

State of Hawai‘i
Department of Hawaiian Home Lands

Financial and Compliance Audit
June 30, 2020

State of Hawai'i
Department of Hawaiian Home Lands

TABLE OF CONTENTS

	<u>Page</u>
Part I Financial Section	3
Independent Auditor's Report	4
Management's Discussion and Analysis (Unaudited)	7
Financial Statements –	
Statement of Net Position	17
Statement of Activities	18
Balance Sheet – Governmental Funds	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	21
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – General Fund (Unaudited)	23
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis) – Hawaiian Home Administration Account (Unaudited)	24
Notes to Financial Statements	25
Supplemental Information –	
Combining Balance Sheet – Non-Major Governmental Funds	48
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds	49
Schedule of Expenditures of Federal Awards –	
Schedule of Expenditures of Federal Awards	51
Notes to the Schedule of Expenditures of Federal Awards	52
Part II Government Auditing Standards	53
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	54
Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	56
Part III Schedule of Findings and Questioned Costs	
Section I – Summary of Auditor's Results	60
Section II – Financial Statement Findings	61
Section III – Federal Award Findings and Questioned Costs	61
Section IV – Status of Prior Year Findings and Questioned Costs	61



Part I

Financial Section





Independent Auditor's Report

The Auditor
State of Hawai'i

The Hawaiian Homes Commission
Department of Hawaiian Home Lands

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Hawaiian Home Lands, State of Hawai'i (the Department), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Department's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements of the Department include only the governmental activities, each major fund, and the aggregate remaining fund information of the Department, and are not intended to present fairly the financial position of the State of Hawai'i (the "State") as of June 30, 2020, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 15 and pages 22 through 23, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such



information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2021 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Akamine, Oyadomari & Kosaki CPAs, Inc.

Honolulu, Hawai'i
March 12, 2021



State of Hawai‘i
Department of Hawaiian Home Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2020

The following Management’s Discussion and Analysis (MD&A) is designed to provide an overview of the financial performance of the State of Hawai‘i, Department of Hawaiian Home Lands (the Department) for the fiscal year ended June 30, 2020. Please read it in conjunction with the Department’s financial statements, which follow this section.

Financial Highlights for Fiscal Year 2020

- The Department’s net position, the amount of assets exceeding liabilities, totaled \$897.9 million. Of this amount, \$326.8 million is unrestricted, \$97.6 million is restricted, and \$473.5 million is net investment in capital assets.
- The Department’s net position increased \$12.2 million over the course of this year’s operations.
- In fiscal year 2020, the Department’s revenues exceeded expenses (before transfers) by \$37.3 million. In fiscal year 2019, the revenues exceeded expenses (before transfers) by \$43.2 million.
- The total revenues of the Department decreased by \$0.5 million, or 0.7%.
- The total fund balance of the Department’s governmental funds increased by \$19.9 million.

Overview of the Financial Statements

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

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

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

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

Department-Wide Financial Statements

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

State of Hawai‘i
Department of Hawaiian Home Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2020

The department-wide financial statements include two statements:

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

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

Fund Financial Statements

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

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

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

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

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

State of Hawai‘i
Department of Hawaiian Home Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2020

- **General Fund** – The General Fund is authorized and appropriated by the State Legislature each year for planning, development, management and general support for the Hawaiian Homestead Program.
- **Hawaiian Home General Loan Fund** – Act 249, SLH 1986, amended this revolving loan fund and consolidated all loan funds other than the Hawaiian Home Loan Fund in 1986. The major source of receipts for this fund is through principal repayment. The Department can make loans from the revolving funds for the construction of homes, home repairs or additions, or for the development and operation of a farm, ranch or agriculture operation.
- **Hawaiian Home Lands Trust Fund** – This fund was established by Act 14, Special Session 1995, which settles all claims made on behalf of the Hawaiian Home Land Trust against the State between August 21, 1959 and July 1988. It requires that the State make twenty annual deposits of \$30 million or their discounted equivalent into the Hawaiian Home Lands Trust Fund. Proceeds of the fund may be used by the Department for capital improvements and other purposes undertaken in furtherance of the Hawaiian Homes Commission Act of 1920, as amended.
- **Hawaiian Home Operating Fund** – This fund was established through a merger of the Hawaiian Home Development Fund and Hawaiian Home Operating Fund in 1986. Any interest or earnings arising out of investments from the Hawaiian Home Loan Fund are to be credited to and deposited into the Hawaiian Home Operating Fund. All monies received by the Department from any other source, other than those prescribed in other funds of the Hawaiian Homes Commission Act, are deposited into this fund. The Department uses the fund for the construction, operation and maintenance of revenue-producing activities that are intended to serve principally occupants on Hawaiian home lands. The fund is also used to finance improvements and developments necessary to serve present and future occupants of Hawaiian home lands.
- **Hawaiian Home Receipts Fund** – All interest monies from loans or investments received by the Department from any fund, except the Hawaiian Home Loan Fund, Hawaiian Home Administration Account, Native Hawaiian Rehabilitation Fund, Department of Hawaiian Home Lands Revenue Bond Special Fund and Hawaiian Home Lands Trust Fund, are deposited into this fund. This fund serves as a clearing fund at the end of each quarter. All monies in this fund are transferred to other funds as authorized by the Hawaiian Homes Commission Act.
- **Hawaiian Home Administration Account** – The revenue sources of this fund are the entire receipts from any leasing or other dispositions of “available lands” and any interest or other earnings arising out of investments from this fund. The Department expends the monies for salaries and all other administrative expenses of the Department, excluding capital improvements, in the absence of general funds appropriated for operating and administrative costs.
- **Federal Grants** – The Department is the recipient of an annual block grant under the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). The U.S. Department of Housing and Urban Development (HUD) is the cognizant entity of the NAHASDA grant in carrying out affordable housing activities for Native Hawaiian families qualified for this program.
- **Hawaiian Home Trust Fund** – Monies deposited into this fund are available for transfers into any other fund or account authorized by the Act or for any public purpose to further

State of Hawai‘i
Department of Hawaiian Home Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2020

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

- **Hawaiian Home Lands Bond Fund** – The Hawaiian Home Lands Bond Funds are funded through budget bills passed by the State Legislature and approved by Governor. The appropriations can be used for construction projects and GIAs (Grant-in-Aid) Projects.

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

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

Financial Analysis of the Department as a Whole

Net Position

The Department’s total net position increased by \$12.2 million to \$897.9 million between fiscal years 2020 and 2019, primarily due to a slight increase in program revenues from land management and bond fund appropriations during fiscal year 2020. A large portion of the Department’s net position (53%) reflects its investment in capital assets such as land, buildings, infrastructure, furniture and equipment, and construction-in-progress. The Department uses these capital assets to provide improvements on a special class of public lands, which are leased to native Hawaiians; consequently, these assets cannot be sold. Although the Department’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets cannot be used to liquidate these liabilities.

State of Hawai‘i
Department of Hawaiian Home Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2020

The following is a comparative statement of net position:

Summary of Statement of Net Position
(in millions)

	<u>2020</u>	<u>2019</u>	Increase (Decrease)
Current and other assets	\$ 527.0	\$ 503.7	\$ 23.3
Capital assets	465.0	478.9	(13.9)
Deferred outflows of resources	<u>3.0</u>	<u>3.3</u>	<u>(0.3)</u>
Total assets and deferred outflows of resources	<u>\$ 995.0</u>	<u>\$ 985.9</u>	<u>\$ 9.1</u>
Long-term liabilities	\$ 52.7	\$ 53.1	\$ (0.4)
Other liabilities	<u>44.4</u>	<u>46.9</u>	<u>(2.5)</u>
Total liabilities	<u>\$ 97.1</u>	<u>\$ 100.0</u>	<u>\$ (2.9)</u>
Net position			
Net investment in capital assets	\$ 473.5	\$ 430.5	\$ 43.0
Restricted	97.6	83.9	13.7
Unrestricted	<u>326.8</u>	<u>371.3</u>	<u>(44.5)</u>
Total net position	<u>\$ 897.9</u>	<u>\$ 885.7</u>	<u>\$ 12.2</u>

Change in Net Position

The Department’s total program revenues decreased from \$40.6 million in fiscal year 2019 to \$34.8 million in fiscal year 2020 (see statement of activities). Approximately 30.0% of the Department’s program revenues came from interest income, 5.9% came from grants and contributions, 47.2% came from the general lease program, and 16.9% came from other sources. Total general revenues increased by 16% to \$38.5 million due to an increase in bond fund appropriations received in fiscal year 2020 as compared to fiscal year 2019 for construction projects and grants-in-aid funding for community organizations.

Statement of Activities

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

State of Hawai‘i
Department of Hawaiian Home Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2020

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

Summary of Changes in Net Position
(in millions)

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Revenues			
Program revenue			
Administration and support services	\$ 9.3	\$ 12.0	\$ (2.7)
Homestead services	5.5	6.1	(0.6)
Land development	0.3	0.4	(0.1)
Home construction	-	-	-
Land management	17.6	17.3	0.3
Intergovernmental revenues	2.1	4.8	(2.7)
Appropriations, net of lapses and transfers	<u>38.5</u>	<u>33.2</u>	<u>5.3</u>
Total revenues	<u>73.3</u>	<u>73.8</u>	<u>(0.5)</u>
Expenses			
Administration and support services	\$ 17.4	\$ 15.5	\$ 1.9
Homestead services	27.1	27.9	(0.8)
Land development	5.1	6.5	(1.4)
Home construction	7.6	2.3	5.3
Land management	<u>3.9</u>	<u>3.5</u>	<u>0.4</u>
Total expenses	<u>61.1</u>	<u>55.7</u>	<u>5.4</u>
Excess of revenues over expenses	12.2	18.1	(5.9)
Net position			
Beginning of year	<u>885.7</u>	<u>867.6</u>	<u>18.1</u>
End of year	<u>\$ 897.9</u>	<u>\$ 885.7</u>	<u>\$ 12.2</u>

As noted, net position increased by \$12.2 million from operations, a 1.4% growth this year, compared to an increase of \$18.1 million, a 2.1 % growth in fiscal year 2019. The fiscal year 2020 increase is primarily due to a slight increase in program revenues received from land management and increase in bond funds from GIA projects for which DHHL is the pass-through agency.

State of Hawai'i
Department of Hawaiian Home Lands
Management's Discussion and Analysis (Unaudited)
June 30, 2020

Financial Analysis of the Department's Governmental Funds

Governmental Funds

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

As of the end of fiscal year 2020, the Department's governmental funds reported a combined increase in fund balance of \$19.9 million. The changes in fund balance for the governmental funds differ from the change in net position for governmental activities. The differences relate to certain financial resources and expenditures such as debt financing and capital outlays that are included in the changes in fund balances but are not reported in the changes in net position.

Comparison of Balance Sheet
(in millions)

	Assets			Liabilities and Deferred Inflows of Resources				Fund Balances				
	2020	#	2019	Change	2020	#	2019	Change	2020	#	2019	Change
	General Fund	\$ 4.3		\$ 5.7	\$ (1.4)	\$ 0.9		\$ 1.3	\$ (0.4)	\$ 3.4		\$ 4.4
General Loan Fund	119.7		111.0	8.7	39.4		37.7	1.7	80.3		73.3	7.0
Land Trust Fund	157.6		155.8	1.8	0.1		0.2	(0.1)	157.5		155.6	1.9
Operating Fund	67.4		65.1	2.3	2.5		1.3	1.2	64.9		63.8	1.1
Receipts Fund	8.7		8.5	0.2	5.7		4.8	0.9	3.0		3.7	(0.7)
Administration Account	27.0		36.9	(9.9)	4.0		2.9	1.1	23.0		34.0	(11.0)
Federal Grants	33.6		35.9	(2.3)	0.3		0.5	(0.2)	33.3		35.4	(2.1)
Trust Fund	49.6		47.8	1.8	37.8		36.0	1.8	11.8		11.8	-
Bond Fund	59.9		45.2	14.7	1.3		2.5	(1.2)	58.6		42.7	15.9
Other Funds	36.9		28.0	8.9	3.8		3.7	0.1	33.1		24.3	8.8
Total	\$ 564.7		\$ 539.9	\$ 24.8	\$ 95.8		\$ 90.9	\$ 4.9	\$ 468.9		\$ 449.0	\$ 19.9

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

	Revenues			Expenditures			Other Financing Sources and Lapsed Appropriations			Fund Balances		
	2020	2019	Change	2020	2019	Change	2020	2019	Change	2020	2019	Change
	General Fund	\$ 15.4	\$ 18.1	\$ (2.7)	\$ 14.4	\$ 14.9	\$ (0.5)	\$ (2.0)	\$ (3.2)	\$ 1.2	\$ (1.0)	\$ -
General Loan Fund	-	-	-	1.1	1.4	(0.3)	8.1	6.3	1.8	7.0	4.9	2.1
Land Trust Fund	2.8	3.6	(0.8)	0.9	2.0	(1.1)	-	-	-	1.9	1.6	0.3
Operating Fund	0.6	1.8	(1.2)	14.5	8.5	6.0	15.0	23.2	(8.2)	1.1	16.5	(15.4)
Receipts Fund	7.4	6.7	0.7	-	-	-	(8.1)	(6.2)	(1.9)	(0.7)	0.5	(1.2)
Administration Account	17.2	18.3	(1.1)	3.8	3.1	0.7	(24.4)	(22.6)	(1.8)	(11.0)	(7.4)	(3.6)
Federal Grants	1.3	6.2	(4.9)	3.4	1.0	2.4	-	-	-	(2.1)	5.2	(7.3)
Trust Fund	-	-	-	-	0.4	(0.4)	-	-	-	-	(0.4)	0.4
Bond Fund	28.3	17.0	11.3	7.9	9.6	(1.7)	(4.5)	-	(4.5)	15.9	7.4	8.5
Other Funds	1.3	3.8	(2.5)	3.6	3.8	(0.2)	11.1	0.4	10.7	8.8	0.4	8.4
Total	\$ 74.3	\$ 75.5	\$ (1.2)	\$ 49.6	\$ 44.7	\$ 4.9	\$ (4.8)	\$ (2.1)	\$ (2.7)	\$ 19.9	\$ 28.7	\$ (8.8)

Overall, the assets for the Department increased by \$24.8 million, liabilities increased by \$4.9 million, and fund balance increased by \$19.9 million.

State of Hawai‘i
Department of Hawaiian Home Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2020

Budgetary Highlights

In fiscal year 2020, the General Fund Account received appropriations amounting to \$15.4 million. This amount was expended according to the budget except \$732,276 was lapsed.

In the Hawaiian Home Administration Account, the actual revenue exceeded the budgeted amount by \$12.4 million and expenditures were approximately equal to the budgeted amount. The overall favorable variance of \$12.6 million was created by expenditure control measures.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2020, the Department had invested \$838.1 million in a broad range of capital assets, including land, building and improvements, furniture and equipment, and infrastructure. This amount represents a net increase (including additions, deductions and reclassifications) of \$9.3 million, or 1.1%, over last year.

	Capital Assets (in millions)		Increase (Decrease)
	2020	2019	(Decrease)
Buildings and improvements	\$ 31.1	\$ 29.2	\$ 1.9
Furniture and equipment	6.1	5.7	0.4
Motor vehicles	1.5	1.4	0.1
Infrastructure	708.5	706.1	2.4
Total depreciable assets	747.2	742.4	4.8
Less: Accumulated depreciation	(373.1)	(349.9)	(23.2)
Net depreciable assets	374.1	392.5	(18.4)
Land	41.8	41.8	-
Land improvements	33.4	33.4	-
Construction in progress	15.7	11.2	4.5
Total capital assets	\$ 465.0	\$ 478.9	\$ (13.9)

In fiscal year 2020, the Department expended \$9.3 million for various capital projects, including \$3.0 million for Papakolea Sewer System Upgrades, \$1.8 million for Pulehunui Master Plan, \$1.2 million for Keokea-Waiohuli Subdivision, \$570,000 for Anahola Farm Lots Water Project, \$1.9 million for the acquisition of Shafter Flats, and \$830,000 for various other projects.

Long-Term Debt

In 2009, the Department issued Revenue Bonds, Series 2009, to fund the planning, design and construction projects on the Hawaiian Home Lands. In August 2017, the Department advance

State of Hawai‘i
Department of Hawaiian Home Lands
Management’s Discussion and Analysis (Unaudited)
June 30, 2020

Long-Term Debt (continued)

refunded the Series 2009 Revenue Bonds with the Series 2017 Revenue Bonds. The Department also has a note payable to reimburse the Housing and Community Development Corporation of Hawaii for infrastructure costs over a 15-year period.

Outstanding Debt
(in millions)

	<u>2020</u>	<u>2019</u>	<u>Increase (Decrease)</u>
Notes payable	\$ 1.3	\$ 3.0	\$ (1.7)
Capital lease obligation	14.7	15.7	(1.0)
Bonds payable, net	30.9	32.9	(2.0)
Total outstanding debt	<u>\$ 46.9</u>	<u>\$ 51.6</u>	<u>\$ (4.7)</u>

Economic Factors and Next Year’s Budgets

Revenues generated from general leases, revocable permits, licenses and right of entry agreements are projected to total \$16.4 million. This represents a decrease of 5.7% from the prior fiscal year projection. The decrease is primarily due to cancellation of several accounts and/or rent adjustments or fees as a result of the ongoing pandemic.

Currently Known Facts or Decisions

As stewards of the Hawaiian Home Lands Trust, the Department remains focused on the core mission of returning native Hawaiians to the land, as envisioned by our founder Prince Jonah Kūhiō Kalanianaʻole.

The Department is scheduled to prepare a minimum of 1,300 lots throughout the State over the next five years, which is a direct result of the years of consecutive funding provided to DHHL during the Ige administration.

In fiscal year 2021, a pair of DHHL’s new housing products reached noteworthy milestones. New administrative rules for Planned Communities, Multi-Family Complexes, and Rental Housing on Hawaiian Home Lands were adopted and the Department also published its final Environmental Assessment with a Finding of No Significant Impact for its Subsistence Agricultural pilot project in Honomū, Hawai‘i. Both initiatives will add to the Department’s list of affordable housing options for beneficiaries.

In addition to diversifying our product portfolio, the Department launched a newly formed Contact Center to improve service to beneficiaries. A previously unusable parcel in Kalaeloa has also found purpose and will soon have a renewable energy tenant that will deliver additional revenue to DHHL for new homestead lots.

State of Hawai‘i
Department of Hawaiian Home Lands
Statement of Net Position
June 30, 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Assets

Cash in State Treasury (Note C)	\$ 397,172,786
Receivables	
Loans, net of allowance for losses of \$19,924,000 (Note D)	94,413,068
Due from developers	10,000,000
Accrued interest - loans	7,797,935
General leases and licenses, net of allowance for losses of \$4,422,000	3,509,403
Accrued interest - investment pool	628,524
Other, net of allowance for losses of \$2,043,000	7,122,339
Inventory of land improvements acquired from former lessees (Note F)	2,852,360
Inventory of homes for sale and development	169,554
Restricted cash and short-term investments held outside of State Treasury (Note E)	3,221,386
Prepaid expenses	69,406
Capital assets, net (Note G)	<u>464,994,429</u>
Total assets	<u>991,951,190</u>

Deferred outflows of resources

Deferred loss on refunding	<u>3,016,148</u>
Total assets and deferred outflows of resources	<u>\$ 994,967,338</u>

LIABILITIES AND NET POSITION

Liabilities

Vouchers and contracts payable	\$ 4,948,234
Interest payable	427,550
Temporary deposits payable	37,750,395
Other liabilities	5,381,788
Due within one year	
Bonds payable (Note I)	1,695,000
Capital lease obligation (Note J)	805,000
Notes payable (Note K)	1,300,000
Accrued vacation	411,932
Due in more than one year	
Bonds payable, net of premium (Note I)	29,217,254
Capital lease obligation, net of premium (Note J)	13,928,010
Accrued vacation	<u>1,231,851</u>
Total liabilities	<u>97,097,014</u>

Commitments and contingencies (Note N)

Net position

Net investment in capital assets	473,461,376
Restricted for	
Capital projects	58,578,697
Loans and loan commitments	33,329,588
Debt reserve agreements	3,214,334
Guaranteed and insured loans	2,500,000
Unrestricted	<u>326,786,329</u>
Total net position	<u>897,870,324</u>
Total liabilities and net position	<u>\$ 994,967,338</u>

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



State of Hawai'i
Department of Hawaiian Home Lands

Statement of Activities
for the year ended June 30, 2020

Functions/Programs	Program Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Administration and support services	\$ 17,435,380	\$ 7,473,775	\$ 1,843,433	\$ (8,118,172)
Homestead services	27,120,436	5,459,898	-	(21,660,538)
Land development	5,044,060	42,687	217,000	(4,784,373)
Home construction	7,637,960	-	-	(7,637,960)
Land management	3,863,165	17,648,678	-	13,785,513
Total governmental activities	<u>\$ 61,101,001</u>	<u>\$ 30,625,038</u>	<u>\$ 2,060,433</u>	<u>\$ (28,415,530)</u>
General revenues:				
				\$ 38,483,970
				<u>2,110,625</u>
			Total general revenues	<u>40,594,595</u>
			Change in net position	12,179,065
			Net position at July 1, 2019	<u>885,691,259</u>
			Net position at June 30, 2020	<u>\$ 897,870,324</u>

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



State of Hawai'i
Department of Hawaiian Home Lands
 Balance Sheet
 Governmental Funds
 June 30, 2020

	General Fund	Hawaiian Home Loan Fund	Hawaiian Home Lands Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Federal Grants	Hawaiian Home Trust Fund	Hawaiian Home Lands Bond Funds	Other Funds	Total
ASSETS											
Cash in State Treasury	\$ 4,314,165	\$ 47,328,850	\$ 150,719,468	\$ 66,553,493	\$ 818,398	\$ 21,843,113	\$ 75,321	\$ 11,798,833	\$ 59,906,646	\$ 33,814,499	\$ 397,172,786
Receivables											
Loans, net of allowance for losses of \$19,924,000	-	69,358,439	-	-	-	-	23,780,567	-	-	1,274,062	94,413,068
Due from other funds	-	-	-	42,688	-	-	-	37,750,395	-	-	37,793,083
Due from developers	-	-	5,000,000	-	-	-	5,000,000	-	-	-	10,000,000
Accrued interest - loans	-	-	-	33,585	7,657,399	-	106,951	-	-	-	7,797,935
General leases and licenses, net of allowances for losses of \$4,422,000	-	-	-	-	-	3,509,403	-	-	-	-	3,509,403
Accrued interest - investment pool	-	-	285,631	6,349	250,571	54,119	-	-	-	31,854	628,524
Other, net of allowance for losses of \$2,043,000	5,976	150,000	1,436,938	778,183	-	139,588	4,611,654	-	-	-	7,122,339
Inventory of land improvements acquired from former lessees	-	2,852,360	-	-	-	-	-	-	-	-	2,852,360
Inventory of homes for sale and development	-	-	169,554	-	-	-	-	-	-	-	169,554
Restricted cash and short-term investments held outside of State Treasury	-	-	-	-	-	1,413,440	-	-	-	1,807,946	3,221,386
Total assets	\$ 4,320,141	\$ 119,689,649	\$ 157,611,591	\$ 67,414,298	\$ 8,726,368	\$ 26,959,663	\$ 33,574,493	\$ 49,549,228	\$ 59,906,646	\$ 36,928,361	\$ 564,680,438
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES											
Liabilities											
Vouchers and contracts payable	\$ 944,752	\$ -	\$ 155,678	\$ 1,835,882	\$ -	\$ 842,200	\$ 211,111	\$ -	\$ 1,327,949	\$ 1,018,629	\$ 6,336,201
Due to other funds	-	37,628,057	-	165,026	-	-	-	-	-	-	37,793,083
Temporary deposits payable	-	-	-	-	-	-	-	37,750,395	-	-	37,750,395
Other liabilities	-	1,802,805	-	424,019	-	342,051	-	-	-	2,812,913	5,381,788
Total liabilities	944,752	39,430,862	155,678	2,424,927	-	1,184,251	211,111	37,750,395	1,327,949	3,831,542	87,261,467
Deferred inflows of resources											
Unavailable revenues	-	-	-	27,397	5,673,734	2,799,625	21,651	-	-	-	8,522,407
Fund balances											
Restricted for											
Capital projects	-	-	-	-	-	-	-	-	58,578,697	-	58,578,697
Federal loan programs	-	-	-	-	-	-	33,341,731	-	-	-	33,341,731
Debt agreements	-	-	-	-	-	1,431,574	-	-	-	1,782,760	3,214,334
Guaranteed and insured loans	-	150,000	-	-	-	-	-	2,350,000	-	-	2,500,000
Assigned to											
Home loans and homestead services	-	82,814,156	-	-	3,052,634	-	-	9,448,833	-	4,598,880	99,914,503
Land management	4,572,557	-	-	64,961,974	-	21,544,213	-	-	-	-	91,078,744
Home construction and land development	-	-	157,455,913	-	-	-	-	-	-	26,715,179	184,171,092
Unassigned	(1,197,168)	(2,705,369)	-	-	-	-	-	-	-	-	(3,902,537)
Total fund balances	3,375,389	80,258,787	157,455,913	64,961,974	3,052,634	22,975,787	33,341,731	11,798,833	58,578,697	33,096,819	468,896,564
Total liabilities, deferred inflows of resources, and fund balances	\$ 4,320,141	\$ 119,689,649	\$ 157,611,591	\$ 67,414,298	\$ 8,726,368	\$ 26,959,663	\$ 33,574,493	\$ 49,549,228	\$ 59,906,646	\$ 36,928,361	\$ 564,680,438



State of Hawai'i
Department of Hawaiian Home Lands
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Position
 June 30, 2020

Total fund balances - governmental funds \$ 468,896,564

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

(1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. These assets consist of:			
	Infrastructure assets	\$ 708,477,471	
	Land	41,824,231	
	Land improvements	33,406,582	
	Buildings and improvements	31,047,235	
	Construction-in-progress	15,731,814	
	Other capital assets	7,572,811	
	Accumulated depreciation	<u>(373,065,715)</u>	
			464,994,429
(2) Prepaid expenses are not current financial resources and therefore are not reported in the governmental funds.			69,406
(3) Deferred loss on refunding of bonds payable is not reported in the governmental funds, but are reported in the statement of net position net of accumulated amortization as deferred outflows of resources.			3,016,148
(4) Certain revenues not collected within 60 days after the end of the year are deferred in the funds.			8,522,407
(5) Accrued interest payable is not recognized in governmental funds.			(427,550)
(6) Long-term debt payment accruals are included as an expenditure for governmental funds but are included in bonds payable and capital lease obligation in the statement of net position.			1,387,967
(7) Some long-term liabilities and deferred charges are not due and payable in the current period and therefore are not reported in the funds, including:			
	Notes payable	\$ (1,300,000)	
	Capital lease obligation	(14,733,010)	
	Bonds payable	(30,912,254)	
	Accrued vacation	<u>(1,643,783)</u>	
			<u>(48,589,047)</u>
Total net position			<u>\$ 897,870,324</u>

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



State of Hawai'i
Department of Hawaiian Home Lands
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
for the year ended June 30, 2020

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Lands Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Federal Grants	Hawaiian Home Trust Fund	Hawaiian Home Lands Bond Funds	Other Funds	Total
Revenues											
State appropriations	\$ 15,440,493	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,340,000	\$ -	\$ 43,780,493
General leases	-	-	-	-	-	12,590,236	-	-	-	-	12,590,236
Licenses and permits	-	-	-	-	-	3,843,647	-	-	-	-	3,843,647
Interest from loans and note receivable	-	-	-	37,204	4,150,747	-	241,387	-	-	-	4,429,338
Investment income	-	-	2,435,959	(578,984)	3,330,912	522,814	-	-	-	313,968	6,024,669
Intergovernmental revenues	-	-	167,253	-	-	-	1,093,433	-	-	750,000	2,010,686
Real property sold	-	-	217,000	42,687	-	-	-	-	-	-	259,687
Other	-	-	-	1,177,466	-	244,152	32,357	-	-	239,497	1,693,472
Total revenues	15,440,493	-	2,820,212	678,373	7,481,659	17,200,849	1,367,177	-	28,340,000	1,303,465	74,632,228
Expenditures											
Current											
Administration and support services	7,626,621	-	103,800	839,850	-	2,223,452	3,203,217	-	1,524,404	563,370	16,084,714
Homestead services	3,273,300	1,107,029	-	858,775	-	181,469	-	-	-	43,115	5,463,688
Land development	2,182,254	-	83	2,495,234	-	12,821	-	-	208,953	-	4,899,345
Land management	1,189,217	-	-	786,135	-	1,396,992	84,171	-	-	-	3,456,515
Capital outlay	112,688	-	785,142	9,541,462	-	19,471	90,261	-	6,202,366	-	16,751,390
Debt service											
Principal	-	-	-	-	-	-	-	-	-	1,665,000	1,665,000
Interest	-	-	-	-	-	-	-	-	-	1,355,150	1,355,150
Total expenditures	14,384,080	1,107,029	889,025	14,521,456	-	3,834,205	3,377,649	-	7,935,723	3,626,635	49,675,802
Excess (deficiency) of revenues over (under) expenditures	1,056,413	(1,107,029)	1,931,187	(13,843,083)	7,481,659	13,366,644	(2,010,472)	-	20,404,277	(2,323,170)	24,956,426
Other financing sources (uses)											
Transfers in	-	8,102,383	-	15,000,000	-	1,397,662	305,748	-	-	13,756,342	38,562,135
Transfers out	(1,397,662)	-	-	-	(8,102,383)	(25,850,500)	(305,748)	-	-	(2,653,617)	(38,309,910)
Total other financing sources (uses)	(1,397,662)	8,102,383	-	15,000,000	(8,102,383)	(24,452,838)	-	-	-	11,102,725	252,225
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(341,249)	6,995,354	1,931,187	1,156,917	(620,724)	(11,086,194)	(2,010,472)	-	20,404,277	8,779,555	25,208,651
Lapsed appropriation	(732,276)	-	-	-	-	-	-	-	(4,564,247)	-	(5,296,523)
Net change in fund balances	(1,073,525)	6,995,354	1,931,187	1,156,917	(620,724)	(11,086,194)	(2,010,472)	-	15,840,030	8,779,555	19,912,128
Fund balances at July 1, 2019	4,448,914	73,263,433	155,524,726	63,805,057	3,673,358	34,061,981	35,352,203	11,798,833	42,738,667	24,317,264	448,984,436
Fund balances at June 30, 2020	\$ 3,375,389	\$ 80,258,787	\$ 157,455,913	\$ 64,961,974	\$ 3,052,634	\$ 22,975,787	\$ 33,341,731	\$ 11,798,833	\$ 58,578,697	\$ 33,096,819	\$ 468,896,564



State of Hawai'i
Department of Hawaiian Home Lands
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures, and Changes in Fund Balances to the Statement of Activities
 for the year ended June 30, 2020

Change in fund balances - governmental funds \$ 19,912,128

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

- (1) Capital outlays are reported as expenditures in governmental funds; however, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these transactions are:
- | | | | |
|--|----|--------------|--------------|
| Capital outlay | \$ | 7,413,430 | |
| Transfers | | 1,858,400 | |
| Depreciation expense | | (23,161,451) | |
| Excess of depreciation expense over capital outlay | | | (13,889,621) |
- (2) Repayment of notes payable is reported as an expenditure in governmental funds, but the payment reduces notes payable in the statement of net position. 1,700,000
- (3) The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but it is not reported on the statement of activities. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities:
- | | | | |
|--|----|-----------|-----------|
| Net decrease in prepaid bond insurance | \$ | (5,908) | |
| Net decrease in deferred loss on refunding | | (256,754) | |
| Net decrease in capital lease obligation | | 964,282 | |
| Net decrease in bonds payable | | 2,021,236 | |
| | | | 2,722,856 |
- (4) The governmental funds report revenues only if they are collected within 60 days after the end of the year. The statement of activities reports revenues when earned, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for interest income. 1,878,258
- (5) The net increase in accrued vacation is reported in the statement of activities and does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds. (171,223)
- (6) Long-term debt payment accruals are included as an expenditure for governmental funds but are included in bonds payable and capital lease obligation in the statement of net position. 26,667
- Change in net position \$ 12,179,065

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



State of Hawai'i
Department of Hawaiian Home Lands
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
General Fund (Unaudited)
for the year ended June 30, 2020

	<u>Budgeted Amounts Original and Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
State appropriations	\$ 18,639,244	\$ 15,440,493	\$ (3,198,751)
Expenditures:			
Administration and support services	9,362,854	8,109,350	1,253,504
Homestead services	4,258,614	3,224,595	1,034,019
Land development	2,762,650	942,286	1,820,364
Land management	<u>2,255,126</u>	<u>1,045,249</u>	<u>1,209,877</u>
Total expenditures	<u>18,639,244</u>	<u>13,321,480</u>	<u>5,317,764</u>
Excess of appropriations over expenditures	<u>\$ -</u>	<u>\$ 2,119,013</u>	<u>\$ 2,119,013</u>

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



State of Hawai'i
Department of Hawaiian Home Lands
Statement of Revenues and Expenditures – Budget and Actual (Budgetary Basis)
Hawaiian Home Administration Account (Unaudited)
for the year ended June 30, 2020

	<u>Budgeted Amounts Original and Final</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget - Favorable (Unfavorable)</u>
Revenues	\$ 4,824,709	\$ 17,200,849	\$ 12,376,140
Expenditures:			
Administration and support services	3,819,109	2,374,234	1,444,875
Homestead services	357,400	177,076	180,324
Land development	103,200	1,955	101,245
Land management	<u>545,000</u>	<u>1,982,180</u>	<u>(1,437,180)</u>
Total expenditures	<u>4,824,709</u>	<u>4,535,445</u>	<u>289,264</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 12,665,404</u>	<u>\$ 12,665,404</u>

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



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

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

Department-Wide Financial Statements

The department-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

Appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net position is restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within 60 days of the current fiscal year-end. Principal revenue sources considered susceptible to accrual include lease payments, sales, interest on loans and investments, and interest receivable. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims, and judgments are recorded only when payment is due.

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

As of June 30, 2020, fund balances of the governmental funds are classified as follows:

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

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



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting

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

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

General Fund

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

Special Revenue Funds

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

- **Hawaiian Home General Loan Fund** – The Hawaiian Home General Loan Fund is used to account for Department loans made to native Hawaiian homesteaders.
- **Hawaiian Home Lands Trust Fund** – The Hawaiian Home Lands Trust Fund accounts for funds from the State to be expended by the Department, as provided by law upon approval by the Commission and used for capital improvements and other purposes undertaken in furtherance of the Hawaiian Homes Commission Act of 1920.
- **Hawaiian Home Operating Fund** – The Hawaiian Home Operating Fund is used to account for operations of the Department and is funded by monies transferred from the Hawaiian Home Receipts Fund.
- **Hawaiian Home Receipts Fund** – The Hawaiian Home Receipts Fund is used to account for receipts of investment interest and loan interest payments from the Department loans to homesteaders.
- **Hawaiian Home Administration Account** – The Hawaiian Home Administration Account is used to account for commercial general leases, revocable permits, and licenses of “available” lands as defined under the HHCA. Lease revenues are used to fund operations of the Department.



State of Hawai‘i
Department of Hawaiian Home Lands

Notes to Financial Statements
June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting (continued)

Special Revenue Funds (continued)

- **Federal Grants** – The Federal Grants fund is used to account for grants the Department has with the Federal Government.
- **Hawaiian Home Trust Fund** – The Hawaiian Home Trust Fund is used to account for the loan principal and interest payments the Department collects on assumed loans from the Department of Housing and Urban Development (HUD) as part of the mortgage loan insurance agreement. The amounts maintained in this fund provide for payment of any mortgage insurance claims and expenditures incurred by HUD in connection with the lessee borrowings.
- **Hawaiian Home Lands Bond Funds** – The Hawaiian Home Lands Bond Funds are authorized and appropriated by the State Legislature for construction projects or grant-in-aid funds for projects or grants which benefit the Department’s beneficiaries or community organizations.

Appropriations

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

Encumbrances

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

Encumbrances at June 30, 2020 for the Department’s governmental funds were as follows:

	Contracts	Claims
General Fund	\$ 2,844,000	\$ 1,460,000
Land Trust Fund	5,440,000	2,381,000
Operating Fund	49,897,000	5,825,000
Administration Account	1,643,000	1,353,000
Federal Grants	10,040,000	1,524,000
Bond Fund	43,924,000	13,201,000
Other Funds	773,000	769,000
Total	\$ 114,561,000	\$ 26,513,000



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash in State Treasury

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

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

Restricted Cash and Investments

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

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

Fair Value Measurements

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

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



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory of Homes for Sale and Development

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

Intrafund and Interfund Transactions

Transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements. Interfund balances of \$37,750,395 and \$42,688 represent loans receivable and proceeds of sales of improvements, respectively, temporarily funded with balances from other funds.

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

Capital Assets

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

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

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

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

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period. The Department defers recognition of the loss on debt refunding related to issuance of its revenue bonds and amortizes these costs over the life of the bonds using the straight-line method.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Temporary Deposits Payable

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

Compensated Absences

It is the State’s policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. Accumulated sick leave as of June 30, 2020 was approximately \$5,498,000. All vacation pay is accrued when incurred in the department-wide financial statements. A liability for these amounts is reported in the governmental fund financial statements only if they have matured, for example, as a result of employee resignations and retirements.

Lease Rents and Interest Income

The Department’s governmental fund financial statement recognizes lease rent and mortgage interest of its governmental funds as revenues when they are measurable and available. The available criterion is satisfied when revenues are collectible during the period or soon enough thereafter to pay liabilities of the current period. Amounts not collected within 60 days after the end of the year approximated \$8,522,000 as of June 30, 2020, and are recorded as deferred inflows of resources in the governmental funds balance sheet. The departmental financial statements present lease rents and mortgage interest under the accrual method of accounting.

Use of Estimates

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

New Accounting Pronouncements

GASB Statement No. 84

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, postponed by GASB Statement No. 95 for one year. The Department has not yet determined the effect this Statement will have on its financial statements.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 87

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows or outflows of resources based on the provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019, postponed by GASB Statement No. 95 for 18 months. The Department has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 89

During fiscal year 2020, the Department implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement replaces Paragraph 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. This Statement did not have any effect on the Department’s financial statements.

GASB Statement No. 90

The GASB issued Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, postponed by GASB Statement No. 95 for one year. The Department has not yet determined the effect this Statement will have on its financial statements.

GASB Statement No. 91

During fiscal year 2020, the Department implemented GASB Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The implementation of this Statement did not have a material effect on the Department’s financial statements.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 92

The GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective at multiple periods depending on when certain Statements are implemented, postponed by GASB Statement No. 95 for one year. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 93

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020, postponed by GASB Statement No. 95 for one year. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 94

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 95

During fiscal year 2020, the Department implemented GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018 and later. The requirements of this Statement are effective immediately. This Statement did not have any effect on the Department’s financial statements.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

GASB Statement No. 96

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements for government end users. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 97

The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The main objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB (Other Post-Employment Benefit) plans, and employee benefit plans other than pension plans or OPEB plans as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. Certain requirements of this Statement are effective immediately while other requirements, like reporting for section 457 plans are effective for fiscal years beginning after June 15, 2021. The Department has not determined the effect this Statement will have on its financial statements.

NOTE B - BUDGETING AND BUDGETARY CONTROL

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



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE B - BUDGETING AND BUDGETARY CONTROL (continued)

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

For purposes of budgeting, the Department’s budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with GAAP.

Since the budgetary basis differs from GAAP, budget and actual amounts in the statements of revenues and expenditures – budget and actual – General Fund and the Hawaiian Home Administration Account, are presented on the budgetary basis. A reconciliation of the General Fund and the Hawaiian Home Administration Account revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2020 to revenues in excess of expenditures presented in conformity with GAAP is set forth below.

Under Hawai‘i Revised Statutes (HRS) Section 78-13, staff salaries and wages amounting to approximately \$726,000 in the General Fund, for the period from June 16, 2020 through June 30, 2020, are to be funded with monies budgeted for fiscal year 2021. Accordingly, these amounts are excluded from the statements of revenues and expenditures – budget and actual of the General Fund, but are included in the departmental and governmental fund financial statements in accordance with GAAP.

Salaries and wages amounting to approximately \$753,000 in the General Fund, for the period from June 16, 2019 to June 30, 2019, were funded with monies budgeted for fiscal year 2020. Accordingly, these amounts are included in the statements of revenues and expenditures – budget and actual of the General Fund, for the year ended June 30, 2020.



State of Hawai'i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE B - BUDGETING AND BUDGETARY CONTROL (continued)

The following schedule reconciles the budgetary amounts of the General Fund and the Hawaiian Home Administration Account to the amounts presented in accordance with GAAP:

	General Fund	Hawaiian Home Administration Account
Excess of revenues over expenditures - actual on budgetary basis	\$ 2,119,013	\$ 12,665,404
Current year's appropriations encumbered at June 30, 2020	2,388,205	1,930,849
Current year's encumbrances included in vouchers payable	(200,714)	(198,056)
Expenditures for liquidation of prior year's encumbrances	(3,277,903)	(773,659)
Fiscal 2019 expenditures funded by fiscal 2020 budget	753,849	-
Fiscal 2020 expenditures funded by fiscal 2021 budget under Section 78-13 HRS	(726,037)	-
Excess of revenues over expenditures - GAAP basis	\$ 1,056,413	\$ 13,624,538

NOTE C - CASH IN STATE TREASURY

The State Director of Finance is responsible for the safekeeping of cash and investments in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment, are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or in the State Treasury Investment Pool System. Funds in the investment pool accrue interest based on the average weighted cash balances of each account. During fiscal year 2019, the Department estimated its allocation of interest for a portion which had not been allocated by the State. The actual interest received in excess (below) the estimate has been recognized during fiscal year 2020. No such estimate was necessary for fiscal year 2020.

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



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE C - CASH IN STATE TREASURY (continued)

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity, and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as these funds are held in the State cash pool, the Department does not manage these investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the Department level. The risk disclosures of the State’s cash pool are included in the State’s Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2020. The State’s CAFR can be found at the Department of Accounting and General Services’ (DAGS) website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>.

NOTE D - LOANS RECEIVABLE

Loans receivable consist of 1,346 loans amounting to approximately \$114,337,000 made to native Hawaiian homesteaders for the purposes specified in the HHCA. Loans are for a maximum amount of approximately \$453,000 and for a maximum term of 30 years. Loan payments expected to be collected within the next fiscal year approximates \$4,936,000. Interest rates on outstanding loans range up to 10%. The Department’s loan portfolio consists of loans that the Department has originated and that generally are collateralized by improvements on the leased properties located in the State. Loan commitments as of June 30, 2020 were approximately \$15,000. The Department has provided an allowance for loan losses of approximately \$19,924,000 as of June 30, 2020. The allowance for loan losses is a valuation reserve, which has been provided through charges to operations in the department-wide financial statements. The reserve is based on management’s assessment of loan balances deemed uncollectible as of June 30, 2020.

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

Restricted investments held outside of the State Treasury consist of money market funds held at a financial institution outside of the State of Hawai‘i. At June 30, 2020, the fair value of these investments was approximately \$3,221,000 and was determined using Level 1 inputs.

NOTE F - INVENTORY OF LAND IMPROVEMENTS ACQUIRED FROM FORMER LESSEES

Under certain circumstances, the Department purchases homes from former lessees due to voluntary and involuntary cancellations of land leases. The homes are subsequently resold to qualified lessees. As of June 30, 2020, the Department purchased homes from former lessees with book value aggregating approximately \$2,852,000.



State of Hawai'i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE G - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2020 was as follows:

	Beginning Balance July 1, 2019	Additions	Disposals/ Transfers	Ending Balance June 30, 2020
Capital assets not being depreciated -				
Land	\$ 41,824,231	\$ -	\$ -	\$ 41,824,231
Land improvements	33,406,582	-	-	33,406,582
Works of art, historical treasures	29,426	-	-	29,426
Construction in progress	11,161,816	7,582,952	(3,012,954)	15,731,814
Total capital assets, not being depreciated	<u>86,422,055</u>	<u>7,582,952</u>	<u>(3,012,954)</u>	<u>90,992,053</u>
Capital assets, being depreciated -				
Buildings and improvements	29,188,835	1,858,400	-	31,047,235
Infrastructure	706,077,309	-	2,400,162	708,477,471
Furniture and equipment	5,651,494	442,558	-	6,094,052
Motor vehicles	1,448,621	712	-	1,449,333
Total capital assets, being depreciated	<u>742,366,259</u>	<u>2,301,670</u>	<u>2,400,162</u>	<u>747,068,091</u>
Less: accumulated depreciation for -				
Buildings and improvements	(13,807,350)	(1,287,138)	-	(15,094,488)
Infrastructure	(329,378,587)	(21,675,131)	-	(351,053,718)
Furniture and equipment	(5,487,102)	(103,601)	-	(5,590,703)
Motor vehicles	(1,231,225)	(95,581)	-	(1,326,806)
Total accumulated depreciation	<u>(349,904,264)</u>	<u>(23,161,451)</u>	<u>-</u>	<u>(373,065,715)</u>
Total capital assets, being depreciated, net	<u>392,461,995</u>	<u>(20,859,781)</u>	<u>2,400,162</u>	<u>374,002,376</u>
Capital assets, net	<u>\$ 478,884,050</u>	<u>\$ (13,276,829)</u>	<u>\$ (612,792)</u>	<u>\$ 464,994,429</u>

Depreciation expense for the year ended June 30, 2020 was charged to functions of the Department as follows:

Administration and support services	\$ 1,094,625
Homestead services	21,675,131
Land development	5,784
Land management	385,911
Total depreciation	<u>\$ 23,161,451</u>



State of Hawai‘i
Department of Hawaiian Home Lands

Notes to Financial Statements
June 30, 2020

NOTE H - LONG-TERM OBLIGATIONS

For the year ended June 30, 2020, changes in long-term obligations were as follows:

	Notes Payable	Capital Lease Obligation	Bonds Payable	Accrued Vacation
Balances at July 1, 2019	\$ 3,000,000	\$ 15,697,292	\$ 32,933,490	\$ 1,472,560
Increase	-	-	-	541,052
Decrease	(1,700,000)	(964,282)	(2,021,236)	(369,829)
Balances at June 30, 2020	<u>\$ 1,300,000</u>	<u>\$ 14,733,010</u>	<u>\$ 30,912,254</u>	<u>\$ 1,643,783</u>

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

NOTE I - BONDS PAYABLE

The Department’s outstanding revenue bonds consist of annual increments which mature on April 1, 2021 through 2032. Revenue bonds maturing on or after April 1, 2028 may be redeemed by the Department on or after April 1, 2027. The revenue bonds are payable from and secured by the Department’s revenues generated from general leases and available lands. Interest expense of approximately \$1,246,000 is reported as administration and support services expense in the statement of activities.

Details of the Department’s revenue bonds as of June 30, 2020 are as follows:

\$30,940,000 revenue bonds dated August 25, 2017; due in annual principal installments of \$1,695,000 to \$2,770,000 from April 1, 2021 through April 1, 2032; interest at 3% to 5% payable semi-annually.	\$ 26,610,000
Unamortized premium on revenue bonds	<u>4,302,254</u>
Total revenue bonds	30,912,254
Less: Current portion	<u>(1,695,000)</u>
Long-term portion	<u>\$ 29,217,254</u>



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE I - BONDS PAYABLE (continued)

The annual requirements of the revenue bonds are as follows:

<u>Year ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2021	\$ 1,306,000	\$ 1,695,000	\$ 3,001,000
2022	1,221,000	1,790,000	3,011,000
2023	1,131,000	1,875,000	3,006,000
2024	1,038,000	1,970,000	3,008,000
2025	939,000	2,070,000	3,009,000
2026-2030	3,035,000	12,005,000	15,040,000
2031-2032	341,000	5,205,000	5,546,000
	<u>\$ 9,011,000</u>	<u>\$ 26,610,000</u>	<u>\$ 35,621,000</u>

NOTE J - CAPITAL LEASE OBLIGATION

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

In August 2017, Wells Fargo Bank transferred the lease by assignment to The Bank of New York Mellon Trust Company, National Association (BNY Mellon). The Department and BNY Mellon amended the lease payment schedule resulting in present value savings to the Department of approximately \$4,061,000. The Department is required to make semi-annual interest payments and annual principal payments through 2021. Interest on the outstanding balance accrues at rates between 4% and 5%. Upon expiration of the lease, the title of the facility will be transferred from the lessor to the Department.

The cost basis and accumulated depreciation of the leased assets at June 30, 2020 was as follows:

Cost	\$ 25,513,266
Less: Accumulated depreciation	<u>(13,010,409)</u>
	<u>\$ 12,502,857</u>

Interest expense of approximately \$431,000 is reported as administration and support services expense in the statement of activities.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE J - CAPITAL LEASE OBLIGATION (continued)

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

Year ending June 30,		
2021	\$	1,396,000
2022		1,398,000
2023		1,399,000
2024		1,398,000
2025		1,397,000
Thereafter		9,776,000
Total minimum lease payments		16,764,000
Less: Amount representing interest		(4,119,000)
Unamortized premium on certificates of participation		2,088,000
Present value of minimum lease payments		14,733,000
Less: Current portion		(805,000)
Long-term portion	\$	13,928,000

NOTE K - NOTES PAYABLE

In December 2004, the Department entered into a transfer agreement with the Hawaii Housing Finance and Development Corporation (HHFDC), State of Hawai‘i, in connection with the acquisition of approximately 1,800 acres of land consisting of four properties on three islands by the Department. A portion of the land is partially developed and is intended to be utilized for 3,500 homes for native Hawaiians.

As part of the transfer agreement, the Department must pay \$2.2 million a year for 15 years, for a total of \$33 million, in the form of a note, to reimburse the HHFDC, for infrastructure costs at three of the properties. This note is noninterest bearing. At June 30, 2020, the Department owed \$1,300,000 to HHFDC. The note will be repaid with monies in the Department’s Hawaiian Home Land Trust Fund. In July 2013, the Department executed an amendment that reduced the annual payments to \$1.7 million through 2020 and the final payment totaling \$1.3 million is due in 2021.

NOTE L - GENERAL LEASES AND LICENSES

The Department’s general leasing operations (Section 204 of the HHCA) consist principally of the leasing of its available lands not required to be leased to native Hawaiians for residential, agricultural, or pastoral purposes; that is, lands other than homestead leases pursuant to Section 207 of the HHCA. The general leases have varying terms extending through July 2084.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE L - GENERAL LEASES AND LICENSES (continued)

The future minimum lease income from general leases as of June 30, 2020 is as follows:

<u>Year ending June 30,</u>	
2021	\$ 16,386,000
2022	16,625,000
2023	15,072,000
2024	14,834,000
2025	15,089,000
2026 - 2030	73,138,000
2031 - 2035	71,034,000
2036 - 2040	69,422,000
2041 - 2045	66,619,000
2046 - 2050	63,521,000
2051 - 2055	63,625,000
2056 - 2060	62,068,000
2061 - 2065	58,120,000
2066 - 2070	58,425,000
2071 - 2075	39,774,000
2076 - 2080	6,079,000
2081 - 2085	3,423,000
	<u>\$ 713,254,000</u>

NOTE M - EMPLOYEE BENEFIT PLANS

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



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE M - EMPLOYEE BENEFIT PLANS (continued)

Employees’ Retirement System

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

- **State Policy** – The actuarial valuation of the ERS does not provide pension information by department or agency. Accordingly, the State’s policy on the accounting and reporting for pension benefits is to allocate a portion of the net pension liability, pension expense, and deferred inflows and outflows of resources required under GASB Statement No. 68 only to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State’s CAFR. The basis for the allocation is the number of covered employees for each component unit and proprietary fund for pension benefits.
- **Contributions** – Contributions are established by HRS Chapter 88 and may be amended through legislation. The employer rate is set by statute based on the recommendations of the ERS actuary resulting from an experience study conducted every five years. Contributions by the Department to the pension plan were approximately \$1,742,000 for the year ended June 30, 2020.
- **Required Supplementary Information and Disclosures** – The State’s CAFR includes the required footnote disclosures and supplementary information on the State’s pension plan.

Deferred Compensation Plan

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

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE M - EMPLOYEE BENEFIT PLANS (continued)

Postemployment Healthcare and Life Insurance Benefits

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

- **State Policy** – The actuarial valuation of the EUTF does not provide OPEB information by department or agency. Accordingly, the State’s policy on the accounting and reporting for OPEB is to only allocate a portion of the State’s Annual Required Contribution (ARC), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State’s CAFR. The basis for the allocation is the number of covered employees for each component unit and proprietary fund.
- **Contributions** – Contributions are financed on a pay-as-you-go basis. Contributions by the Department to the EUTF for the years ended June 30, 2020, 2019, and 2018 were approximately \$1,775,000, \$1,908,000, and \$1,611,000, respectively.
- **Required Supplementary Information and Disclosures** – The State’s CAFR includes the required footnote disclosures and supplementary information on the State’s OPEB plan.

NOTE N - COMMITMENTS AND CONTINGENCIES

Litigation

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

For purposes of securing information about the Hawaiian Home Lands Trust Individual Claims discussed as a separate note in prior audits of the Department, please see the discussion about Individual Claims and the lawsuits relating to them, including the claims against the State and the Department in *Kalima v. State of Hawai‘i*, Civil No. 99-4771-12, in the State’s CAFR on the DAGS website.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE N - COMMITMENTS AND CONTINGENCIES (continued)

Insurance

The State maintains certain insurance coverage to satisfy bond indenture agreements as well as for other purposes, but is substantially self-insured for all other perils including workers' compensation. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated. The State retains various risks and insures certain excess layers with commercial insurance companies. At June 30, 2020, the State recorded an estimated loss for workers' compensation, automobile, and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Department's portion of the State's workers' compensation liability was not material at June 30, 2020.

Guaranteed and Insured Loans

The Department is a party to a mortgage loan insurance agreement with HUD. The agreement provides that HUD will perform underwriting processing for the insurance program and will administer an insurance fund for mortgages originated and held by HUD-approved lenders. The Department will maintain and provide the necessary and proper funds for payment of any mortgage insurance claims and expenditures incurred by HUD in connection with the lessee borrowers. The Department has reserved cash of approximately \$11,799,000 in the trust fund and has deposited \$150,000 with HUD. As of June 30, 2020, loans outstanding totaled approximately \$460,207,000 under this agreement, of which approximately \$58,361,000 has been reported as delinquent.

The Department is also a party to a Native Hawaiian Home Loan Guarantee Program (HUD Section 184) agreement with HUD. The agreement provides that HUD will guarantee certain loans in which homestead leases issued by the Department pursuant to the Hawaiian Homes Commission Act is used as collateral for the loan. As of June 30, 2020, loans outstanding totaled approximately \$116,368,000 under this agreement, of which approximately \$10,559,000 has been reported as delinquent.

The Department is contingently liable for certain loans originated by the U.S. Department of Agriculture, Rural Development Agency for which the Department has guaranteed repayment. The Department has estimated the balance of these loans is between \$50,000,000 and \$70,000,000 as of June 30, 2020. The Department was unable to obtain the delinquent balance as of June 30, 2020.

As of June 30, 2020, the Department was also contingently liable for approximately \$4,630,000 in loans originated by financial institutions and other lenders for which it had guaranteed repayment. Approximately \$1,281,000 of these loans has been reported delinquent as of June 30, 2020.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE N - COMMITMENTS AND CONTINGENCIES (continued)

Guaranteed and Insured Loans (continued)

As of June 30, 2020, the Department paid approximately \$8,186,000 for delinquent mortgage loan payments of lessees. These payments are carried as loans receivable from lessees and bear similar terms as stipulated in the lessees' mortgage notes with the lenders.

The Department has certain loans for which the collateral for the loans is not covered by casualty insurance. The number of such loans was not known as of June 30, 2020.

Other

In December 2008, the Department entered into a collaborative financing arrangement with the Office of Hawaiian Affairs, State of Hawai‘i (OHA) in which OHA will provide funds for the Department's use in the planning, design, and construction of infrastructure for homesteads for native Hawaiians on properties owned and controlled by the Department. Under the agreement, OHA will pay the Department on an annual basis the lesser of \$3,000,000 or the debt service of bonds, including refunding bonds, issued by the Department to finance infrastructure for housing for native Hawaiians. As of June 30, 2020, the Department received approximately \$32,737,000 from OHA.

NOTE O - ASSESSMENTS FOR CENTRAL SERVICE AND ADMINISTRATIVE EXPENSES

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

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

As of June 30, 2020, the Department's estimate of the accumulated asserted assessments since the inception of the aforementioned law approximated \$25,203,000.

NOTE P - COVID-19 PANDEMIC

In March 2020, the World Health Organization declared an outbreak of the coronavirus infection known as COVID-19 to be a global pandemic. The financial impact of COVID-19 on the economy of Hawai‘i is expected to be significant. A state of emergency was declared on March 4, 2020 by Hawai‘i Governor David Y. Ige.



State of Hawai‘i
Department of Hawaiian Home Lands
Notes to Financial Statements
June 30, 2020

NOTE P - COVID-19 PANDEMIC (continued)

On October 13, 2020, the Governor issued the Fourteenth Supplementary Proclamation which suspended specific provisions of the law. Included were Sections 77A-42(b)-(f), HRS, other postemployment benefits trust; 87A-43, HRS, payment of public employer contributions to the other postemployment benefits trust; and 273-31(3), HRS, remittances, to the extent necessary to suspend the requirement for public employers to pay the annual required contribution to the EUTF in fiscal year 2021.

The HHC authorized borrowers to defer payments on the Department’s loans receivable effective with the April 2020 payment. No application or further approvals were necessary for borrowers to obtain deferment. Subsequent to fiscal year-end, the deferral was extended through March 2021.



Supplemental Information



State of Hawai'i
Department of Hawaiian Home Lands
 Combining Balance Sheet
 Non-Major Governmental Funds
 June 30, 2020

Supplemental Information

	Department of Hawaiian Home Lands Revenue Bond Special Fund	Hawaiian Home Loan Fund	Native Hawaiian Rehabilitation Fund	Protocol Funds	Temporary Deposits	East West Collector Road Fund	Total Other Governmental Funds
ASSETS							
Cash in State Treasury	\$ 21,116,426	\$ 3,324,515	\$ 6,557,992	\$ 8,370	\$ 2,804,846	\$ 2,350	\$ 33,814,499
Receivables							
Loans, net of allowance for losses of \$59,000	-	1,274,062	-	-	-	-	1,274,062
Accrued interest	19,557	-	12,297	-	-	-	31,854
Restricted cash and short-term investments held outside of State Treasury	1,807,946	-	-	-	-	-	1,807,946
Total assets	<u>\$ 22,943,929</u>	<u>\$ 4,598,577</u>	<u>\$ 6,570,289</u>	<u>\$ 8,370</u>	<u>\$ 2,804,846</u>	<u>\$ 2,350</u>	<u>\$ 36,928,361</u>
LIABILITIES AND FUND BALANCES							
Liabilities							
Vouchers and contracts payable	\$ 750,125	\$ -	\$ 268,504	\$ -	\$ -	\$ -	\$ 1,018,629
Other liabilities	-	8,067	-	-	2,804,846	-	2,812,913
Total liabilities	<u>750,125</u>	<u>8,067</u>	<u>268,504</u>	<u>-</u>	<u>2,804,846</u>	<u>-</u>	<u>3,831,542</u>
Fund balances							
Restricted for							
Debt agreements	1,782,760	-	-	-	-	-	1,782,760
Assigned to							
Home loans and homestead services	-	4,590,510	-	8,370	-	-	4,598,880
Home construction and land development	20,411,044	-	6,301,785	-	-	2,350	26,715,179
Total fund balances	<u>22,193,804</u>	<u>4,590,510</u>	<u>6,301,785</u>	<u>8,370</u>	<u>-</u>	<u>2,350</u>	<u>33,096,819</u>
Total liabilities and fund balances	<u>\$ 22,943,929</u>	<u>\$ 4,598,577</u>	<u>\$ 6,570,289</u>	<u>\$ 8,370</u>	<u>\$ 2,804,846</u>	<u>\$ 2,350</u>	<u>\$ 36,928,361</u>



State of Hawai'i
Department of Hawaiian Home Lands
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
for the year ended June 30, 2020

Supplemental Information

	Department of Hawaiian Home Lands Revenue Bond Special Fund	Hawaiian Home Loan Fund	Native Hawaiian Rehabilitation Fund	Protocol Funds	Temporary Deposits	East West Collector Road Fund	Total Other Governmental Funds
Revenues							
Investment income	\$ 207,784	\$ -	\$ 106,184	\$ -	\$ -	\$ -	\$ 313,968
Intergovernmental	750,000	-	-	-	-	-	750,000
Other	-	-	239,497	-	-	-	239,497
Total revenues	<u>957,784</u>	<u>-</u>	<u>345,681</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,303,465</u>
Expenditures							
Current							
Administration and support services	-	-	563,370	-	-	-	563,370
Homestead services	-	43,115	-	-	-	-	43,115
Debt service							
Principal	1,665,000	-	-	-	-	-	1,665,000
Interest	1,355,150	-	-	-	-	-	1,355,150
Total expenditures	<u>3,020,150</u>	<u>43,115</u>	<u>563,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,626,635</u>
Excess (deficiency) of revenues over (under) expenditures	(2,062,366)	(43,115)	(217,689)	-	-	-	(2,323,170)
Other financing sources (uses)							
Transfers in	13,756,342	-	-	-	-	-	13,756,342
Transfers out	(2,653,617)	-	-	-	-	-	(2,653,617)
Total other financing sources (uses)	<u>11,102,725</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,102,725</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>9,040,359</u>	<u>(43,115)</u>	<u>(217,689)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,779,555</u>
Net change in fund balances	9,040,359	(43,115)	(217,689)	-	-	-	8,779,555
Fund balances at July 1, 2019	<u>13,153,445</u>	<u>4,633,625</u>	<u>6,519,474</u>	<u>8,370</u>	<u>-</u>	<u>2,350</u>	<u>24,317,264</u>
Fund balances at June 30, 2020	<u>\$ 22,193,804</u>	<u>\$ 4,590,510</u>	<u>\$ 6,301,785</u>	<u>\$ 8,370</u>	<u>\$ -</u>	<u>\$ 2,350</u>	<u>\$ 33,096,819</u>



Schedule of Expenditures of Federal Awards



State of Hawai‘i
Department of Hawaiian Home Lands
 Schedule of Expenditures of Federal Awards
 for the year ended June 30, 2020

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. Department of Housing and Urban Development				
Native Hawaiian Housing Block Grant, Year 13	14.873	14HBGHI0001	\$ 2,000,000	\$ 6,183,301
Native Hawaiian Housing Block Grant, Year 14	14.873	15HBGHI0001	-	500,082
Total CFDA 14.873			<u>2,000,000</u>	<u>6,683,383</u>
Total Expenditures of Federal Awards			<u>\$ 2,000,000</u>	<u>\$ 6,683,383</u>

See notes to the schedule of expenditures of federal awards.



State of Hawai‘i
Department of Hawaiian Home Lands
 Notes to the Schedule of Expenditures of Federal Awards
 June 30, 2020

1. Basis of Presentation

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

2. Loans Outstanding

The Department had the following loan balances outstanding as of June 30, 2020. Loans made during the year are included in the federal expenditures presented in the schedule.

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Outstanding</u>
U.S. Department of Housing and Urban Development		
Native Hawaiian Housing Block Grant	14.783	\$ 22,363,942

3. Indirect Costs

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



Part II

Government Auditing Standards





Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

The Auditor
State of Hawai‘i

The Hawaiian Homes Commission
Department of Hawaiian Home Lands

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Hawai‘i, Department of Hawaiian Home Lands (the “Department”) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Department’s basic financial statements, and have issued our report thereon dated March 12, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department’s internal control over financial reporting (“internal control”) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Department’s internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Akamine, Oyadomari + Kosaki CPAs, Inc.

Honolulu, Hawai'i
March 12, 2021





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

The Auditor
State of Hawai'i

The Hawaiian Homes Commission
Department of Hawaiian Home Lands

Report on Compliance for Each Major Federal Program

We have audited the State of Hawai'i, Department of Hawaiian Home Lands' (the "Department") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Department's major federal program for the year ended June 30, 2020. The Department's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Department's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the "Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Department's compliance.

Opinion on Each Major Federal Program

In our opinion, the Department complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Department is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Department's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the governmental activities, each major fund, and the aggregate remaining fund information of the financial statements of the Department as of and for the year ended June 30, 2020 and the related notes to the financial statements which collectively comprise the Department's basic financial statements. We have issued our report thereon dated March 12, 2021, which contained unmodified opinions on those financial statements. Our audit was conducted for



the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Akamine, Oyadomari & Kosaki CPAs, Inc.

Honolulu, Hawai'i
March 12, 2021



Part III
Schedule of Findings and Questioned Costs



State of Hawai'i
Department of Hawaiian Home Lands
 Schedule of Findings and Questioned Costs
 for the year ended June 30, 2020

Section I – Summary of Auditors' Results

Financial Statements

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

Unmodified

Internal control over financial reporting

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

Noncompliance material to financial statements noted?

 yes X no

Federal Awards

Internal control over major programs:

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

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

Unmodified

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

 yes X no

Identification of major federal program:

CFDA

Number	Name of Federal Program or Cluster
14.873	Native Hawaiian Housing Block Grant

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

\$750,000

Auditee qualified as low-risk auditee?

 X yes no



State of Hawai‘i
Department of Hawaiian Home Lands
Schedule of Findings and Questioned Costs (continued)
for the year ended June 30, 2020

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

None.

Section IV – Status of Prior Year Findings and Questioned Costs

Internal Control over Financial Reporting

No matters reported.

Federal Award Finding and Questioned Costs

None.

