *housing & community development program specialist*

Kathryn Keala, *housing & community development program specialist*

Ka'imookalani Muhlestein, *housing & community development program specialist*

Mission

The Housing and Community Development Program works cooperatively with others in building or rebuilding healthy, self-sufficient Native Hawaiian communities. This includes the planning and implementing of programs that foster the development of safe, decent, affordable housing for native Hawaiians. OHA also assists Hawaiians in achieving equality in living standards and economic endeavors through community enterprises.

Needs Served

Housing programs and projects are focused on providing homeownership and rental housing units that particularly fit the needs of Native Hawaiian families who have very low to moderate incomes. The self-help housing programs, home loan program and rental housing project are all geared to serving those Native Hawaiians who are most in need.

Community Development programs and projects meet the needs of Hawaiians by assisting community-based organizations in the planning and implementation of economic development projects by providing training, technical support and seed funding.

FY-01 Highlights

Self-Help Housing

OHA supported self-help housing projects in Waiehu Kou, Maui; Hilo, Hawai'i; and Kawaihae, Hawai'i. Through OHA's subsidy, self-help housing organizations are assisting families to build their home using the "group" method. Participating families contribute their own labor or "sweat equity" to reduce the cost of construction. In addition to building an affordable home, participants learn skills and gain self-esteem. A total of 22 families were assisted in FY 01.

OHA Homesteader Loan Program

In October 2000, all of the \$20 Million Homesteader Loan

Program funds were committed based on loans closed and in process. The fund provided over 500 loans in self-help housing, home improvement, interim construction, and down payment loans in various home-steader communities throughout the state.

On Nov. 3, 2000, the Board of Trustees voted to extend the program through Dec. 29, 2000 and to revise program guidelines to assist those who have never held property; families with low to median income; those who did not have up front cash for a down payment; and to reduce the maximum loan amount for down payment to the amount required for the FHA 247 mortgage.

Waimānalo Kupuna Housing Project

Three million dollars was disbursed to the Waimānalo Kupuna for the construction of the Kupuna project in Waimānalo, Hawai'i.

Economic Development

IDA Program

The Individual Development Account (IDA) is a program that provides a dollar-to-dollar match to low income beneficiaries interested in saving for the purpose of post secondary education and business capitalization or entrepreneurship. Low-income beneficiaries who are interested in home ownership could take advantage of a two to one match. Since the program began in January 2000, over 170 accounts have been opened.

CBED

The Community Based Economic Development (CBED) Program provided an award to Hawai'i Alliance for Community Based Economic Development to train and assist Native Hawaiian non-profit organizations with technical assistance and capacity building for the sustainability of these organizations. Monitoring and funding continue to previous awardees, Hale Kū'ai, Friends of Moku'ula, and Kumu A'o.

Education Program

Mission

To facilitate educational opportunities for Native Hawaiians that are both culturally sound and promote academic success.

Needs Served

Its duty is to enhance the pride, integrity and resources of the Hawaiian 'ohana by increasing the understanding of Hawaiian values, learning style and culture as they relate to education; to affect policies relating to Hawaiian heritage and educational opportunities for Hawaiians by identifying their educational needs; to disseminate information on educational services; and, to promote and support the use of teaching of Hawaiian culture and language in both public and private schools.

FY-01 Highlights

OHA Kūpuna Program

Through the kupuna coordinator contractors, Kupuna Betty Kawohiokalani Jenkins and Kupuna Grace Nālehua Knox, OHA provided 11 mini one-day "E Nānā i nā Kūpuna" sessions to 284 kupuna. A record 372 kūpuna were touched by this outreach.

'Aha Kūpuna, "Ku'ikahi a nā Kūpuna," OHA's annual convocation of Hawaiian elders was held at the Dole Ballrooms, on June 7. " 'A'ohe 'Ulu e Loa'a i ka Pōkole o ka Lou,—There is no success without preparation," gathered 124 kupuna to learn with and from each other through respect, reflection, prayer, music, dance, laughter and tears. The 'aha is a model of Hawaiian education transmission, in accordance with kupuna ways of teaching and learning.

'Aha 'Ōpio o OHA

The 14th annual 'Aha 'Ōpio o OHA was held the week of June 24-29, at the Hawai'i State Capitol. Boasting an alumnus of more than 650 student

legislators, the 14th 'Aha 'Ōpio o OHA class added 34 Hawaiian youth leaders from across the state and one from California to its roll. The purpose of 'Aha 'Ōpio o OHA is to develop Hawaiian youth leaders. The week long live-in program provides hands on leadership experiences, develops leadership skills in public speaking, parliamentary procedure, and group political interaction, all in a Hawaiian cultural setting. Forty-three pieces of legislation were prepared by the delegates which include issues on CIP improvements, recycling, programs for Hawaiian youth, Hawaiian studies and language, environmental and natural resources, health care and costs for kupuna, endangered species, Hawaiian blood quantum, water rights, Hawaiian Homelands, and Mauna Kea.

Tutorial

Beginning in 1986, these annual grants provide funds to public schools and community schools/associations for tutorial programs. Each applicant is selected on the basis of a competitive proposal process.

Nine grants were awarded for a total of \$197,254.08, to assist 1,000+ students at the following locations: Alu Like Inc., College Connections Hawai'i, Enchanted Lake Elementary School, Hanalei School, Kahalu'u Elementary School, Kalāheo High School, Kohala High & Intermediate School, Mountain View Elementary School, and Waiiau Elementary School (Kula Kaiapuni o Waiiau).

Ke Kukui Mālamalama

Since 1991, OHA's annual Ke Kukui Mālamalama has honored excellence in Hawaiian education. OHA is the only Hawaiian entity that provides this annual recognition. The 2000-2001 Ke Kukui Mālamalama

Honorees were Wright Bowman Sr., Maggie Hanohano, JoAnn Ka'akua, and Moke Kim Jr.

Post-Secondary Educational Needs

The staff provided assistance and information to students and parents seeking financial aid by participating in community and college financial aid fairs. A grant was provided to the University of Hawai'i at Hilo to support recruitment and retention of

Hawaiian students through UH Hilo's Hawaiian Leadership Development Program.

With the assistance of Kamehameha School's Financial Aid Program, merit-based scholarships were provided to Native Hawaiian students attending postsecondary institutions through the United States.

**Education Program Staff
(currently assigned)**

Ka'iulani Vincent, *education program supervisor*

Winona Matsuzaki, *education program specialist*

'Aha 'Ōpio Program

Representative Kayne Kanuli'i Palea, from Hilo, Hawai'i, participates in the opening session of the 14th annual 'Aha Ōpio o OHA', the Hawaiian Youth Legislature. A gifted athlete from Waiākea High School, Kayne wrote House Concurrent Resolution No. 119, requesting the County of Hawai'i and the State of Hawai'i to develop and implement effective flood drainage and repair and maintenance of bridges to prevent bridge failure.



Native Hawaiian Revolving Loan Fund



Mission

To increase sustainable, Native Hawaiian-owned businesses by fostering economic independence, commitment, and fiscal responsibility through entrepreneurial/job development.

Goals

- To increase the availability and effectiveness of Training and Technical Assistance (T&TA) to promote Native Hawaiian business ownership and increase entrepreneurial awareness and capability.
- To administer a business loan program that encourages Hawaiian-owned businesses and fosters job creation.
- To develop a self-sustaining revolving loan fund.

Needs Served

Since its inception in 1988, the NHRLF, administered by OHA and federally supported by the

Administration for Native Americans, has received more than 16,000 loan inquiries, amounting to approximately \$135 million in requests for loans. The program's applicants represent a wide range of businesses that include retailers, food service, professional services, construction, fishing, and agriculture, which have resulted in the approval of over 400 business loans and the formation of over 1,000 jobs. Additionally, T&TA is provided through contracted consultants at a substantially reduced cost for approximately 3,653 Native Hawaiians. The T&TA component will be vital to the success and duration of Hawaiian-owned businesses and will incorporate post-loan training. Currently, OHA has over 100 applications in process indicating continued economic recovery in the state. The program continues to offer one of the lowest interest-loan products in the nation to Native Hawaiian small businesses.



Matt's Transmission

After numerous loan rejections from commercial lenders, Nathan Reyes turned to the Native Hawaiian Revolving Loan Fund for help. Today, with the assistance of the NHRLF program business course and financial funding, Nathan has one of the fastest growing businesses in the state of Hawai'i.

Nathan's hands-on approach to business, dedicated customer service and professional integrity have made Matt's Transmission Hawai'i's premier choice for local companies commercial transmission needs.

FY-01 Highlights

During FY-01, the program held its second small business conference that resulted in increased training for borrowers and potential applicants as well as providing additional exposure of the program to the public. The program continued to promote entrepreneurial training and reorganized program operations to increase overall program efficiency. As a result, the following major accomplishments resulted during the fiscal year:

- 8.7% decrease in the overall portfolio delinquency ratio.
- 100% increase in loans approved versus fiscal 2000.
- 13 disbursed loans totaling \$431,000 and creation of 34 jobs.
- 22 loans for \$1,061,796 were repaid in full.
- 179 Native Hawaiians provided with T&TA.

The program continues to provide OHA beneficiaries with entrepreneurial opportunities and find the best resources of T&TA to meet the program and Native Hawaiians needs. The Native Hawaiian Revolving Loan Fund will diligently work to ensure that it increases the chances of Native Hawaiians for successful small business independence.

NHRLF Staff (currently assigned)

Kaulana Park, *NHRLF manager*

Judy Dang, *finance and operations officer*

Noel Fujimoto, *business loan officer*

Dana Hauani'o, *business loan officer*

Dean Oshiro, *business loan officer*

Evaluation Unit

Mission

To systematically monitor and ensure accountability of services within OHA programs, projects, and contracts, using an intricate identification process to measure and assess their merit and worth.

Needs Served

The Evaluation Unit was created in FY-01 to provide OHA Trustees and Administration with information needed to make major decisions. In this respect, every division within OHA is affected by the recommendations of the Evaluation Unit.

OHA funding is measured by outcomes and indicators to assess results and the effectiveness of projects and programs which address subjects from propagation and preservation of native plants to prefabricated homes, legal services, Individual Development Accounts, and traditional Hawaiian diets, which are supported and at times, administered by OHA.

As an advocate for all Hawaiian people, OHA is diligent in, securing opportunities for the health and education of future generations, the protection of inherent rights over land and natural resources, and the preservation of its culture and resources.

FY-01 Highlights

Evaluations conducted evaluations for the following during the fiscal year.

- Community Based Economic Development
- Scholarships
- Alu Like Inc. – Multi-Service Program (MSP)
- Native Hawaiian Legal Corporation (NHLC)
- GSPD Program
- Grants/Contract Monitoring Project



Evaluation Unit Staff (currently assigned)

Paulette Hedemark, *evaluation specialist*

Myrna Junk, *evaluation assistant*

Mission

To identify OHA's beneficiaries and to develop a database and ancestry-verified registry of Hawaiians.

Needs Served

The Data Management Unit works in tandem with Research and Development within OHA's Administration Group.

A hand pointing towards a grid of data points. The image shows a hand with the index finger pointing towards a grid of small squares, some of which are highlighted in white, representing data points or a database structure.

The Data Management Unit (DMU) is tasked with the identification of OHA's beneficiaries and the development of a Native Hawaiian database.

In collaboration with other agencies, the unit coordinates services and activities with public, private and governmental entities to present consistent and accurate information on

the broader Hawaiian community.

Plans to standardize the documentation used for ancestry verification purposes with other Hawaiian organizations are in the development stages.

FY-01 Highlights

- OHA's Native Hawaiian Data Book
- Hawaiian ancestry verification program

- Hawaiian data collection through the Hawai'i Health Survey 2001
- OHA Strategic Planning Process.
- State data center affiliate
- Hawaiian document reference repository

The Hawaiian Registry is in its final development stages. As determined by Hawai'i Revised Statutes, 10-6, the Registry will assist in identifying OHA's beneficiaries. Anyone who can show documentation verifying Hawaiian ethnicity back to a descendant prior to 1921, will be eligible for a Hawaiian picture identification card. Keiki to kupuna will be invited to participate in the Registry program. This registry will serve as a base for the generations of Hawaiians in the future.

In a parallel effort with other agencies that require ancestry verification, a repository of public record documents and other reference information to verify descendancy is also an outcome of the interagency efforts.

Data Management Unit (currently assigned)

Noella Kong, *data program manager*

Luci Meyer, *registry specialist*

“To mālama Hawai‘i’s people and environmental resources, and OHA’s assets, toward ensuring the perpetuation of the culture, the enhancement of lifestyle and the protection of entitlements of Native Hawaiians, while enabling the building of a strong and healthy Hawaiian people and nation, recognized nationally and internationally.”

— | **Mission Statement** | —



Mission

To prepare Native Hawaiians to participate in determining, facilitating, promoting, and implementing a well, healthy, self-sustaining, empowered and educated 'ohana, community, nation and 'āina ola, foundation (land).

Needs Served

The Research and Development Group is located in the Administrative Operations. R&D serves as the planning, research and development arm of OHA. By providing technical assistance, contracting and coordinating Native Hawaiian research and information, trustees and staff have the capacity to make informed and prioritized decisions on programs, projects and grants to better conditions for Hawaiians.

FY-01 Highlights

- Initiated and staffed the OHA Strategic Planning Process.
- Continued the planning process with the Native Hawaiian Comprehensive Master Plan working group
- Continued the development of the Native Hawaiian well-being model
- Revised OHA's Native Hawaiian ancestry verification process
- Sought and received funding for the development of a relational database
- Participated in the Hawai'i health survey
- Monitors the University of Hawai'i at Hilo College of Hawaiian Language and Literature

- Monitors the DOE-OHA agreement for Hawaiian Language and Studies
- Participated in the Native Hawaiian Early Education and Childcare Consortium

In February the Board of Trustees determined that a strategic planning process was to be formalized and a plan completed by Dec., 31.

The three participant components to the process included: the OHA Board of Trustees, the Community and/or OHA Beneficiaries; and the OHA staff. Each participant group had its own separate functional and decision-making responsibilities. Each groups input continues to be crucial to the outcome and implementation of OHA's Strategic Plan.

Strategic Plan Core Group

A team of trustees, community persons, senior OHA staff and the facilitator was created. The responsibility of the Core Group continues to provide direction for all strategic plan activities in preparation for the Board of Trustees. All work is directed through the OHA Strategic Planning Core Group.

Coordinating Staff and Facilitator

R&D staff is responsible for coordinating all strategic plan activities. A consultant facilitator provided structure, support and guidance to the Core Group and to the process.

Phase I: Trustees' Briefing Tasks completed.

- Trustee Vision and Mission. Please see Appendix A. The Vision and Mission were adopted on March 28.
- Trustees Priorities. The Board of Trustees derived 16 priorities after a series of workshops.

Phase II: Community Meetings-

Round I Tasks completed.

- Staff and the facilitator developed a community presentation consisting of a budget and current fiscal overview; the strategic planning process; OHA's Strategic Planning vision and mission; and the introduction of the Trustees' priorities.
- 15 community meetings were held statewide. Community priorities were solicited as part of the presentation prepared by the staff.
- A *Ka Wai Ola o OHA* article and survey contributed to the total of 340 community priorities.

Phase III: Working Group – Work in Progress

- Eight working groups established based on the preliminary review of the 300+ priorities.
- More than 50 community persons were involved in providing volunteer services to review more than 300 priorities and make recommendations to the Core Group who will report to the BOT.
- Sixteen OHA staff volunteered with their supervisors' approval to facilitate these working groups.

The plan is expected to be completed by December.



Research and Development Staff (currently assigned)

Rona Rodenhurst, *research & development officer*

Donald Kamai, *data technician*

Hawaiian Rights

Mission

To advocate for the rights of Hawaiians at the Federal, State and County level.

Needs Served

Advocacy efforts include the protection of Hawaiians' traditional and customary rights, as well as ensuring that Federal, State and County resources are proportionately directed to Hawaiian needs. HRD reviews, comments and consults on proposed Federal, State and County legislation, regulations, and projects. The division fosters communication between OHA and neighbor island communities through community resource coordinators (CRC) on the islands of Hawaii (Hilo and Kona), Kaua'i, Maui and Moloka'i. It is the CRC's responsibility to keep the public informed on OHA initiatives, and to keep OHA informed of its beneficiaries' concerns.

Legislative

HRD coordinates OHA's advocacy and government liaison activity as established by Board policy. HRD works with state legislators and Hawaii's congressional delegation to develop and promote legislation to better the conditions of Native Hawaiians.

Land, Water and other Natural Resources

The division responds to all requests for comments on land altering activities in the State. This includes large developments in Kohala, and single-family houses in the coastal zone. HRD staff focus their comments on how development will affect Hawaiian rights to access, gather or maintain traditional practices, as well as the possibility of affecting historic or burial sites.

National Historic Preservation Act, Section 106 Consultations

The division also participates in NHPA 106 consultations on any project with Federal funding or

on Federal land. All projects that receive Federal funding must consult with OHA and other Native Hawaiian organizations if their project will affect a traditional or historic property.

Legal

Through grants to the Native Hawaiian Legal Corporation, HRD ensures that Native Hawaiian rights to land, water, burials and historic sites are protected. The division also supports the Kuleana Escheat Project which defends title to kuleana lands for which there is no surviving heir, and the Native Hawaiian Historic Preservation Council, which advises the OHA BOT on issues relating to historic preservation. Cases against OHA are funded through the Board of Trustees

FY-01 Highlights

Kikala-Keōkea

The Office of Hawaiian Affairs worked to ensure that legislation enabling infrastructure development in Kikala-keōkea was passed. OHA and the Department of Land and Natural Resources will provide matching funds to ensure displaced Kalapana residents will have homes.

Waiāhole Water Case

OHA continues to track the Waiāhole Ditch Combined Contested Case. The Hawai'i Supreme Court ruled that all water is to be held in trust for three purposes, one of which is the protection of Hawaiian cultural practices. We are awaiting the Commission on Water Resources Management's Final Decision and Order on setting in-stream flow standards to protect Waiāhole streams.

Mākua Military Reservation

OHA commented on the Army's proposed use of Mākua Valley and its failure to adequately protect cultural and environmental resources.

OHA's comments were cited in Judge Mollway's decision to grant a temporary injunction on training in the valley.

Northwestern Hawaiian Islands Coral Reef Ecosystem Reserve

OHA has been an aggressive supporter of the Reserve. HRD division is working to ensure that management practices in the Reserve protect the rights of Hawaiians.

Pearl Harbor/Ford Island

OHA is consulting with the Navy over proposed development on Ford Island as well as a Master plan for the entire Pearl Harbor Area, which includes the sale of ceded lands.

Mauna Kea

OHA continues to participate in 106 consultations with NASA regarding mitigation for the development of the Keck Interferometer on Mauna Kea. OHA requested that NASA publish an Environmental Impact Statement rather than an Environmental Assessment to ensure a complete analysis of harm to the resources on the mountain.

Pacific Missile Range Facility

OHA continues to consult with the Navy on the adequacy of an ethnographic study done on Ni'ihau. The Navy is proposing to expand some of PMRF's functions to Ni'ihau.

OHA vs. State

The State Supreme Court reversed Judge Heely's 1996 decision, by ruling that Act 304 was invalid due to a conflict with Federal law. The court noted that the State has an obligation to Native Hawaiians, but Act 304, through which revenues to OHA were defined, was no longer an appropriate vehicle to ensure that the state met that obligation. OHA

will be addressing this issue in 2002 legislative session.

Barrett/Carroll

The Barret/Carrol case challenged OHA's requirement that beneficiaries must be of Hawaiian descent. The case was dismissed for lack of standing.

Rice vs. Cayetano

The U.S. Supreme Court reversed the 9th Circuit Court's ruling that the Hawaiian only voting rules for OHA were constitutional. Non-Hawaiians can now vote in OHA elections. *Araraki vs Cayetano* ruled that non-Hawaiians can serve on the OHA Board of Trustees.

Hawaiian Rights Division Staff

Colin Kippen, Jr., *deputy administrator*

June Aipopo, *secretary*

Pua Aiu, *policy analyst*

Aulani Apoliona, *policy analyst*

Apolei Bargamento, *secretary*

Wayne Kawamura, *policy analyst*

Jalna Keala, *policy analyst*

Sharla Manley, *policy analyst*

Mark Mararagan, *policy analyst*

Jerry Norris, *policy analyst*

Community Affairs Coordinators

LaFrance Kapaka-Arboleda, *CRC, Kaua'i*

Gladys Brigham, *clerk, East Hawai'i*

Leimana DaMate, *clerk*

Roxanne French, *clerk, Moloka'i*

Irene Ka'ahanui, *CRC Moloka'i*

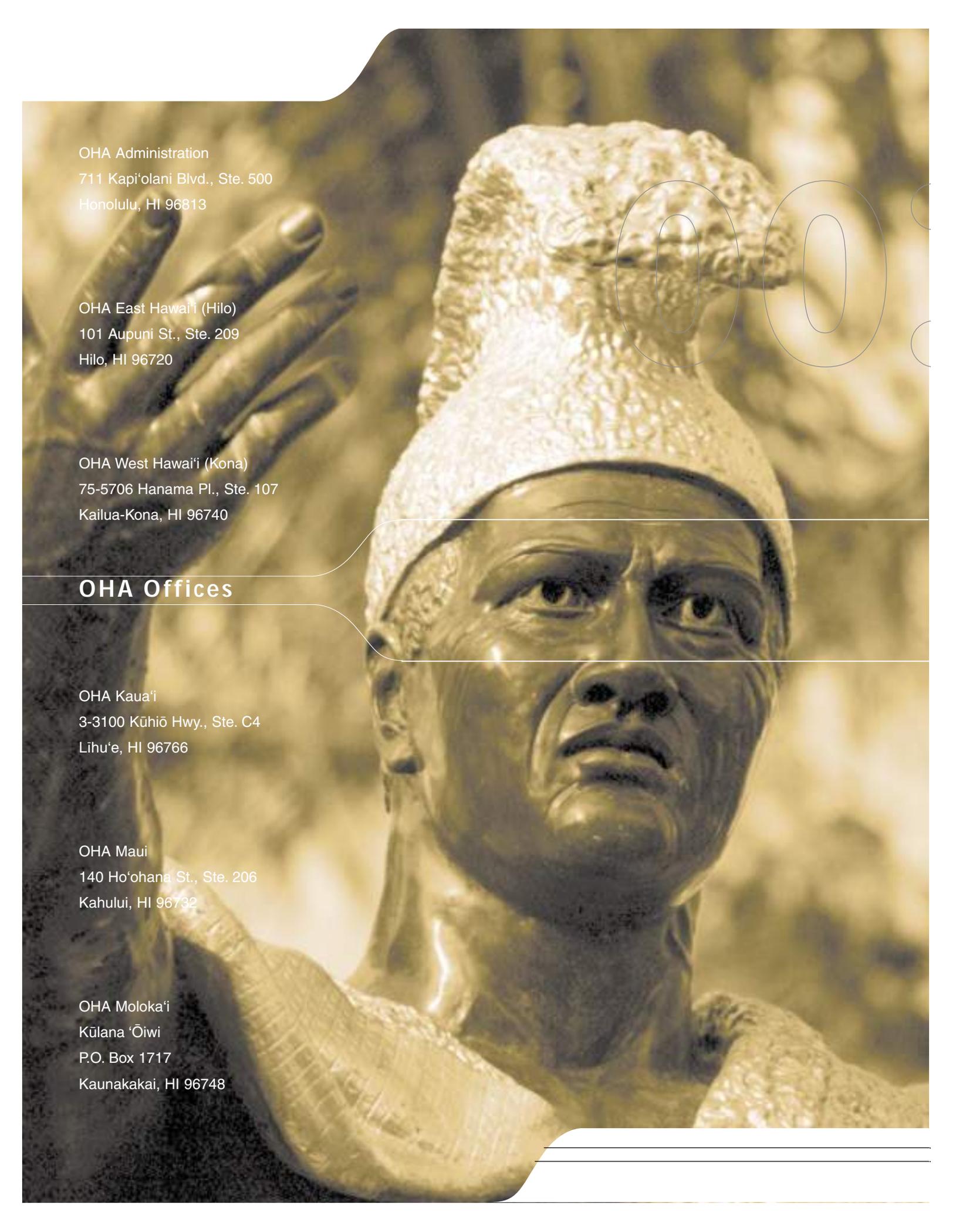
Ruby McDONALS, *CRC, West Hawai'i*

Roy Newton, *Clerk, Maui*

Kaliko Santos, *clerk, Kaua'i.*

Ululani Sherlock, *CRC East Hawai'i*

Thelma Shimaoka, *CRC, Maui*



OHA Administration
711 Kapi'olani Blvd., Ste. 500
Honolulu, HI 96813

OHA East Hawai'i (Hilo)
101 Aupuni St., Ste. 209
Hilo, HI 96720

OHA West Hawai'i (Kona)
75-5706 Hanama Pl., Ste. 107
Kailua-Kona, HI 96740

OHA Offices

OHA Kaua'i
3-3100 Kūhiō Hwy., Ste. C4
Līhu'e, HI 96766

OHA Maui
140 Ho'ohana St., Ste. 206
Kahului, HI 96732

OHA Moloka'i
Kūlana 'Ōiwi
P.O. Box 1717
Kaunakakai, HI 96748

2001



Office of Hawaiian Affairs

Financial Report

State of Hawai'i

Financial statements for the fiscal year beginning July 1, 2000 and ending June 30, 2001, and independent auditor's report.

OFFICE OF HAWAIIAN AFFAIRS STATE OF HAWAII

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OFFICE OF HAWAIIAN AFFAIRS STATE OF HAWAII

INTRODUCTION

GENERAL

Organization - Office of Hawaiian Affairs ("OHA") was established by the 1979 Hawaii State Legislature under the provisions of Chapter 10, Hawaii Revised Statutes ("Act 196"). In 1980, the Hawaii State Legislature approved Act 273, which, in addition to Act 196, initiated the appropriate process to organize and fund the entity.

The purposes of OHA include the following:

- Betterment of conditions of Native Hawaiians;
- Betterment of conditions of Hawaiians;
- Serve as the principal public agency in the State responsible for the performance, development, and coordination of programs and activities relating to Native Hawaiians and Hawaiians, except that the Hawaiian Homes Commission Act shall be administered by its own commission;
- Assess the policies and practices of other agencies impacting on Native Hawaiians and Hawaiians, and conduct advocacy efforts for Native Hawaiians and Hawaiians;
- Apply for, receive, and disburse grants and donations from all sources for Native Hawaiian and Hawaiian programs and services;
- Serve as a receptacle for reparations.

DIVISIONS

A division is a combination of resources and activities designed to achieve an objective or objectives. OHA prepares biennial budgets and records expenditures separately for each of its four divisions.

The title and objectives of each division are listed below:

| Division Title | Division Objectives |
|--------------------------|--|
| 1. Board of Trustees | To work for the betterment of all Hawaiians by setting policy in response to the concerns and interest of the beneficiaries, in order to ensure the well being of Native Hawaiians; to protect their rights and entitlements in their homeland; to assist them to achieve self-determination and self-governance; and to nurture and honor their culture. |
| 2. Administration | To work for the betterment of conditions of all Hawaiians by providing leadership, guidance, direction, and executive oversight. The office seeks to excel among Hawaii's organizations in managing resources, as well as applying technology to streamline processes, and fully integrate all aspects of information sharing and program support, and to coordinate data gathering, planning, research, and development efforts with other Hawaiian agencies. |
| 3. Program Systems Group | To seek the betterment of Hawaiians through improving access to resources, benefits, and services that address their greatest concerns: housing, education, health, and economic development. Toward this goal, the Program Systems Group identifies problems, evaluates agencies and programs that impact upon the Hawaiian community, and selects strategies that best reach for solutions. |
| 4. Hawaiian Rights | To advance the rights and interests of Hawaiians through advocacy, public policy development, dialogue, community outreach, and litigation. Among its objectives are fair treatment for all Hawaiians; protection of their lands, environment, and cultural heritage; progress toward self-determination; and solutions to the devastating problems that threaten the welfare and dignity of the indigenous people of these islands. |

DESCRIPTIONS AND DEFINITIONS

The primary purpose of the financial audit was to enable the independent auditors to form an opinion as to the financial position of Office of Hawaiian Affairs at June 30, 2001 and 2000, and the results of its operations for the years then ended. The auditors' report represents the conclusion of the independent auditors regarding the fairness of the presentations set forth in the financial statements and is used to communicate such conclusion to interested parties.

The basic financial statements of Office of Hawaiian Affairs include the following:

1. *Combined Balance Sheet - All Fund Types and Account Groups* - The combined balance sheet reflects the financial position of each fund type and account group as of a specified date. The excess of assets over liabilities represents fund equity.
2. *Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types* - The combined statement of revenues, expenditures, and changes in fund balances summarizes the results of operations for the year. As indicated on the statement, the fund balance is increased by revenues and decreased by expenditures, thereby reflecting amounts available for future appropriations and/or reserved or designated for specific purposes at the end of the year.
3. *Statement of Revenues and Expenditures - Budget and Actual (Budgetary Basis), General Fund Type* - The statement of revenues and expenditures - budget and actual (budgetary basis) presents comparisons of the legally adopted budget (legislative and Board of Trustees) with actual data on the budgetary basis.
4. *Notes to Combined Financial Statements* - Notes to combined financial statements are used to disclose material facts relating to the financial statements required to present fairly the financial position and results of operations in accordance with accounting principles generally accepted in the United States of America.

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

1. *Account Groups* - Self-balancing groups of accounts used to account for the general fixed assets and long-term debt of the entity.
2. *Appropriations* - Authorizations granted by the State Legislature or OHA Board of Trustees permitting the agency within established fiscal and budgetary controls to incur obligations and to make expenditures for specific purposes. An appropriation is usually limited in amount and as to the period during which it may be expended.
3. *Lapse* - As applied to appropriations, this term denotes the automatic termination of an appropriation. At the end of the appropriation period, any unexpended or unencumbered balance lapses. This terminated amount is available for appropriation by the State Legislature or OHA Board of Trustees in the ensuing fiscal year.

-
4. *Encumbrances* - Commitments related to unperformed (executory) contracts for goods or services.
 5. *Expenditures* - Decreases in net financial resources. Expenditures include current operating expenses that require the current or future use of net current assets, debt service, and capital outlays.
 6. **Fund** - A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Unreserved designated funds are funds set aside by the Board of Trustees for specific projects or purposes. Funds designated for subsequent years' expenditures represent funds designated by the Board of Trustees for the matching of the upcoming fiscal biennium's general fund legislative appropriations and for special projects or purposes that better the conditions of Native Hawaiians.

INDEPENDENT AUDITORS' REPORT

Board of Trustees of Office of Hawaiian Affairs, State of Hawaii:

We have audited the accompanying combined financial statements of Office of Hawaiian Affairs, State of Hawaii ("OHA") as of June 30, 2001 and 2000, and for the years then ended, listed in the foregoing table of contents. These combined financial statements are the responsibility of OHA's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of OHA at June 30, 2001 and 2000, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12 to the combined financial statements, OHA is self-insured for workers' compensation, automobile, and general liabilities. Several claims were filed against OHA during the years ended June 30, 2001 and 2000. However, OHA is unable to determine the estimated losses from such claims, as well as from any unasserted claims, as OHA has not accumulated sufficient data to analyze the claims.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2001 on our consideration of OHA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

November 9, 2001

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2001**

| ASSETS | Governmental Fund Types | | Account Groups | | Total (Memo- randum Only) |
|---|----------------------------|-----------------------|----------------------------|------------------------------|------------------------------------|
| | General | Special Revenue | General Fixed Assets | General Long-Term Debt | |
| Cash in State treasury | \$ 715,474 | \$ 7,163,261 | | | \$ 7,878,735 |
| Cash in banks - interest-bearing accounts | | 2,521,830 | | | 2,521,830 |
| Petty cash | 9,756 | | | | 9,756 |
| Accounts receivable | | 168,997 | | | 168,997 |
| Notes receivable - net of allowance of \$4,574,275 for doubtful accounts | | 15,502,136 | | | 15,502,136 |
| Interest and dividends receivable | | 1,279,076 | | | 1,279,076 |
| Due from other funds | 142,109 | 363,913 | | | 506,022 |
| Prepaid expenses and other assets | 17,348 | 331,179 | | | 348,527 |
| Security deposits | | 44,215 | | | 44,215 |
| Investments | | 332,139,436 | | | 332,139,436 |
| Land | | | \$ 84,100 | | 84,100 |
| Buildings | | | 1,045,142 | | 1,045,142 |
| Leasehold improvements | | | 538,405 | | 538,405 |
| Machinery, equipment, furniture and fixtures | | | 1,441,152 | | 1,441,152 |
| Amount to be provided for payment of: | | | | | |
| Vacation benefits, compensatory time off, and fringe benefits | | | | \$ 495,985 | 495,985 |
| Claims and judgments | | | | 460,026 | 460,026 |
| Capital lease | | | | 37,920 | 37,920 |
| TOTAL | \$ 884,687 | \$ 359,514,043 | \$ 3,108,799 | \$ 993,931 | \$ 364,501,460 |

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (Continued)
JUNE 30, 2001**

| LIABILITIES AND FUND EQUITY | Governmental Fund Types | | Account Groups | | Total (Memo- randum Only) |
|--|----------------------------|-----------------------|----------------------------|------------------------------|------------------------------------|
| | General | Special Revenue | General Fixed Assets | General Long-Term Debt | |
| Liabilities: | | | | | |
| Due to State of Hawaii | \$ 10,000 | \$ 100,000 | | | \$ 110,000 |
| Accounts payable | 177,142 | 637,779 | | | 814,921 |
| Due to other funds | 985 | 505,037 | | | 506,022 |
| Vacation benefits, compensatory time off, and fringe benefits | | | | \$ 495,985 | 495,985 |
| Claims and judgments | | | | 460,026 | 460,026 |
| Capital lease obligation | | | | 37,920 | 37,920 |
| Total liabilities | 188,127 | 1,242,816 | | 993,931 | 2,424,874 |
| Fund equity: | | | | | |
| Investment in general fixed assets | | | \$ 3,108,799 | | 3,108,799 |
| Fund balances: | | | | | |
| Reserved for encumbrances | 670,785 | 3,927,806 | | | 4,598,591 |
| Reserved for notes receivable | | 15,502,136 | | | 15,502,136 |
| Reserved for prepaid expenses and security deposits | 17,348 | 375,394 | | | 392,742 |
| Unreserved: | | | | | |
| Designated for Native Hawaiian revolving loans | | 15,475,267 | | | 15,475,267 |
| Designated for other grant projects | | 128,786 | | | 128,786 |
| Designated for Hawaiian projects | | 518,534 | | | 518,534 |
| Designated for subsequent years' expenditures | | 11,277,182 | | | 11,277,182 |
| Undesignated | 8,427 | 311,066,122 | | | 311,074,549 |
| Total fund equity | 696,560 | 358,271,227 | 3,108,799 | | 362,076,586 |
| TOTAL | \$ 884,687 | \$ 359,514,043 | \$ 3,108,799 | \$ 993,931 | \$ 364,501,460 |

See notes to combined financial statements.

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 2000**

| ASSETS | Governmental Fund Types | | Account Groups | | Total (Memo- randum Only) |
|---|----------------------------|-----------------------|----------------------------|------------------------------|------------------------------------|
| | General | Special Revenue | General Fixed Assets | General Long-Term Debt | |
| Cash in State treasury | \$ 937,465 | \$ 10,428,590 | | | \$ 11,366,055 |
| Cash in banks - interest-bearing accounts | | 8,470,683 | | | 8,470,683 |
| Petty cash | 10,000 | | | | 10,000 |
| Notes receivable - net of allowance of \$4,207,452 for doubtful accounts | | 11,537,203 | | | 11,537,203 |
| Interest and dividends receivable | | 1,131,427 | | | 1,131,427 |
| Due from other funds | 575,963 | | | | 575,963 |
| Prepaid expenses and other assets | 11,885 | 373,681 | | | 385,566 |
| Security deposits | | 44,215 | | | 44,215 |
| Investments | | 359,734,579 | | | 359,734,579 |
| Land | | | \$ 84,100 | | 84,100 |
| Buildings | | | 1,045,142 | | 1,045,142 |
| Leasehold improvements | | | 538,405 | | 538,405 |
| Machinery, equipment, furniture and fixtures | | | 1,565,395 | | 1,565,395 |
| Amount to be provided for payment of: | | | | | |
| Vacation benefits, compensatory time off, and fringe benefits | | | | \$ 605,768 | 605,768 |
| Operating lease rents | | | | 20,717 | 20,717 |
| Claims and judgments | | | | 2,982,694 | 2,982,694 |
| Capital lease | | | | 52,541 | 52,541 |
| TOTAL | \$ 1,535,313 | \$ 391,720,378 | \$ 3,233,042 | \$ 3,661,720 | \$ 400,150,453 |

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (Continued)
JUNE 30, 2000**

| LIABILITIES AND FUND EQUITY | Governmental Fund Types | | Account Groups | | Total (Memo- randum Only) |
|--|----------------------------|-----------------------|----------------------------|------------------------------|------------------------------------|
| | General | Special Revenue | General Fixed Assets | General Long-Term Debt | |
| Liabilities: | | | | | |
| Due to State of Hawaii | \$ 10,000 | \$ 87,521 | | | \$ 97,521 |
| Accounts payable | 391,908 | 1,921,901 | | | 2,313,809 |
| Due to other funds | | 575,963 | | | 575,963 |
| Vacation benefits, compensatory time off, and fringe benefits | | | | \$ 605,768 | 605,768 |
| Operating lease rents | | | | 20,717 | 20,717 |
| Claims and judgments | | | | 2,982,694 | 2,982,694 |
| Capital lease obligation | | | | 52,541 | 52,541 |
| Total liabilities | 401,908 | 2,585,385 | | 3,661,720 | 6,649,013 |
| Fund equity: | | | | | |
| Investment in general fixed assets | | | \$ 3,233,042 | | 3,233,042 |
| Fund balances: | | | | | |
| Reserved for encumbrances | 707,505 | 4,376,568 | | | 5,084,073 |
| Reserved for notes receivable | | 11,537,203 | | | 11,537,203 |
| Reserved for prepaid expenses and security deposits | 11,885 | 417,895 | | | 429,780 |
| Reserved for Native Hawaiian revolving loans | | 75,670 | | | 75,670 |
| Unreserved: | | | | | |
| Designated for Native Hawaiian revolving loans | | 12,486,574 | | | 12,486,574 |
| Designated for other grant projects | | 72,120 | | | 72,120 |
| Designated for Hawaiian projects | | 394,248 | | | 394,248 |
| Designated for subsequent years' expenditures | | 31,453,258 | | | 31,453,258 |
| Undesignated | 414,015 | 328,321,457 | | | 328,735,472 |
| Total fund equity | 1,133,405 | 389,134,993 | 3,233,042 | | 393,501,440 |
| TOTAL | \$ 1,535,313 | \$ 391,720,378 | \$ 3,233,042 | \$ 3,661,720 | \$ 400,150,453 |

See notes to combined financial statements.

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2001**

| | <u>Governmental Fund Types</u> | | <u>Total (Memorandum Only)</u> |
|--|--------------------------------|----------------------------|--|
| | <u>General</u> | <u>Special Revenue</u> | |
| REVENUES: | | | |
| Appropriations | \$ 2,519,663 | | \$ 2,519,663 |
| Public land trust | | \$ 8,261,921 | 8,261,921 |
| Dividend and interest income | | 11,465,433 | 11,465,433 |
| Native Hawaiian Rights Fund | | 135,406 | 135,406 |
| Federal and other grants | | 2,210,794 | 2,210,794 |
| Newspaper ads | | 28,284 | 28,284 |
| Donations and other | | 71,362 | 71,362 |
| Nonimposed fringe benefits | <u>111,305</u> | | <u>111,305</u> |
| Total revenues | 2,630,968 | 22,173,200 | 24,804,168 |
| EXPENDITURES: | | | |
| Current divisions: | | | |
| Board of Trustees | 56,579 | 6,657,972 | 6,714,551 |
| Administration | 758,642 | 3,446,302 | 4,204,944 |
| Program Systems Group | 994,878 | 5,367,312 | 6,362,190 |
| Hawaiian Rights | <u>586,315</u> | <u>1,341,639</u> | <u>1,927,954</u> |
| Total expenditures | <u>2,396,414</u> | <u>16,813,225</u> | <u>19,209,639</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | 234,554 | 5,359,975 | 5,594,529 |
| OTHER FINANCING SOURCES (USES): | | | |
| Net decrease in fair value of investments | | (36,728,792) | (36,728,792) |
| Lapse of cash to State General Fund | (166,348) | | (166,348) |
| Operating transfers in | | 505,051 | 505,051 |
| Operating transfers out | <u>(505,051)</u> | | <u>(505,051)</u> |
| Total other financing sources (uses) | <u>(671,399)</u> | <u>(36,223,741)</u> | <u>(36,895,140)</u> |
| DEFICIENCY OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | (436,845) | (30,863,766) | (31,300,611) |
| FUND BALANCE, BEGINNING OF YEAR | <u>1,133,405</u> | <u>389,134,993</u> | <u>390,268,398</u> |
| FUND BALANCE, END OF YEAR | <u>\$ 696,560</u> | <u>\$ 358,271,227</u> | <u>\$ 358,967,787</u> |

See notes to combined financial statements.

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

**COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED JUNE 30, 2000**

| | Governmental Fund Types | | Total (Memorandum Only) |
|--|-------------------------|--------------------|-------------------------------|
| | General | Special Revenue | |
| REVENUES: | | | |
| Appropriations | \$ 2,550,922 | | \$ 2,550,922 |
| Public land trust | | \$ 8,238,109 | 8,238,109 |
| Dividend and interest income | | 10,798,857 | 10,798,857 |
| Native Hawaiian Rights Fund | | 85,611 | 85,611 |
| Federal and other grants | | 254,051 | 254,051 |
| Newspaper ads | 35,024 | | 35,024 |
| Donations and other | 675 | 88,092 | 88,767 |
| Nonimposed fringe benefits | 134,677 | | 134,677 |
| Total revenues | 2,721,298 | 19,464,720 | 22,186,018 |
| EXPENDITURES: | | | |
| Current divisions: | | | |
| Board of Trustees | 1,685,080 | 2,455,103 | 4,140,183 |
| Administration | 4,225,373 | 826,088 | 5,051,461 |
| Program Systems Group | 3,641,823 | 1,597,822 | 5,239,645 |
| Hawaiian Rights | 2,155,055 | 133,937 | 2,288,992 |
| Capital outlay | 218,495 | 141,220 | 359,715 |
| Total expenditures | 11,925,826 | 5,154,170 | 17,079,996 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | (9,204,528) | 14,310,550 | 5,106,022 |
| OTHER FINANCING SOURCES (USES): | | | |
| Net increase in fair value of investments | | 27,860,360 | 27,860,360 |
| Lapse of cash to State General Fund | (80,679) | | (80,679) |
| Operating transfers in | 9,496,006 | | 9,496,006 |
| Operating transfers out | | (9,496,006) | (9,496,006) |
| Total other financing sources (uses) | 9,415,327 | 18,364,354 | 27,779,681 |
| EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES | 210,799 | 32,674,904 | 32,885,703 |
| FUND BALANCE, BEGINNING OF YEAR | 922,606 | 356,460,089 | 357,382,695 |
| FUND BALANCE, END OF YEAR | \$ 1,133,405 | \$ 389,134,993 | \$ 390,268,398 |

See notes to combined financial statements.

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(BUDGETARY BASIS), GENERAL FUND TYPE
YEAR ENDED JUNE 30, 2001**

| | Actual (Budgetary Basis) | Budget | Variance Favorable (Unfavorable) |
|---|---|---------------|---|
| REVENUES: | | | |
| State appropriations | \$ 2,519,663 | \$ 2,519,663 | |
| Total revenues | 2,519,663 | 2,519,663 | |
| EXPENDITURES: | | | |
| Board of Trustees | 17,325 | 26,761 | \$ 9,436 |
| Administration | 733,070 | 801,291 | 68,221 |
| Program Systems Group | 1,129,887 | 1,070,682 | (59,205) |
| Hawaiian Rights | 551,304 | 620,929 | 69,625 |
| Total expenditures | 2,431,586 | 2,519,663 | 88,077 |
| EXCESS OF REVENUES OVER EXPENDITURES | \$ 88,077 | \$ - | \$ 88,077 |

See notes to combined financial statements.

**OFFICE OF HAWAIIAN AFFAIRS
STATE OF HAWAII**

**STATEMENT OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL
(BUDGETARY BASIS), GENERAL FUND TYPE
YEAR ENDED JUNE 30, 2000**

| | Actual (Budgetary Basis) | Budget | Variance Favorable (Unfavorable) |
|---|---|------------------|---|
| REVENUES: | | | |
| State appropriations | \$ 2,550,922 | \$ 2,550,922 | |
| Special Funds matching of General Funds | <u>3,997,180</u> | <u>4,048,124</u> | <u>\$ (50,944)</u> |
| Total revenues | 6,548,102 | 6,599,046 | (50,944) |
| EXPENDITURES: | | | |
| Board of Trustees | 123,604 | 133,751 | 10,147 |
| Administration | 2,356,934 | 1,856,215 | (500,719) |
| Program Systems Group | 2,423,335 | 2,885,352 | 462,017 |
| Hawaiian Rights | <u>1,740,426</u> | <u>1,723,728</u> | <u>(16,698)</u> |
| Total expenditures | <u>6,644,299</u> | <u>6,599,046</u> | <u>(45,253)</u> |
| EXCESS OF EXPENDITURES OVER REVENUES | <u>\$ (96,197)</u> | <u>\$ -</u> | <u>\$ (96,197)</u> |

See notes to combined financial statements.

OFFICE OF HAWAIIAN AFFAIRS STATE OF HAWAII

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2001 AND 2000

1. FUND AND ACCOUNT GROUP CATEGORIES AND DESCRIPTION

The accounts of Office of Hawaiian Affairs, State of Hawaii ("OHA") are organized on the basis of funds and account groups, each of which is considered to be a separate accounting entity.

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

The funds and account groups administered by OHA and included in the financial statements are described below.

GOVERNMENTAL FUND TYPES

The acquisition, use, and balances of an organization's expendable financial resources and the related current liabilities are accounted for through governmental funds.

- a. *General Fund* - The General Fund of OHA is part of the State of Hawaii General Fund. However, OHA's General Fund financial statements reflect only OHA's appropriations and obligations. The General Fund is used to account for all financial resources except those required to be accounted for in another fund, and includes the operating budget of general funds appropriated by the State Legislature. Prior to fiscal year 2001, it also included the "match" of public land trust funds and supplements to the operating budget, appropriated by the Board of Trustees (shown as an operating transfer in from the Special Revenue Fund to the General Fund).
- b. *Special Revenue Fund* - This fund includes OHA's proceeds and income from the public land trust as defined in Chapter 10, Hawaii Revised Statutes, as well as the proceeds and income of the Native Hawaiian Rights Fund and of the Native Hawaiian Revolving Loan Fund and other grants. Expenditures reflect those from the specific grant or designated fund and from other Board appropriations of public land trust funds.

ACCOUNT GROUPS

Account Groups are used to establish accounting control and accountability for an organization's general fixed assets and the unmatured principal of its long-term liabilities.

- a. *General Fixed Assets Account Group ("GFAAG")* - This account group accounts for OHA property acquired through donations or expenditures of OHA General or Special Revenue Fund monies.
- b. *General Long-Term Debt Account Group ("GLTDAG")* - This account group accounts for the long-term liabilities of the General and Special Revenue Funds.

REORGANIZATION

During the year ended June 30, 2000, OHA completed a staff reorganization process to better serve its beneficiaries. The previous organization centered around its 11 programs: Policy and Administration, Administrative Services, Public Information, Health and Human Services, Planning and Research, Culture, Government Affairs, Land and Natural Resources, Economic Development, Education, and Housing. The revised organization consists of four functional and interdependent divisions: Board of Trustees, Administration, Program Systems Group, and Hawaiian Rights.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. *Basis of Accounting* - The accounts of OHA are maintained and the accompanying financial statements have been prepared on the modified accrual basis of accounting. Under the modified accrual basis, revenues are recognized when they become both measurable and available to finance expenditures of the fiscal year, and expenditures are recognized when incurred.
- b. *Investments* - Investments are stated at fair value. Fair value has been determined based on quoted market prices at June 30. OHA uses the first-in, first-out ("FIFO") cost method in computing the gain or loss on sale of marketable equity securities. See Note 6.
- c. *General Fixed Assets* - Assets acquired for general organization purposes are recorded as expenditures in the fund financing the purchase and are capitalized at cost in the GFAAG. Donated fixed assets are recorded at estimated fair market value at the time received.

No depreciation has been provided for general fixed assets.

- d. *Vacation Benefits, Compensatory Time Off, and Fringe Benefits* - OHA accrues all vacation and compensatory pay at current salary rates, including additional amounts for certain salary-related expenses associated with the payment of compensated absences, in accordance with Government Accounting Standards Board ("GASB") Statement No. 16, *Accounting for Compensated Absences*. Accrued amounts are recorded as a liability of the GLTDAG. The June 30, 2001 and 2000 balances include fringe benefits computed at the rate of 7.65% of accrued vacation and compensatory pay.
- e. *Operating Leases* - Rents under operating leases with scheduled rent increases are recorded on a straight-line basis over the lease term. The unpaid portion is accrued as a liability of GLTDAG. For the year ended June 30, 2000, rent expense recorded in governmental funds for such leases amounted to \$455,000. For the year ended June 30, 2001, none of the operating leases had scheduled rent increases.
- f. *Public Land Trust Revenue* - Public land trust revenue is recognized when received from various departments of the State of Hawaii. For the years ended June 30, 2001 and 2000, OHA received \$8,261,921 and \$8,238,109, respectively.
- g. *Encumbrances* - Encumbrances against budgeted appropriations are recorded upon the execution of contracts or purchase orders. Such encumbrances are accounted for as a segregation of fund balance. The related expenditure is reported in the period in which the liability is incurred.
- h. *Total Columns on Combined Statements* - Total columns on the combined statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present the financial position or results of operations in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.
- i. *Use of Estimates* - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- j. *Concentration of Credit Risk* - The financial instruments that potentially expose OHA to concentrations of credit risk consist principally of notes receivable. OHA extends credit to Native Hawaiian and Hawaiian persons and agencies who use OHA's funds for the betterment of Native Hawaiians and Hawaiians. The mix of notes receivables at June 30, 2001 and 2000, respectively, are as follows:

| | 2001 | 2000 |
|--------------------------------------|-------------|-------------|
| Native Hawaiian and Hawaiian persons | 92% | 90% |
| Agencies | 7 | 9 |
| Other | <u>1</u> | <u>1</u> |
| | <u>100%</u> | <u>100%</u> |

- g. *Recently Issued Accounting Standards* - In June 2000, the GASB issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, which established new financial reporting requirements for state and local governments throughout the United States. GASB Statement No. 34 is effective for OHA in fiscal 2003. Management has not yet determined the effect, if any, that GASB Statement No. 34 will have on OHA's financial position or results of operations.

3. BIENNIAL BUDGET

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

- *The Budget* - In the fall of each even-numbered fiscal year, OHA's Administration drafts the program and budget recommendations that will be the basis for OHA's biennium budget request. Once approved by the Board, the budget is submitted directly to the State Legislature prior to its convening. The budget is generally constructed around OHA's operations (offices) and programs (divisions) and states programmatic objectives, expected outcomes, and financial requirements. The budget also shows the proportion of funding requested from general funds to be appropriated by the Legislature and from trust funds appropriated by OHA's Board of Trustees.
- *Legislative Review* - Once the budget is submitted to the Legislature, the review process follows that which is applied to the executive branch, with the budget being reviewed by House Finance, Senate Ways and Means, and the respective subject matter committee in the House and Senate. The Legislature may request provisos and may require financial analysis and evaluation of those programs funded with general funds, but has no discretion over trust fund allocations.
- *Program Execution* - Except as limited by policy decisions of OHA's Board of Trustees, provisos of the State Legislature, and other provisions of law, OHA's Administration is responsible for the proper management of the programs. Appropriation changes and transfers can be authorized by the Board; those impacting general funds are reported to the State Legislature.

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

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

Adjustments necessary to convert the results of operations and fund balances for the years ended

June 30, 2001 and 2000 from the budgetary basis to GAAP basis are as follows:

| | 2001 | 2000 |
|---|---------------------|-------------------|
| Excess (deficiency) of revenues over expenditures - actual (budgetary basis) | \$ 88,077 | \$ (96,197) |
| Reserve for encumbrances at June 30 | 404,236 | 1,264,196 |
| Prepaid expenditures at June 30 not recognized for budgetary purposes - net of prior year accruals | 5,762 | 8,201 |
| Expenditures for liquidation of prior year encumbrances | (235,974) | (825,713) |
| Non-budgeted revenues and expenditures | (27,547) | (59,009) |
| Fund transfers | (505,051) | |
| Lapse of cash to State General Fund | <u>(166,348)</u> | <u>(80,679)</u> |
| Excess (deficiency) of revenues over expenditures - actual (GAAP basis) | <u>\$ (436,845)</u> | <u>\$ 210,799</u> |

4. APPROPRIATIONS

General Fund legislative appropriations for the years ended June 30, 2001 and 2000 are as follows:

| 2001 | | 2000 | |
|-----------------------|---------------------|-----------------------|---------------------|
| Number | Amount | Number | Amount |
| Act 147 (G-01-100-Z1) | \$ 2,519,663 | Act 147 (G-00-100-Z1) | \$ 200,626 |
| | | Act 147 (G-00-101-Z1) | 380,805 |
| | | Act 147 (G-00-102-Z1) | 180,700 |
| | | Act 147 (G-00-103-Z1) | 362,540 |
| | | Act 147 (G-00-104-Z1) | 230,053 |
| | | Act 147 (G-00-105-Z1) | 2,839 |
| | | Act 147 (G-00-106-Z1) | 38,862 |
| | | Act 147 (G-00-107-Z1) | 500,714 |
| | | Act 147 (G-00-108-Z1) | 388,546 |
| | | Act 147 (G-00-109-Z1) | 232,034 |
| | | Act 147 (G-00-110-Z1) | <u>33,203</u> |
| Total | <u>\$ 2,519,663</u> | Total | <u>\$ 2,550,922</u> |

OHA is authorized to transfer appropriation amounts between programs for operating purposes, provided that a report of all transfers is made to the Legislature prior to convening of the next legislative session. Act 147 SLH 1999 required OHA to match portions of general fund appropriations on a dollar-for-dollar basis. This required match was satisfied by the expenditure of Special Revenue Fund monies.

5. CASH

The State maintains a cash pool that is used by all agencies. OHA's portion of this pool is indicated on the combined balance sheet as "Cash in State treasury."

The Hawaii Revised Statutes authorize the Director of Finance to invest in obligations of or guaranteed by the U.S. Government, obligations of the State, federally insured savings and checking accounts, time certificates of deposit, and repurchase agreements with federally insured financial institutions.

OHA's cash included in State pooled funds is fully collateralized with securities held by third-party agents in the State's name, as required by the Hawaii Revised Statutes Section 38-3.

At June 30, 2001 and 2000, OHA's deposits with financial institutions of \$2,531,585 and \$8,480,683 (carrying values), respectively, had corresponding bank balances of \$2,512,687 and \$8,471,689. The portion of the bank balances covered by FDIC insurance totaled \$110,000 and \$210,000 in 2001 and 2000, respectively; the remainder was uninsured and uncollateralized.

6. INVESTMENTS

The following table presents OHA's investments at June 30, 2001 and 2000, and provides information about the credit and market risks associated with OHA's investments. The three categories of credit risk are:

Category 1: investments which are insured or registered, or securities held by OHA or its agent in OHA's name.

Category 2: investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in OHA's name.

Category 3: investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in OHA's name.

The investment balances at June 30, 2001 and 2000, all of which are classified in category 1, are as follows:

| | 2001 | 2000 |
|---|-----------------------------|-----------------------|
| Marketable equity securities - common stocks | \$ 192,695,014 | \$ 220,164,308 |
| U.S. Government obligations - Native Hawaiian Revolving Loan Fund | 15,025,316 | 9,818,045 |
| U.S. Government obligations - other | 66,750,766 | 46,594,104 |
| Corporate bonds | 48,554,638 | 49,485,753 |
| Cash management fund | 7,609,702 | 31,502,929 |
| Foreign bonds, notes and debentures | 1,504,000 | 1,169,440 |
| Certificates of deposit | <u> </u> | <u>1,000,000</u> |
| Total | <u>\$ 332,139,436</u> | <u>\$ 359,734,579</u> |

The calculation of realized gains is independent of the calculation of the net increase in fair value of investments. Realized gains and losses on investments that had been held more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in fair value of investments reported in the prior year. Summarized net increase (decrease) in fair value of investments information for the years ended June 30, 2001 and 2000 is as follows:

| | 2001 | 2000 |
|--|------------------------|----------------------|
| Realized gain (loss) on sale of investments | \$ (2,595,673) | \$ 29,137,835 |
| Net decrease in unrealized loss on investments held at June 30 | <u>(34,133,119)</u> | <u>(1,277,475)</u> |
| Net increase (decrease) in fair value of investments | <u>\$ (36,728,792)</u> | <u>\$ 27,860,360</u> |

7. GENERAL FIXED ASSETS

Summary

A summary of changes in general fixed assets is as follows:

| | July 1, 2000 | Additions | Retirements | June 30, 2001 |
|---|---------------------|-------------------|-------------------|---------------------|
| Land | \$ 84,100 | | | \$ 84,100 |
| Buildings | 1,045,142 | | | 1,045,142 |
| Leasehold improvements | 538,405 | | | 538,405 |
| Machinery, equipment, furniture and fixtures | <u>1,565,395</u> | <u>\$ 151,234</u> | <u>\$ 275,477</u> | <u>1,441,152</u> |
| | <u>\$ 3,233,042</u> | <u>\$ 151,234</u> | <u>\$ 275,477</u> | <u>\$ 3,108,799</u> |
| | | | | |
| | July 1, 1999 | Additions | Retirements | June 30, 2000 |
| Land | \$ 84,100 | | | \$ 84,100 |
| Buildings | 916,955 | \$ 128,187 | | 1,045,142 |
| Leasehold improvements | 531,905 | 6,500 | | 538,405 |
| Machinery, equipment, furniture and fixtures | <u>2,031,339</u> | <u>248,600</u> | <u>\$ 714,544</u> | <u>1,565,395</u> |
| | <u>\$ 3,564,299</u> | <u>\$ 383,287</u> | <u>\$ 714,544</u> | <u>\$ 3,233,042</u> |

8. GENERAL LONG-TERM DEBT

A summary of changes in general long-term debt is as follows:

| | July 1, 2000 | Net Change | June 30, 2001 |
|--|---------------------|-----------------------|---------------------|
| Vacation benefits, compensatory time off, and fringe benefits | \$ 605,768 | \$ (109,783) | \$ 495,985 |
| Operating lease rents | 20,717 | 917,550 | 938,267 |
| Claims and judgments (Note 12) | 2,982,694 | (2,522,668) | 460,026 |
| Capital lease obligation | <u>52,541</u> | <u>(14,621)</u> | <u>37,920</u> |
| | <u>\$ 3,661,720</u> | <u>\$ (1,729,522)</u> | <u>\$ 1,932,198</u> |
| | | | |
| | July 1, 1999 | Net Change | June 30, 2000 |
| Vacation benefits, compensatory time off, and fringe benefits | \$ 616,546 | \$ (10,778) | \$ 605,768 |
| Operating lease rents | 48,522 | (27,805) | 20,717 |
| Claims and judgments (Note 12) | 619,000 | 2,363,694 | 2,982,694 |
| Capital lease obligation | <u>68,817</u> | <u>(16,276)</u> | <u>52,541</u> |
| | <u>\$ 1,352,885</u> | <u>\$ 2,308,835</u> | <u>\$ 3,661,720</u> |

9. LEASES

OHA leases equipment under capital leases, with approximate cost at June 30, 2001 and 2000 of \$81,000. Such leases expire in August 2004. In addition, OHA leases office space under various noncancelable operating leases expiring through June 2005. Future minimum payments under all leases as of June 30, 2001 are as follows:

| | Capital | Operating |
|-----------------------------------|-------------------|-------------------|
| Fiscal year ending June 30: | | |
| 2002 | \$ 18,708 | \$ 524,742 |
| 2003 | 18,708 | 385,458 |
| 2004 | 3,118 | 14,034 |
| 2005 | <u> </u> | <u>14,034</u> |
| Total future minimum payments | 40,534 | <u>\$ 938,268</u> |
| Less amount representing interest | <u>2,614</u> | |
| Total lease obligation | <u>\$ 37,920</u> | |

Rent expense (including taxes and common area maintenance) under operating leases totaled \$863,000 and \$940,000 for the years ended June 30, 2001 and 2000, respectively.

10. EMPLOYEE BENEFITS

Defined Benefit Pension Plans

All full-time employees of OHA are eligible to participate in the Employees Retirement System of the State of Hawaii ("ERS"), a cost sharing, multiple-employer public employee retirement system covering eligible employees of the State and counties.

The ERS is composed of a contributory retirement plan and a noncontributory retirement plan. Eligible employees who were in service and a member of the existing contributory plan on June 30, 1984, were given an option to remain in the existing plan or join the noncontributory plan, effective January 1, 1985. All new eligible employees hired after June 30, 1984, automatically become members of the noncontributory plan. Both plans provide death and disability benefits and cost of living increases. Benefits are established by State statute. In the contributory plan, employees may elect normal retirement at age 55 with 5 years of credited service or elect early retirement at any age with 25 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 2% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching five years of service; retirement benefits are actuarially reduced for early retirement. Covered contributory plan employees are required by State statute to contribute 7.8% of their salary to the plan; OHA is required by State statute to contribute the remaining amounts necessary to pay contributory plan benefits when due. In the noncontributory plan, employees may elect normal retirement at age 62 with 10 years of credited service or at age 55 with 30 years of credited service, or elect early retirement at age 55 with 20 years of credited service. Such employees are entitled to retirement benefits, payable monthly for life, of 1.25% of their average final salary, as defined, for each year of credited service. Benefits fully vest on reaching ten years of service; retirement benefits are actuarially reduced for early retirement. OHA is required by State statute to contribute all amounts necessary to pay noncontributory plan benefits when due.

During the year ended June 30, 2000, OHA's contribution to the ERS was \$193,000. In July 2000, the State of Hawaii Department of Budget and Finance notified OHA that, due to the late approval of fringe benefit rates for fiscal year 2000, assessments of fringe benefits for all State entities during fiscal year 2000 were based on the fiscal year 1999 rates. However, as the approved fiscal year 2000 ERS contribution rate was zero, the contributions made by OHA during fiscal year 2000 resulted in an over collection of such amounts. In July 2001, the State notified OHA that the amounts overpaid by OHA during fiscal year 2000 will be applied toward OHA's required contribution to the ERS in fiscal year 2002.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Employees Retirement System, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813-2929 or by calling (808) 586-1660.

Post-Retirement Health Care and Life Insurance Benefits

In addition, the State of Hawaii Public Employees Health Fund ("Health Fund") provides certain health care (medical, prescription drug, vision and dental) and life insurance benefits for retired employees. OHA's contributions for retiree health and group life insurance benefits are subject to the State law governing the Health Fund. The Health Fund pays for 100% of these benefits for eligible employees who have at least 10 years of service. The Health Fund's share of the cost of these benefits is pro-rated for eligible employees with less than 10 years of service. The Health Fund also reimburses Medicare expenses of retirees and qualified spouses who are at least 62 years of age and have at least 10 years of service. Information on OHA's share of the total Health Fund post-retirement health care and life insurance benefits expense is not available.

Sick Leave

Accumulated sick leave as of June 30, 2001 and 2000 was approximately \$860,000 and \$983,000, respectively. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick leave is recorded in the accompanying financial statements.

11. NON-IMPOSED EMPLOYEE FRINGE BENEFITS

Payroll fringe benefit costs of employees of OHA funded by State appropriations (general fund) are assumed by the State and are not charged to OHA's operating funds. These costs, totaling \$111,305 and \$134,677 for the fiscal years ended June 30, 2001 and 2000, respectively, have been reported as revenues and expenditures of OHA's General Fund.

12. RISK MANAGEMENT AND CONTINGENT LIABILITIES

Workers' Compensation and Other Self-Insurance Liabilities

OHA is self-insured for workers' compensation, automobile, and general liabilities. OHA participates in a State-sponsored general liability, automotive, and workers' compensation self-insurance program. Claims under \$10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, policies in force with a \$2,000,000 deductible and annual aggregate of \$23,000,000 per occurrence. Automobile and workers' compensation losses are fully self-insured. In addition, in 1999, OHA purchased Public Officials and Employment Practices Liability and Bankers' Professional Liability insurance, each with a \$25,000 deductible and \$5,000,000 coverage limit.

Several claims have been filed against OHA during the years ended June 30, 2001 and 2000. However, OHA is unable to determine the estimated losses from claims incurred, but not reported, as OHA has not accumulated sufficient data to analyze the claims. The liability for workers' compensation and other self-insurance claims at June 30, 2001 and 2000 approximated \$460,000 and \$483,000, respectively, and is included in claims and judgments in the GLTDAG.

Department of Education Settlement Agreement

On May 4, 2000, OHA entered into a Compromise and Settlement Agreement ("Agreement") with the Department of Education, State of Hawaii ("DOE"), in which the DOE agreed to form a partnership for the support of the DOE's Hawaiian Language Immersion Program ("HLIP"). OHA is not responsible for the education, operation, management, supervision, or any other aspect of the HLIP. OHA has committed to provide funding between \$400,000 and \$500,000 each year for the next five years beginning July 1, 2000.

At June 30, 2001, the remaining commitment of \$2 million is included in the designated fund balance. (At June 30, 2000, such amount was included in the GLTDAG.)

Hina-malailena Joint Use Agreement

In 1995, OHA entered into a Joint Use Agreement ("Agreement") with Hina-malailena, a non-profit corporation, for the purpose of developing a commercial center in Hana, Maui. Also in 1995, OHA and Hina-malailena received, as co-recipients, \$1,760,000 of Federal funds from the U.S. Department of Commerce, Economic Development Administration ("EDA"). The entire amount was recorded in the accounting records of Hina-malailena.

Terms of the Agreement state that Hina-malailena is to be responsible for substantially all duties required to construct and complete the project, including but not limited to overseeing management of all construction and service contracts, ensuring that all EDA requirements are satisfied, and obtaining all necessary permits and approvals. However, in the event of default by Hina-malailena, OHA may elect to take control of the project.

During fiscal year 2000, OHA became aware that Hina-malailena would not be able to complete the project. In October 2000, the Board of Trustees agreed to assume the responsibilities and status of Hina-malailena, subject to satisfactory due diligence proceedings. As of June 30, 2001, OHA had not completed such due diligence and, as a result, is unable to determine any probable exposure to liability.

Ceded Lands - Public Land Trust

On September 12, 2001, the Supreme Court of the State of Hawaii held in *OHA v. State* (*Appeal nos. 20281 and 20216*) that the sections in the law defining the means by which ceded land's revenues are to be paid to OHA conflicted with Federal law and therefore were invalid. This resulted in the dismissal of OHA's claim in *OHA v. State* for a pro rata share of ceded land revenues from the State for monies owed from Waikiki Duty Free receipts (in connection with the lease of ceded lands at the Honolulu International Airport), Hilo Hospital patient services receipts, receipts from the Hawaii Housing Authority and the Housing and Finance Development Corporation for projects situated on ceded lands, and interest earned on withheld revenues. It also created the expectation that future ceded land's payments from the State to OHA will cease until a new statute can be passed by the State legislature defining how ceded lands revenues will be calculated and paid to OHA on behalf of its beneficiaries.

Civil Complaints

In October 2000, two lawsuits were filed in the United States District Court for the District of Hawaii challenging the validity and constitutionality of certain sections of the Hawaii State Constitution that created OHA and certain other State agencies for the benefit of the Hawaiian race. The lawsuits allege that the providing of governmental benefits and services to a limited number of Hawaiian citizens based solely upon their race violates the Equal Protection Clause to the United States Constitution. The lawsuits seek to have the State laws that created OHA and the other State agencies be declared void.

In July 2001, the judge issued a decision that the plaintiff in one of the lawsuits did not have standing to challenge the OHA programs. The plaintiff filed a motion to reconsider, which was denied. In October 2001, the plaintiff filed an appeal on all issues. The other lawsuit remained pending as of June 30, 2001. The ultimate results of both lawsuits cannot presently be determined.

Litigation

OHA is party to legal proceedings and claims that arise in the ordinary course of business. Although occasional adverse decisions (or settlements) may occur, other than the matters described above, OHA believes that the final disposition of such matters will not have a material adverse effect on the financial position or results of operations of OHA.

Expenditures for claims and lawsuits against OHA approximated \$203,000 and \$104,000 in 2001 and 2000, respectively.

The ERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Employees Retirement System, 201 Merchant Street, Suite 1400, Honolulu, Hawaii 96813-2929 or by calling (808) 586-1660.

Post-Retirement Health Care and Life Insurance Benefits

In addition, the State of Hawaii Public Employees Health Fund ("Health Fund") provides certain health care (medical, prescription drug, vision and dental) and life insurance benefits for retired employees. OHA's contributions for retiree health and group life insurance benefits are subject to the State law governing the Health Fund. The Health Fund pays for 100% of these benefits for eligible employees who have at least 10 years of service. The Health Fund's share of the cost of these benefits is pro-rated for eligible employees with less than 10 years of service. The Health Fund also reimburses Medicare expenses of retirees and qualified spouses who are at least 62 years of age and have at least 10 years of service. Information on OHA's share of the total Health Fund post-retirement health care and life insurance benefits expense is not available.

Sick Leave

Accumulated sick leave as of June 30, 2001 and 2000 was approximately \$860,000 and \$983,000, respectively. Sick leave accumulates at the rate of 14 hours for each month of service, as defined, without limit. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Accordingly, no liability for sick leave is recorded in the accompanying financial statements.

11. NON-IMPOSED EMPLOYEE FRINGE BENEFITS

Payroll fringe benefit costs of employees of OHA funded by State appropriations (general fund) are assumed by the State and are not charged to OHA's operating funds. These costs, totaling \$111,305 and \$134,677 for the fiscal years ended June 30, 2001 and 2000, respectively, have been reported as revenues and expenditures of OHA's General Fund.

12. RISK MANAGEMENT AND CONTINGENT LIABILITIES

Workers' Compensation and Other Self-Insurance Liabilities

OHA is self-insured for workers' compensation, automobile, and general liabilities. OHA participates in a State-sponsored general liability, automotive, and workers' compensation self-insurance program. Claims under \$10,000 are handled by the risk management office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, policies in force with a \$2,000,000 deductible and annual aggregate of \$23,000,000 per occurrence. Automobile and workers' compensation losses are fully self-insured. In addition, in 1999, OHA purchased Public Officials and Employment Practices Liability and Bankers' Professional Liability insurance, each with a \$25,000 deductible and \$5,000,000 coverage limit.

Several claims have been filed against OHA during the years ended June 30, 2001 and 2000. However, OHA is unable to determine the estimated losses from claims incurred, but not reported, as OHA has not accumulated sufficient data to analyze the claims. The liability for workers' compensation and other self-insurance claims at June 30, 2001 and 2000 approximated \$460,000 and \$483,000, respectively, and is included in claims and judgments in the GLTDAG.

Department of Education Settlement Agreement

On May 4, 2000, OHA entered into a Compromise and Settlement Agreement ("Agreement") with the Department of Education, State of Hawaii ("DOE"), in which the DOE agreed to form a partnership for the support of the DOE's Hawaiian Language Immersion Program ("HLIP"). OHA is not responsible for the education, operation, management, supervision, or any other aspect of the HLIP. OHA has committed to provide funding between \$400,000 and \$500,000 each year for the next five years beginning July 1, 2000.

At June 30, 2001, the remaining commitment of \$2 million is included in the designated fund balance. (At June 30, 2000, such amount was included in the GLTDAG.)

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Civil Complaints

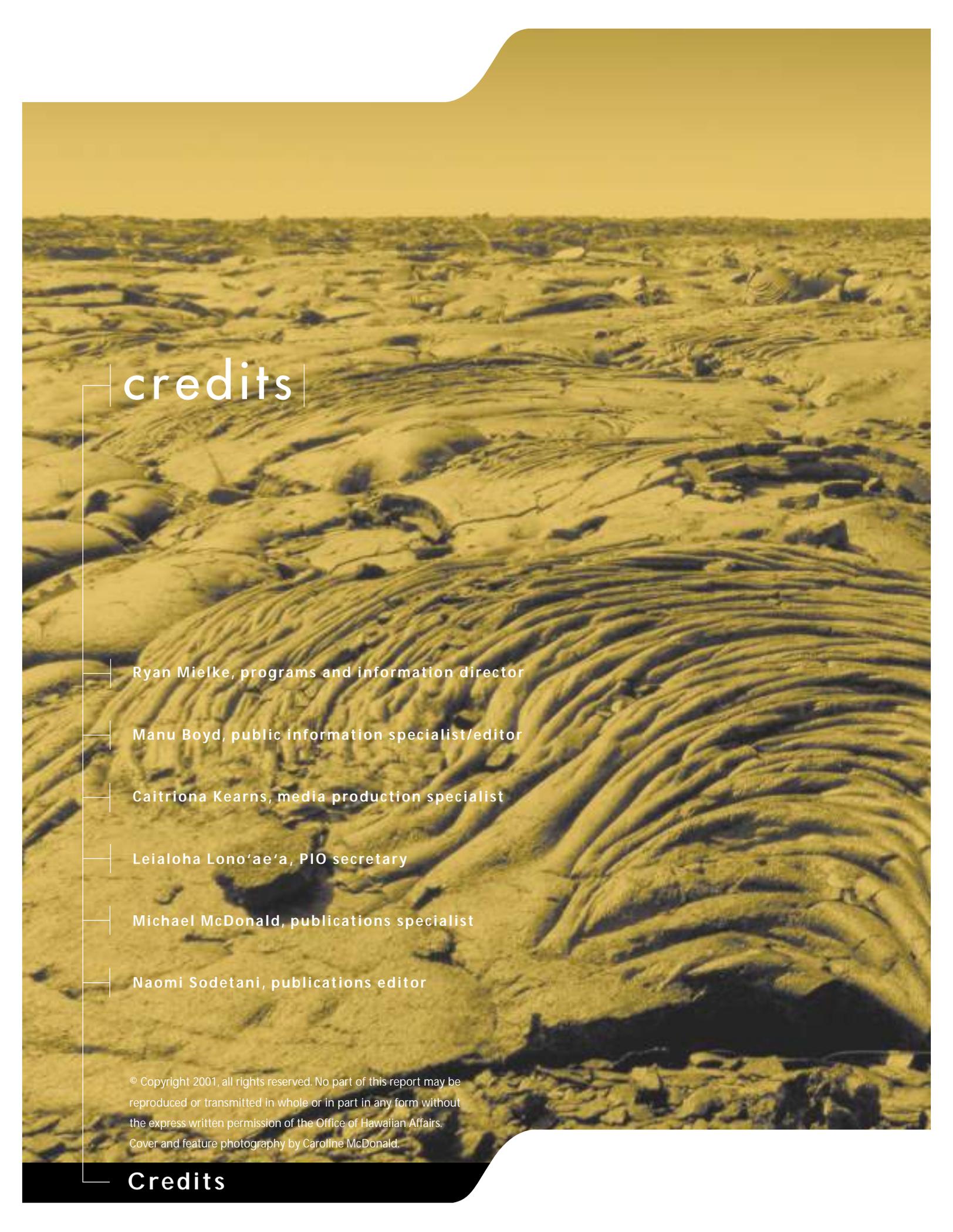
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credits |

Ryan Mielke, programs and information director

Manu Boyd, public information specialist/editor

Caitriona Kearns, media production specialist

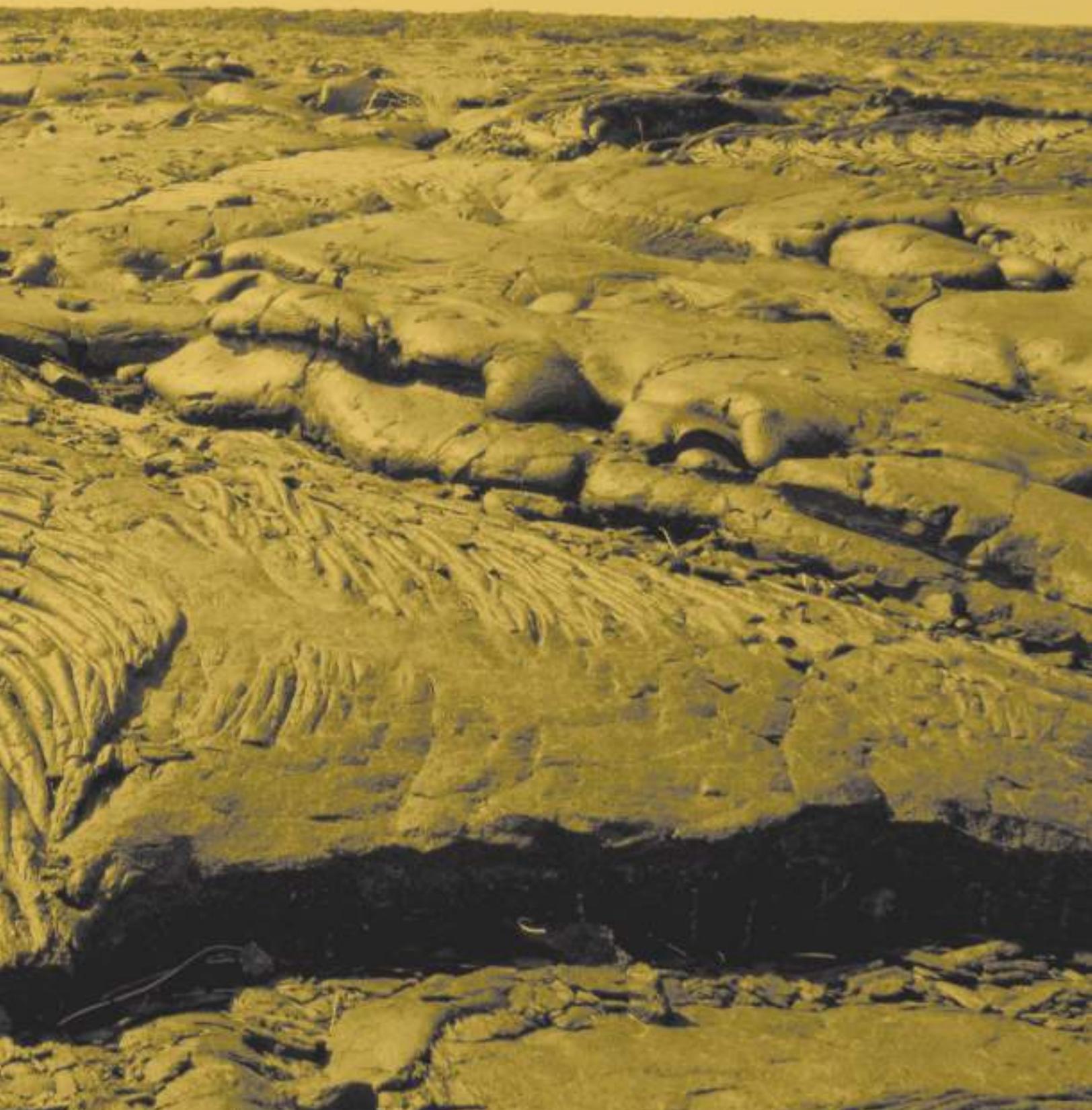
Leialoha Lono'ae'a, PIO secretary

Michael McDonald, publications specialist

Naomi Sodetani, publications editor

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Office of Hawaiian Affairs
711 Kapi'olani Blvd.
Ste. 500
Honolulu HI 96813