

April 4, 2025

VIA EMAIL

The Honorable Ronald D. Kouchi
Senate President
415 South Beretania Street
Hawai'i State Capitol, Room 409
Honolulu, Hawai'i 96813

VIA EMAIL

The Honorable Nadine K. Nakamura
Speaker, House of Representatives
415 South Beretania Street
Hawai'i State Capitol, Room 431
Honolulu, Hawai'i 96813

RE: Financial and Compliance Audit of the Department of Hawaiian Home Lands

Dear President Kouchi and Speaker Nakamura:

The audit report on the financial statements and compliance of the Department of Hawaiian Home Lands for the fiscal year ended June 30, 2024, was issued on March 27, 2025. The Office of the Auditor retained Accuity LLP to perform the financial and compliance audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial and compliance audit report.

You may view the financial and compliance audit report and Auditor's Summary on our website at:

https://files.hawaii.gov/auditor/Reports/2024_Audit/DHHL2024.pdf; and

https://files.hawaii.gov/auditor/Reports/2024_Audit/DHHL_Summary_2024.pdf.

If you have any questions about the report, please contact me.

Very truly yours,

Leslie H. Kondo
State Auditor

Attachment

cc/attach (Auditor's Summary only): Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Financial and Compliance Audit of the Department of Hawaiian Home Lands

Financial Statements, Fiscal Year Ended June 30, 2024



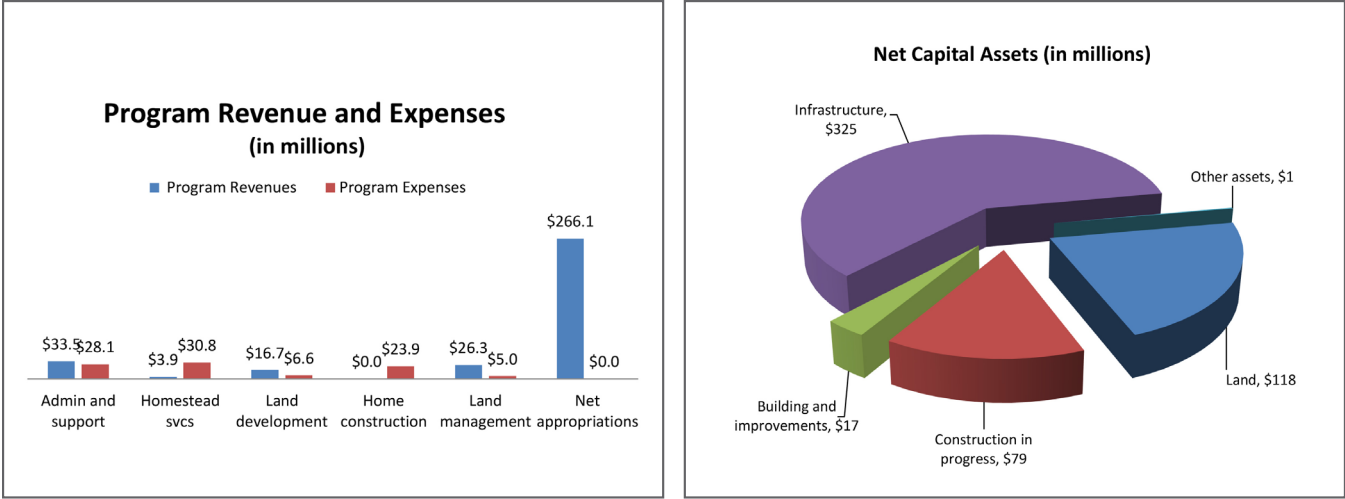
***THE PRIMARY PURPOSE** of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Hawaiian Home Lands, as of and for the fiscal year ended June 30, 2024, and to comply with the requirements of Title 2, U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), which established audit requirements for state and local governmental units that receive federal awards. The audit was conducted by Accuity LLP.*

About the Department

The Hawaiian Homes Commission Act sets aside certain public lands as Hawaiian home lands to be utilized in the rehabilitation of Native Hawaiians. These public lands are managed by the Department of Hawaiian Home Lands (DHHL), a state agency headed by the Hawaiian Homes Commission, whose primary responsibilities are to serve its beneficiaries and to manage this extensive land trust. DHHL provides direct benefits to Native Hawaiians in the form of 99-year homestead leases at \$1 per year for residential, agricultural, or pastoral purposes, and financial assistance through direct loans, insured loans, or loan guarantees for home purchase, construction, home replacement, or repair. In addition to administering the homesteading program, DHHL leases trust lands not in homestead use at market value and issues revocable permits, licenses, and rights-of-entry. Its financial statements include the public trusts controlled by the Hawaiian Homes Commission.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2024, DHHL's total revenues exceeded total expenses by \$252 million. Revenues totaled \$346.5 million and consisted of (1) program revenue of \$80.4 million and (2) state appropriations, transfers, and adjustments of \$266.1 million. Expenses totaled \$94.4 million. Program revenues were comprised of interest income (approximately 33 percent), grants and contributions (23 percent), revenue from the general lease program (19 percent), and other sources (25 percent).



As of June 30, 2024, total assets of \$1.78 billion exceeded total liabilities of \$391 million, resulting in a net position balance of \$1.39 billion. Total assets included net capital assets of \$540 million, cash of \$828 million, loans receivable of \$84 million, and other assets and deferred outflows of resources of \$331 million. Loans receivable consisted of 1,290 loans made to Native Hawaiian lessees for the purposes specified in the Hawaiian Homes Commission Act. Loans are for a maximum amount of approximately \$452,000 and for a maximum term of 40 years. Interest rates on outstanding loans range up to 10 percent. Total liabilities included bonds and lease liabilities totaling \$40 million and temporary deposits payable and other liabilities of \$351 million.

Auditors’ Opinions

DHHL RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles. DHHL also received an unmodified opinion on its compliance with major federal programs in accordance with the *Uniform Guidance*.

Findings

THERE WERE NO REPORTED DEFICIENCIES IN INTERNAL CONTROL over financial reporting that were considered to be material weaknesses and no instances of noncompliance or other matters that were required to be reported under *Government Auditing Standards*. However, the auditors identified one significant deficiency in internal control over financial reporting that was required to be reported under *Government Auditing Standards*. 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. The significant deficiency is described on page 55 of the report.

There were no findings that were considered material weaknesses in internal control over compliance in accordance with the *Uniform Guidance*.



Link to the complete report:
Financial and Compliance Audit
https://files.hawaii.gov/auditor/Reports/2024_Audit/DHHL2024.pdf



Department of Hawaiian Home Lands State of Hawaii

**Financial and Compliance Audit
June 30, 2024**

**Submitted by
The Auditor
State of Hawaii**



Department of Hawaiian Home Lands
State of Hawaii
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June 30, 2024

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State of Hawaii
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PART I
Financial Statements



Report of Independent Auditors

The Auditor
State of Hawaii

The Hawaiian Homes Commission
Department of Hawaiian Home Lands
State of Hawaii

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Hawaiian Home Lands, State of Hawaii (the "Department"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the index.

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, 2024, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter


As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities and each major fund of the State of Hawaii that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2024, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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


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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Department's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 and budgetary comparison information on pages 42 through 44 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our



audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") is presented for purposes of additional analysis 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 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 27, 2025 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 and 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 the effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Accuity LLP

Honolulu, Hawaii
March 27, 2025

Department of Hawaiian Home Lands
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2024

The following Management's Discussion and Analysis ("MD&A") is designed to provide an overview of the financial performance of the Department of Hawaiian Home Lands, State of Hawaii, (the "Department") for the year ended June 30, 2024. Please read it in conjunction with the Department's financial statements, which follow this section.

Financial Highlights

Key government-wide financial highlights for the year ended June 30, 2024 ("FY 2024") compared to the prior year ended June 30, 2023 ("FY 2023") are as follows:

- The Department's net position, the amount of assets and deferred outflows of resources exceeding liabilities and deferred inflows of resources, totaled \$1.4 billion. Of this amount, \$740.8 million is unrestricted, \$149.8 million is restricted, and \$501.7 million is net investment in capital assets.
- The Department's net position increased \$252.1 million from this year's operations.
- The total revenues of the Department increased by \$71.7 million, or 26%.
- The total fund balance of the Department's governmental funds increased by \$201.3 million.

Overview of the Financial Statements

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

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

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

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

Department-Wide Financial Statements

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

Department of Hawaiian Home Lands
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2024

The department-wide financial statements include two statements:

- The statement of net position presents all of the Department's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Department is improving or deteriorating.
- 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. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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 Hawaii (the "State") Law or by bond covenants. Other funds of the Department are established by the Hawaiian Homes Commission Act ("HHCA"). 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 17 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:

- **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.

Department of Hawaiian Home Lands
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2024

- **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 HHCA, 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 HHCA are deposited into this fund. The Department uses the fund for the construction, operation and maintenance of revenue-producing activities that are intended to serve principally occupants on Hawaiian home lands. The fund is also used to finance improvements and developments necessary to serve present and future occupants of Hawaiian home lands.
- **Hawaiian Home Receipts Fund** – All interest monies from loans or investments received by the Department from any fund, except the Hawaiian Home Loan Fund, Hawaiian Home Administration Account, Native Hawaiian Rehabilitation Fund, Department of Hawaiian Home Lands Revenue Bond Special Fund, and Hawaiian Home Lands Trust Fund, are deposited into this fund. All monies in this fund are transferred quarterly to other funds as authorized by the HHCA.
- **Hawaiian Home Administration Account** – The revenue sources of this fund are the entire receipts from any leasing or other dispositions of “available lands” and any interest or other earnings arising out of investments from this fund. The Department expends the monies for salaries and all other administrative expenses of the Department, excluding capital improvements, in the absence of general funds appropriated for operating and administrative costs.
- **Hawaiian Home Trust Fund** – Monies deposited into this fund are available for transfers into any other fund or account authorized by the HHCA or for any public purpose to further the purposes of the HHCA. 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 Grant-in-Aid (“GIA”) Projects.
- **Waitlist Reduction Act Fund** – The purpose of Act 279, SLH 2022 as stated in the legislation is to provide a multi-pronged approach to reducing the Department’s waitlist. The \$600 million appropriation will address the needs of those on the Department’s waitlist and those beneficiaries still waiting.

Department of Hawaiian Home Lands
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2024

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 \$252.1 million to \$1.4 billion between fiscal years 2024 and 2023, primarily due to additional State appropriations from Act 279, SLH 2022. A large portion of the Department's net position (36%) 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.

Department of Hawaiian Home Lands
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2024

The following is a comparative summary schedule of net position:

Summary Schedule of Net Position
June 30, 2024 and 2023
(Amounts in millions)

	Governmental Activities		Increase
	2024	2023	(Decrease)
Assets and deferred outflows of resources			
Current and other assets	\$ 953.4	\$ 753.3	\$ 200.1
Leases receivable, noncurrent portion	288.3	292.3	(4.0)
Capital assets	539.8	490.3	49.5
Deferred outflows of resources	2.0	2.2	(0.2)
Total assets and deferred outflows of resources	<u>\$ 1,783.5</u>	<u>\$ 1,538.1</u>	<u>\$ 245.4</u>
Liabilities and deferred inflows of resources			
Long-term liabilities	\$ 43.9	\$ 45.2	\$ (1.3)
Other liabilities	65.7	62.9	2.8
Deferred inflows of resources	281.6	289.8	(8.2)
Total liabilities and deferred inflows of resources	<u>391.2</u>	<u>397.9</u>	<u>(6.7)</u>
Net position			
Net investment in capital assets	501.7	448.9	52.8
Restricted	149.8	119.9	29.9
Unrestricted	740.8	571.4	169.4
Total net position	<u>1,392.3</u>	<u>1,140.2</u>	<u>252.1</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 1,783.5</u>	<u>\$ 1,538.1</u>	<u>\$ 245.4</u>

Change in Net Position

The Department's total program revenues increased from \$54.0 million in fiscal year 2023 to \$80.4 million in fiscal year 2024 (see statement of activities). Approximately 33% of the Department's program revenues came from interest income, 23% came from grants and contributions, 19% came from the general lease program, and 25% came from other sources. Total general revenues increased by 21% to \$266.1 million due to additional State appropriations for waitlist reduction.

Statement of Activities

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

Department of Hawaiian Home Lands
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2024

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

Summary Schedule of Changes in Net Position
Years Ended June 30, 2024 and 2023
(Amounts in millions)

	Governmental Activities		Increase
	2024	2023	(Decrease)
Revenues			
Program revenues			
Administration and support services	\$ 33.5	\$ 23.1	\$ 10.4
Homestead services	3.9	4.2	(0.3)
Land development	16.7	-	16.7
Land management	26.3	26.7	(0.4)
Appropriations, net of lapses and transfers	266.1	220.8	45.3
Total revenues	<u>346.5</u>	<u>274.8</u>	<u>71.7</u>
Expenses			
Administration and support services	28.1	21.0	7.1
Homestead services	30.8	25.9	4.9
Land development	6.6	4.5	2.1
Home construction	23.9	13.0	10.9
Land management	5.0	2.6	2.4
Total expenses	<u>94.4</u>	<u>67.0</u>	<u>27.4</u>
Excess of revenues over expenses	252.1	207.8	44.3
Net position			
Beginning of year	1,140.2	932.4	207.8
End of year	<u>\$ 1,392.3</u>	<u>\$ 1,140.2</u>	<u>\$ 252.1</u>

As noted, net position increased by \$252.1 million from operations, a 22% growth this year, compared to an increase of \$207.8 million, a 22% growth in fiscal year 2023. The fiscal year 2024 increase is primarily due to an increase in State appropriations for waitlist reduction.

Financial Analysis of the Department's Governmental Funds

Governmental Funds

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

As of the end of fiscal year 2024, the Department's governmental funds reported a combined increase in fund balance of \$201.3 million. The changes in fund balance for the governmental funds differ from the change in net position for governmental activities. The differences relate to certain financial resources and expenditures such as debt financing and capital outlays that are included in the changes in fund balances but are not reported in the changes in net position.

Department of Hawaiian Home Lands
State of Hawaii
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June 30, 2024

Comparison of Balance Sheet
Years Ended June 30, 2024 and 2023
(Amounts in millions)

	Assets			Liabilities and Deferred Inflows of Resources			Fund Balances		
	2024	2023	Change	2024	2023	Change	2024	2023	Change
General Fund	\$ 3.3	\$ 3.1	\$ 0.2	\$ 2.9	\$ 0.7	\$ 2.2	\$ 0.4	\$ 2.4	\$ (2.0)
General Loan Fund	114.5	112.2	2.3	9.1	14.7	(5.6)	105.4	97.5	7.9
Lands Trust Fund	145.5	145.7	(0.2)	2.0	2.5	(0.5)	143.5	143.2	0.3
Operating Fund	73.3	55.5	17.8	4.1	4.9	(0.8)	69.2	50.6	18.6
Receipts Fund	9.0	8.7	0.3	5.8	5.9	(0.1)	3.2	2.8	0.4
Administration Account	333.0	333.7	(0.7)	287.9	295.7	(7.8)	45.1	38.0	7.1
Trust Fund	50.6	52.7	(2.1)	38.8	40.9	(2.1)	11.8	11.8	-
Bond Funds	122.5	81.7	40.8	5.0	4.2	0.8	117.5	77.5	40.0
Waitlist Reduction Act Fund	326.5	183.4	143.1	4.5	1.8	2.7	322.0	181.6	140.4
Other Funds	72.5	81.3	(8.8)	7.7	5.1	2.6	64.8	76.2	(11.4)
Total	<u>\$ 1,250.7</u>	<u>\$ 1,058.0</u>	<u>\$ 192.7</u>	<u>\$ 367.8</u>	<u>\$ 376.4</u>	<u>\$ (8.6)</u>	<u>\$ 882.9</u>	<u>\$ 681.6</u>	<u>\$ 201.3</u>

Comparison of Statement of Revenues, Expenditures, and Changes in Fund Balances
Years Ended June 30, 2024 and 2023
(Amounts in millions)

	Revenues			Expenditures			Other Financing Sources and Lapsed Appropriations			Change in Fund Balances		
	2024	2023	Change	2024	2023	Change	2024	2023	Change	2024	2023	Change
General Fund	\$ 13.6	\$ 12.7	\$ 0.9	\$ 13.8	\$ 11.3	\$ 2.5	\$ (1.8)	\$ (1.7)	\$ (0.1)	\$ (2.0)	\$ (0.3)	\$ (1.7)
General Loan Fund	-	-	-	0.7	(0.9)	1.6	8.6	6.9	1.7	7.9	7.8	0.1
Lands Trust Fund	7.4	3.5	3.9	7.1	9.3	(2.2)	-	-	-	0.3	(5.8)	6.1
Operating Fund	16.6	1.7	14.9	13.0	19.4	(6.4)	15.0	22.0	(7.0)	18.6	4.3	14.3
Receipts Fund	9.0	7.0	2.0	-	-	-	(8.6)	(6.9)	(1.7)	0.4	0.1	0.3
Administration Account	26.9	26.5	0.4	6.2	5.7	0.5	(13.6)	(20.6)	7.0	7.1	0.2	6.9
Bond Funds	63.9	8.5	55.4	23.9	21.9	2.0	-	(3.4)	3.4	40.0	(16.8)	56.8
Waitlist Reduction Act Fund	180.1	193.8	(13.7)	39.7	12.2	27.5	-	-	-	140.4	181.6	(41.2)
Other Funds	29.2	24.1	5.1	40.6	11.4	29.2	-	7.5	(7.5)	(11.4)	20.2	(31.6)
Total	<u>\$ 346.7</u>	<u>\$ 277.8</u>	<u>\$ 68.9</u>	<u>\$ 145.0</u>	<u>\$ 90.3</u>	<u>\$ 54.7</u>	<u>\$ (0.4)</u>	<u>\$ 3.8</u>	<u>\$ (4.2)</u>	<u>\$ 201.3</u>	<u>\$ 191.3</u>	<u>\$ 10.0</u>

Overall, the assets for the Department increased by \$192.7 million, liabilities and deferred inflows of resources decreased by \$8.6 million, and fund balance increased by \$201.3 million.

Budgetary Highlights

In fiscal year 2024, the General Fund received appropriations amounting to \$13.6 million. This amount was expended according to the budget, except \$415,522 was lapsed.

In the Hawaiian Home Administration Account, the actual revenue exceeded the budgeted amount by \$22.1 million and expenditures were approximately \$1.5 million over the budgeted amount. The overall favorable variance of \$20.6 million was the result of actual revenue exceeding budgeted amounts.

Capital Asset and Debt Administration

Capital Assets

At the end of fiscal year 2024, the Department had invested \$1.0 billion 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 \$49.5 million, or 10%, over last year.

Department of Hawaiian Home Lands
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2024

Capital Assets
Years Ended June 30, 2024 and 2023
(Amounts in millions)

	2024	2023	Increase (Decrease)
Buildings and improvements	\$ 36.1	\$ 31.5	\$ 4.6
Furniture and equipment	6.3	6.2	0.1
Motor vehicles	2.2	2.0	0.2
Infrastructure	<u>763.0</u>	<u>721.6</u>	<u>41.4</u>
Total depreciable assets	807.6	761.3	46.3
Less: Accumulated depreciation	<u>(464.4)</u>	<u>(441.2)</u>	<u>(23.2)</u>
Net depreciable assets	<u>343.2</u>	<u>320.1</u>	<u>23.1</u>
Land	84.5	59.5	25.0
Land improvements	33.4	33.4	-
Construction in progress	<u>78.7</u>	<u>77.3</u>	<u>1.4</u>
Total capital assets	<u>\$ 539.8</u>	<u>\$ 490.3</u>	<u>\$ 49.5</u>

In fiscal year 2024, the Department expended \$72.7 million for various capital assets, including \$25.0 million for the purchase of parcels of land in Maui at Waiehu Mauka, Wailuku, and Pulehunui Plains Subdivision, Kihei; \$300 thousand for the purchase of trucks for Moloka'i and Hawaii District Offices, and office equipment for the Kapolei Office. Transfers from Construction in Progress to Buildings and Improvements include \$4.6 million for the Ho'olehua Veterans & Homestead Residents Center in Molokai; transfers to Infrastructure include \$25.0 million for Ho'olehua Water Systems Improvements, \$15.4 million for Anahola Farm Lots Water Project and Reservoir, \$500 thousand for Keaukaha Sewer Line Improvements, \$400 thousand for Lalamilo Housing Ph 2A Development, and \$300 thousand for Papakolea Sewer Systems Improvements project.

Long-Term Debt

Outstanding Debt
Years Ended June 30, 2024 and 2023
(Amounts in millions)

	2024	2023	Increase (Decrease)
Bonds payable, net	\$ 22.1	\$ 24.5	\$ (2.4)
Financed purchases	10.6	11.7	(1.1)
Note payable	<u>7.5</u>	<u>7.5</u>	<u>-</u>
Total outstanding debt	<u>\$ 40.2</u>	<u>\$ 43.7</u>	<u>\$ (3.5)</u>

Currently Known Facts or Decisions

As stewards of more than 200-thousand acres of Hawaiian homelands, the state Department of Hawaiian Home Lands is committed to delivering on its core mission: returning native Hawaiians to the land, an aspiration originally envisioned and championed by Prince Jonah Kūhiō Kalaniana'ole, "The People's Prince."

Department of Hawaiian Home Lands
State of Hawaii
Management's Discussion and Analysis (Unaudited)
June 30, 2024

The Department continues to leverage its transformation influx of general funds appropriated by the Hawaii State Legislature in 2022. This unprecedented \$600 million investment not only supports the development of larger master-planned communities but allows for the purchase of new lands in more sought-after areas in close-proximity to essential infrastructure.

While considerable advancements have been made in the century since the Hawaiian Homes Commission Act was enacted, the language and purpose of the act still falls short of fulfilling its expectations. To date, a dismal 10,000 homestead leases have been awarded. The Department acknowledges the need to implement changes that diversify housing options, overhaul antiquated systems and support an aging beneficiary population. To achieve these objectives, funds and resources from both the state and federal level are being utilized to develop housing solutions that serve a growing waitlist of over 29,000 beneficiaries.

The federal government continued to fund DHHL at record levels of \$22.3 million in Fiscal Year 2024. By successfully utilizing NAHASDA funds and demonstrating tangible progress in expanding housing options for native Hawaiian beneficiaries, DHHL positions itself as a reliable and capable steward of federal resources. This aligns with the broader objectives of increasing housing availability and affordability for native Hawaiians, in line with the goals set forth by the Hawaiian Homes Commission Act.

Although discussions about the receipt and implementation of these funds have dominated conversations surrounding DHHL this year, it's crucial to recognize the department's ongoing initiatives. These efforts include groundbreaking ceremonies, lot awards, active partnerships, and key land acquisitions.

Nearly a year after the devastating Maui wildfires, DHHL brought hope to 52 families in June 2024 with the island's first residential home offering in 17 years. In October, the Department launched its first-ever in-house permitting program, streamlining the building permit process and allowing DHHL to advance on its projects. The following month, 68 agricultural lots were awarded on Hawai'i Island, representing the largest agricultural lot offering since the late 1980s.

In December, DHHL celebrated a landmark occasion by breaking ground on its first high-rise rental apartment, the \$155 million Hale Mō'ili'ili. The event was the start of a two-year development process to create the state's only affordable housing project exclusively serving DHHL beneficiaries.

The department is set to acquire, renovate and upgrade its first townhouse project, the Courtyards of Waipouli. The 82-unit condominium in Kapa'a, Kaua'i, will provide those on the waitlist with a chance to pay rents below market value with the option of purchasing the units after 10 or 15 years.

Additional efforts include documenting and clearing vacant homestead lots, programs for kūpuna and transitional housing, the utilization of low-income housing tax credits and the push for developers to design communities that align with the financial capabilities of lessees.

Requests for Information

Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Department of Hawaiian Home Lands, 91-5420 Kapolei Parkway, Kapolei, Hawaii 96707. General information about the Department can be found at the Department's website: www.dhhl.hawaii.gov.

Department of Hawaiian Home Lands
State of Hawaii
Statement of Net Position – Governmental Activities
June 30, 2024

Assets and Deferred Outflows of Resources

Assets

Equity in cash and cash equivalents and investments	\$ 828,290,217
Receivables	
Loans, net of allowance for losses of \$19,545,000	83,999,508
General leases and licenses, net of allowance for losses of \$6,842,000	12,312,285
Accrued interest – loans	8,017,841
Accrued interest – leases and licenses, net of allowance for losses of \$3,889,000	5,746,866
Accrued interest – investment pool	1,080,418
Other, net of allowance for losses of \$2,377,000	8,414,310
Inventory of land improvements acquired from former lessees	2,518,011
Inventory of homes for sale and development	169,554
Restricted cash and short-term investments held outside of State Treasury	2,768,188
Prepaid expenses	45,773
Leases receivable, noncurrent portion, net of allowance for losses of \$98,922,000	288,320,274
Capital assets, net	<u>539,796,667</u>
Total assets	1,781,479,912

Deferred outflows of resources

Deferred loss on refunding	<u>1,989,132</u>
Total assets and deferred outflows of resources	<u>\$1,783,469,044</u>

Liabilities, Deferred Inflows of Resources, and Net Position

Liabilities

Vouchers and contracts payable	\$ 22,876,719
Interest payable	180,660
Temporary deposits payable	38,764,245
Other liabilities	3,846,060
Due within one year	
Bonds payable	2,070,000
Financed purchase	960,000
Accrued vacation	570,642
Due in more than one year	
Bonds payable, net of premium	20,047,311
Financed purchase, net of premium	9,600,885
Note payable	7,455,000
Accrued vacation	1,041,997
Other	<u>2,163,855</u>
Total liabilities	<u>109,577,374</u>

Commitments and contingencies

Deferred inflows of resources

Unearned general lease and license revenues	<u>281,604,901</u>
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Net position

Net investment in capital assets	501,652,603
Restricted for	
Capital projects	117,454,413
Loans and loan commitments	26,900,327
Debt reserve agreements	2,954,221
Guaranteed and insured loans	2,500,000
Unrestricted	<u>740,825,205</u>
Total net position	<u>1,392,286,769</u>
Total liabilities, deferred inflows of resources and net position	<u>\$1,783,469,044</u>

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

Department of Hawaiian Home Lands
State of Hawaii
Statement of Activities – Governmental Activities
Year Ended June 30, 2024

Functions/Programs	Program Revenue			Net Revenue (Expenses) and Changes in Net Position
	Program Expenses	Charges for Services	Operating	Governmental Activities
			Grants and Contributions	
Administration and support services	\$ 28,143,681	\$ 14,924,845	\$ 18,586,272	\$ 5,367,436
Homestead services	30,831,307	3,891,559	-	(26,939,748)
Land development	6,562,454	16,745,482	-	10,183,028
Home construction	23,882,871	-	-	(23,882,871)
Land management	5,020,661	26,252,925	-	21,232,264
Total governmental activities	<u>\$ 94,440,974</u>	<u>\$ 61,814,811</u>	<u>\$ 18,586,272</u>	<u>(14,039,891)</u>
General revenues				
State allotted appropriations, net of lapsed appropriations of \$417,000				<u>266,126,676</u>
Total general revenues				<u>266,126,676</u>
Change in net position				252,086,785
Net position at beginning of year				<u>1,140,199,984</u>
Net position at end of year				<u>\$1,392,286,769</u>

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

Department of Hawaiian Home Lands
State of Hawaii
Balance Sheet – Governmental Funds
June 30, 2024

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Lands Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Hawaiian Home Trust Fund	Hawaiian Home Lands Bond Funds	Waitlist Reduction Act Fund	Other Funds	Total
Assets											
Equity in cash and cash equivalents and investments	\$ 3,329,034	\$ 51,766,352	\$ 143,425,220	\$ 72,645,343	\$ 614,965	\$ 25,003,792	\$ 41,471,652	\$ 122,464,005	\$ 326,530,358	\$ 41,039,496	\$ 828,290,217
Receivables											
Loans, net of allowance for losses of \$19,545,000	-	59,940,715	-	-	-	-	-	-	-	24,058,793	83,999,508
General leases and licenses, net of allowance for losses of \$6,842,000	-	-	-	-	-	12,312,285	-	-	-	-	12,312,285
Accrued interest – loans	-	-	-	46,598	7,971,243	-	-	-	-	-	8,017,841
Accrued interest – leases and licenses, net of allowance for losses of \$3,889,000	-	-	-	-	-	5,685,325	-	-	-	61,541	5,746,866
Accrued interest – investment pool	-	-	457,599	12,087	456,895	97,780	-	-	-	56,057	1,080,418
Due from other funds	-	117,391	-	-	-	-	9,091,426	-	-	-	9,208,817
Other, net of allowance for losses of \$2,377,000	8,601	150,000	1,436,938	631,526	-	99,691	-	-	-	6,087,554	8,414,310
Inventory of land improvements acquired from former lessees	-	2,518,011	-	-	-	-	-	-	-	-	2,518,011
Inventory of homes for sale and development	-	-	169,554	-	-	-	-	-	-	-	169,554
Leases receivable, noncurrent portion, net of allowance for losses of \$98,922,000	-	-	-	-	-	288,320,274	-	-	-	-	288,320,274
Restricted cash and short-term investments held outside of State Treasury	-	-	-	-	-	1,540,185	-	-	-	1,228,003	2,768,188
Total assets	<u>\$ 3,337,635</u>	<u>\$ 114,492,469</u>	<u>\$ 145,489,311</u>	<u>\$ 73,335,554</u>	<u>\$ 9,043,103</u>	<u>\$ 333,059,332</u>	<u>\$ 50,563,078</u>	<u>\$ 122,464,005</u>	<u>\$ 326,530,358</u>	<u>\$ 72,531,444</u>	<u>\$1,250,846,289</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances											
Liabilities											
Vouchers and contracts payable	\$ 2,981,031	\$ -	\$ 1,980,052	\$ 3,571,970	\$ -	\$ 972,891	\$ -	\$ 5,009,592	\$ 4,508,927	\$ 4,569,325	\$ 23,593,788
Due to other funds	-	9,091,426	-	117,391	-	-	-	-	-	-	9,208,817
Temporary deposits payable	-	-	-	-	-	-	38,764,245	-	-	-	38,764,245
Other liabilities	-	-	-	422,306	-	272,543	-	-	-	3,151,211	3,846,060
Total liabilities	<u>2,981,031</u>	<u>9,091,426</u>	<u>1,980,052</u>	<u>4,111,667</u>	<u>-</u>	<u>1,245,434</u>	<u>38,764,245</u>	<u>5,009,592</u>	<u>4,508,927</u>	<u>7,720,536</u>	<u>75,412,910</u>
Deferred inflows of resources											
Unearned general lease and license revenues	-	-	-	-	-	281,604,901	-	-	-	-	281,604,901
Unavailable revenues	-	-	-	36,426	5,790,200	5,073,045	-	-	-	-	10,899,671
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,426</u>	<u>5,790,200</u>	<u>286,677,946</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>292,504,572</u>
Fund balances											
Restricted for											
Capital projects	-	-	-	-	-	-	-	117,454,413	-	-	117,454,413
Federal loan programs	-	-	-	-	-	-	-	-	-	26,900,327	26,900,327
Debt agreements	-	-	-	186,033	-	1,540,185	-	-	-	1,228,003	2,954,221
Guaranteed and insured loans	-	150,000	-	-	-	-	2,350,000	-	-	-	2,500,000
Committed to											
Waitlist reduction	-	-	-	-	-	-	-	-	322,021,431	-	322,021,431
Capital projects	-	-	-	-	-	-	-	-	-	14,595,192	14,595,192
Assigned to											
Home loans and homestead services	-	105,251,043	-	-	3,252,903	-	9,448,833	-	-	4,591,631	122,544,410
Land management	356,604	-	-	69,001,428	-	43,595,767	-	-	-	-	112,953,799
Home construction and land development	-	-	143,509,259	-	-	-	-	-	-	17,966,226	161,475,485
Unassigned	-	-	-	-	-	-	-	-	-	(470,471)	(470,471)
Total fund balances	<u>356,604</u>	<u>105,401,043</u>	<u>143,509,259</u>	<u>69,187,461</u>	<u>3,252,903</u>	<u>45,135,952</u>	<u>11,798,833</u>	<u>117,454,413</u>	<u>322,021,431</u>	<u>64,810,908</u>	<u>882,928,807</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,337,635</u>	<u>\$ 114,492,469</u>	<u>\$ 145,489,311</u>	<u>\$ 73,335,554</u>	<u>\$ 9,043,103</u>	<u>\$ 333,059,332</u>	<u>\$ 50,563,078</u>	<u>\$ 122,464,005</u>	<u>\$ 326,530,358</u>	<u>\$ 72,531,444</u>	<u>\$1,250,846,289</u>

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

Department of Hawaiian Home Lands

State of Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2024

Total fund balances – governmental funds		\$ 882,928,807
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	\$ 762,997,516	
Land	84,488,379	
Land improvements	33,406,582	
Buildings and improvements	36,128,447	
Construction-in-progress	78,683,441	
Other capital assets	8,489,453	
Less: Accumulated depreciation	<u>(464,397,151)</u>	539,796,667
(2) Prepaid expenses are not current financial resources and therefore are not reported in the governmental funds.		45,773
(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.		1,989,132
(4) Certain revenues not collected within 60 days after the end of the year are deferred in the funds.		10,899,671
(5) Accrued interest and other payables are not recognized in governmental funds.		536,409
(6) Some long-term liabilities and deferred charges are not due and payable in the current period and, therefore, are not reported in the governmental funds. Those liabilities include		
Financed purchase	\$ (10,560,885)	
Bonds payable	(22,117,311)	
Note payable	(7,455,000)	
Accrued vacation	(1,612,639)	
Other	(2,163,855)	(43,909,690)
Net position of governmental activities		<u>\$ 1,392,286,769</u>

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

Department of Hawaiian Home Lands

State of Hawaii

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2024

	General Fund	Hawaiian Home General Loan Fund	Hawaiian Home Lands Trust Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Hawaiian Home Trust Fund	Hawaiian Home Lands Bond Funds	Waitlist Reduction Act Fund	Other Funds	Total
Revenues											
State allotted appropriations	\$ 13,600,631	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63,834,780	\$ 180,108,336	\$ 9,000,000	\$ 266,543,747
General leases	-	-	-	-	-	10,956,183	-	-	-	-	10,956,183
Licenses and permits	-	-	-	-	-	4,387,875	-	-	-	-	4,387,875
Interest from loans, leases and notes	-	-	-	20,703	3,939,583	10,291,134	-	-	-	289,027	14,540,447
Investment income	-	-	5,251,580	134,848	5,128,249	1,066,742	-	-	-	705,616	12,287,035
Intergovernmental revenues	-	-	-	-	-	-	-	-	-	18,586,272	18,586,272
Other	-	-	2,161,576	16,444,130	-	213,770	-	-	-	565,701	19,385,177
Total revenues	13,600,631	-	7,413,156	16,599,681	9,067,832	26,915,704	-	63,834,780	180,108,336	29,146,616	346,686,736
Expenditures											
Current											
Administration and support services	6,923,962	40	1,488,935	2,874,621	-	3,441,501	-	75,000	592,091	11,696,768	27,092,918
Homestead services	3,964,762	739,564	-	1,663,603	-	413,737	-	-	-	5,722	6,787,388
Land development	1,837,613	-	1,124,905	2,895,876	-	407,200	-	-	50,000	243,345	6,558,939
Land management	1,080,895	-	287,958	1,116,851	-	1,916,997	-	-	-	408,667	4,811,368
Capital outlay	-	-	4,200,237	4,410,199	-	-	-	23,815,935	39,014,137	25,222,699	96,663,207
Debt service											
Principal	-	-	-	-	-	-	-	-	-	1,970,325	1,970,325
Interest	-	-	-	-	-	-	-	-	-	1,037,500	1,037,500
Total expenditures	13,807,232	739,604	7,102,035	12,961,150	-	6,179,435	-	23,890,935	39,656,228	40,585,026	144,921,645
Excess (deficiency) of revenues over (under) expenditures	(206,601)	(739,604)	311,121	3,638,531	9,067,832	20,736,269	-	39,943,845	140,452,108	(11,438,410)	201,765,091
Other financing sources (uses)											
Transfers in	-	8,600,000	-	15,000,000	-	1,395,591	-	-	-	3,694,362	28,689,953
Transfers out	(1,395,591)	-	-	-	(8,600,000)	(15,000,000)	-	-	-	(3,694,362)	(28,689,953)
Total other financing sources (uses)	(1,395,591)	8,600,000	-	15,000,000	(8,600,000)	(13,604,409)	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,602,192)	7,860,396	311,121	18,638,531	467,832	7,131,860	-	39,943,845	140,452,108	(11,438,410)	201,765,091
Lapsed appropriations	(415,522)	-	-	-	-	-	-	(1,549)	-	-	(417,071)
Net change in fund balances	(2,017,714)	7,860,396	311,121	18,638,531	467,832	7,131,860	-	39,942,296	140,452,108	(11,438,410)	201,348,020
Fund balances at beginning of year	2,374,318	97,540,647	143,198,138	50,548,930	2,785,071	38,004,092	11,798,833	77,512,117	181,569,323	76,249,318	681,580,787
Fund balances at end of year	\$ 356,604	\$ 105,401,043	\$ 143,509,259	\$ 69,187,461	\$ 3,252,903	\$ 45,135,952	\$ 11,798,833	\$ 117,454,413	\$ 322,021,431	\$ 64,810,908	\$ 882,928,807

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

Department of Hawaiian Home Lands

State of Hawaii

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities Year Ended June 30, 2024

Net change in fund balances – total governmental funds		\$ 201,348,020
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	\$ 72,780,334	
Depreciation expense	<u>(23,271,128)</u>	49,509,206
(2) Some expenditures reported in the governmental funds do not require the use of current financial resources, therefore, are not reported as expenditures in the governmental funds		
Change in prepaid bond insurance	\$ (5,908)	
Change in deferred loss on refunding	(256,754)	
Change in financed purchase	1,099,281	
Change in bonds payable	2,336,236	
Change in other long-term liabilities	(2,163,855)	
Amortization of bond and lease premiums	<u>(73,590)</u>	935,410
(3) The governmental funds report revenues only if they are collected within 60 days after the end of the year. The statement of activities reports revenues when earned, regardless of when it is collected. This measurement difference causes timing of revenue recognition differences for interest income.		258,094
(4) The net decrease in accrued vacation is reported in the statement of activities and does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds.		36,055
Change in net position of governmental activities		<u>\$ 252,086,785</u>

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

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1. Financial Reporting Entity

Introduction

The Department of Hawaiian Home Lands, State of Hawaii (the "Department") is headed by the Hawaiian Homes Commission ("HHC"). The Department was established by Section 24 of Act 1 of 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 Hawaii (the "State"). The Department's financial statements are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which include the Department's financial activities.

2. Summary of Significant Accounting Policies

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

Department-Wide Financial Statements

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

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

Appropriations and other items not included in program revenues are reported 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 it are either externally imposed or imposed by constitutional provisions or enabling legislation.

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

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Department considers revenues other than federal grants to be available if they are collected within 60 days of the current fiscal year-end.

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.

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.

As of June 30, 2024, 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.

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.

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

General Fund

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

Special Revenue Funds

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

- **Hawaiian Home General Loan Fund** – The Hawaiian Home General Loan Fund is used to account for Department loans made to native Hawaiian homesteaders.
- **Hawaiian Home Lands Trust Fund** – The Hawaiian Home Lands Trust Fund accounts for funds from the State to be expended by the Department, as provided by law upon approval by the Commission and used for capital improvements and other purposes undertaken in furtherance of the HHCA.
- **Hawaiian Home Operating Fund** – The Hawaiian Home Operating Fund is used to account for operations of the Department and is funded by monies transferred from the Hawaiian Home Receipts Fund.
- **Hawaiian Home Receipts Fund** – The Hawaiian Home Receipts Fund is used to account for receipts of investment interest and loan interest payments from the Department loans to homesteaders.
- **Hawaiian Home Administration Account** – The Hawaiian Home Administration Account is used to account for commercial general leases, revocable permits, and licenses of "available" lands as defined under the HHCA. Lease revenues are used to fund operations of the Department.
- **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.
- **Waitlist Reduction Act Fund** – The purpose of Act 279, SLH 2022 as stated in the legislation is to provide a multi-pronged approach to reducing the Department's waitlist. The \$600,000,000 appropriation will address the needs of those on the Department's waitlist and those beneficiaries still waiting.

Capital Projects Fund

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.

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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, 2024 for the Department's governmental funds were as follows:

	Contracts	Claims
General Fund	\$ 1,055,214	\$ 2,263,820
Land Trust Fund	21,638,569	2,240,468
Operating Fund	33,120,869	6,141,343
Administration Account	1,493,199	1,045,609
Bond Fund	104,429,006	18,000,000
Waitlist Reduction Act Fund	318,937,382	7,618,283
Other Funds	58,747,269	7,819,763
	<u>\$ 539,421,508</u>	<u>\$ 45,129,286</u>

Equity in Cash and Cash Equivalents and Investments

Equity in cash and cash equivalents and investments 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 3).

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 equity in cash and cash equivalents and investments 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 5).

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

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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 Level 2 inputs are not available.

Receivables

The department-wide financial statements present receivables and revenue from lease rents and mortgage interest under the accrual method of accounting. In the governmental fund financial statements, lease rent and mortgage interest are recognized as revenues when they are measurable and available. The available criterion is satisfied when revenues are collectible during the period or soon enough thereafter to pay liabilities of the current period. Amounts not collected within 60 days after the end of the year approximated \$10,900,000 as of June 30, 2024, and are recorded as deferred inflows of resources in the governmental funds balance sheet.

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

Inventory of Homes for Sale and Development

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

Intrafund and Interfund Transactions

Transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements. Interfund balances of approximately \$9,091,000 and \$117,000 as of June 30, 2024 represent loans receivable and other receivables, respectively, temporarily funded with balances from other funds.

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

Capital Assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets, are reported in the department-wide financial statements. The capitalization thresholds are \$5,000 for equipment and \$100,000 for infrastructure, and buildings and improvements with estimated useful lives of greater than one year. Maintenance and repairs are charged to operations when incurred. Purchased and constructed

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capital assets are valued at historical cost or estimated historical cost. Donated capital assets are recorded at their fair 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.

Leases

Lessee

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

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

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

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

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

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

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

Lessor

The Department is a lessor for leases of land. The Department recognizes leases receivable and deferred inflows of resources in the financial statements. Variable payments based on future performance of the lessee or usage of the underlying asset are not included in the measurement of the lease receivable.

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

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

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

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

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows (inflows) of resources represent a consumption of (acquisition 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. The unamortized loss is recognized as a deferred outflow of resources on the statement of net position. The Department's deferred inflows of resources represent (1) revenues which did not meet the available criterion for recognition under the modified accrual basis of accounting and (2) deferred income for leases receivable.

Temporary Deposits Payable

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

Compensated Absences

It is the State's policy to permit employees to accumulate earned but unused vacation and sick leave benefits. There is no liability for unpaid accumulated sick leave since sick leave is not convertible to pay upon termination of employment. Accumulated sick leave as of June 30, 2024 was approximately \$4,544,000. 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.

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Long-term Obligations

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

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

Use of Estimates

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

Recently Issued Accounting Pronouncements

GASB Statement No. 99

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

GASB Statement No. 100

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

GASB Statement No. 101

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

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GASB Statement No. 102

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

GASB Statement No. 103

The GASB issued Statement No. 103, *Financial Reporting Model Improvements*. The primary objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. The Department has not determined the effect this Statement will have on its financial statements.

GASB Statement No. 104

The GASB issued Statement No. 104, *Disclosure of Certain Capital Assets*. The primary objective of this Statement is to improve users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2025. The Department has not determined the effect this Statement will have on its financial statements.

3. Equity in Cash and Cash Equivalents and Investments in the State Treasury

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

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

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity and custodian to determine the level of interest rate, credit and custodial risk assumed by the Department. However, as these funds are held in the State cash pool, the Department does not manage these investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the Department level. The risk disclosures of the State's cash pool are included in the State's Annual Comprehensive Financial Report ("ACFR") for the year ended June 30, 2024. The State's ACFR can be found at the Department of Accounting and General Services' ("DAGS") website: <https://ags.hawaii.gov/accounting/annual-financial-reports/>.

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4. Loans Receivable

Loans receivable consist of 1,290 loans amounting to approximately \$103,544,000 made to native Hawaiian homesteaders for the purposes specified in the HHCA. Loans are for a maximum of approximately \$452,000 and for a maximum term of 40 years. Loan payments expected to be collected within the next fiscal year approximates \$3,967,000. Interest rates on outstanding loans range from 0% to 10%. The Department's loan portfolio consists of loans that the Department originated and that generally are collateralized by improvements on the leased properties located in the state. Loan commitments as of June 30, 2024 were approximately \$700,000. The Department has provided an allowance for loan losses of approximately \$19,545,000 as of June 30, 2024. The allowance for loan losses is a valuation reserve, which is charged to operations in the department-wide financial statements. The allowance is based on management's assessment of loan balances deemed uncollectible as of June 30, 2024.

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

5. 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. As of June 30, 2024, the fair value of these investments was approximately \$2,768,000 and was determined using Level 1 inputs.

6. 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, 2024, the Department's inventory of homes purchased from former lessees had a book value aggregating approximately \$2,518,000.

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7. Capital Assets

Capital assets activity for the year ended June 30, 2024 was as follows:

	Balance July 1, 2023	Additions	Disposals/ Transfers	Balance June 30, 2024
Capital assets not being depreciated				
Land	\$ 59,465,791	\$ 25,022,588	\$ -	\$ 84,488,379
Land improvements	33,406,582	-	-	33,406,582
Works of art, historical treasures	29,426	-	-	29,426
Construction in progress	<u>77,305,877</u>	<u>48,113,373</u>	<u>(46,735,809)</u>	<u>78,683,441</u>
Total capital assets not being depreciated	<u>170,207,676</u>	<u>73,135,961</u>	<u>(46,735,809)</u>	<u>196,607,828</u>
Capital assets being depreciated				
Buildings and improvements	31,467,572	4,660,875	-	36,128,447
Infrastructure	721,621,199	41,376,317	-	762,997,516
Furniture and equipment	6,213,585	35,976	-	6,249,561
Motor vehicles	<u>1,966,767</u>	<u>307,014</u>	<u>(63,315)</u>	<u>2,210,466</u>
Total capital assets being depreciated	<u>761,269,123</u>	<u>46,380,182</u>	<u>(63,315)</u>	<u>807,585,990</u>
Less: Accumulated depreciation for				
Buildings and improvements	(18,001,389)	(1,075,243)	-	(19,076,632)
Infrastructure	(415,779,225)	(21,945,460)	-	(437,724,685)
Furniture and equipment	(5,900,151)	(93,129)	-	(5,993,280)
Motor vehicles	<u>(1,508,573)</u>	<u>(157,296)</u>	<u>63,315</u>	<u>(1,602,554)</u>
Total accumulated depreciation	<u>(441,189,338)</u>	<u>(23,271,128)</u>	<u>63,315</u>	<u>(464,397,151)</u>
Total capital assets being depreciated, net	<u>320,079,785</u>	<u>23,109,054</u>	<u>-</u>	<u>343,188,839</u>
Capital assets, net	<u>\$ 490,287,461</u>	<u>\$ 96,245,015</u>	<u>\$ (46,735,809)</u>	<u>\$ 539,796,667</u>

Depreciation expense for the year ended June 30, 2024 was charged to functions of the Department as follows:

Administration and support services	\$ 1,229,982
Homestead services	21,947,583
Land management	<u>93,563</u>
	<u>\$ 23,271,128</u>

8. Long-Term Obligations

Changes in long-term obligations for the year ended June 30, 2024 were as follows:

	Financed Purchase	Bonds Payable	Note Payable	Accrued Vacation	Other
Balances at July 1, 2023	\$ 11,660,166	\$ 24,453,547	\$ 7,455,000	\$ 1,648,694	\$ -
Additions	-	-	-	743,516	2,163,855
Reductions	<u>(1,099,281)</u>	<u>(2,336,236)</u>	<u>-</u>	<u>(779,571)</u>	<u>-</u>
Balances at June 30, 2024	10,560,885	22,117,311	7,455,000	1,612,639	2,163,855
Less: Current portion	<u>(960,000)</u>	<u>(2,070,000)</u>	<u>-</u>	<u>(570,642)</u>	<u>-</u>
	<u>\$ 9,600,885</u>	<u>\$ 20,047,311</u>	<u>\$ 7,455,000</u>	<u>\$ 1,041,997</u>	<u>\$ 2,163,855</u>

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

9. Bonds Payable

The Department's outstanding revenue bonds consist of annual increments which mature on April 1, 2024 through 2032. Revenue bonds maturing on or after April 1, 2028 may be redeemed by the Department on or after April 1, 2027. The revenue bonds are payable from and secured by the Department's revenues generated from general leases and available lands. Interest expense of approximately \$1,131,000 is reported as administration and support services expense in the statement of activities.

Details of the Department's revenue bonds as of June 30, 2024 are as follows:

\$30,940,000 revenue bonds dated August 25, 2017; due in annual principal and interest installments of \$2,541,000 to \$3,011,000 from April 1, 2024 through April 1, 2032; interest at 3% to 5% payable semi-annually.	\$ 19,280,000
Unamortized premium on revenue bonds	<u>2,837,311</u>
Total revenue bonds	22,117,311
Less: Current portion	<u>(2,070,000)</u>
Long-term portion	<u><u>\$ 20,047,311</u></u>

The annual requirements of the revenue bonds are as follows:

	Principal	Interest	Total
Years ending June 30,			
2025	\$ 2,070,000	\$ 939,000	\$ 3,009,000
2026	2,175,000	836,000	3,011,000
2027	2,280,000	727,000	3,007,000
2028	2,395,000	613,000	3,008,000
2029	2,515,000	493,000	3,008,000
2030-2032	<u>7,845,000</u>	<u>709,000</u>	<u>8,554,000</u>
	<u><u>\$ 19,280,000</u></u>	<u><u>\$ 4,317,000</u></u>	<u><u>\$ 23,597,000</u></u>

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10. Financed Purchase

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

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

The cost basis and accumulated depreciation of the leased assets at June 30, 2024 were as follows:

Buildings and improvements	\$ 18,075,512
Infrastructure	3,357,955
Furniture and equipment	4,079,798
Less: Accumulated depreciation	<u>(15,868,205)</u>
	<u>\$ 9,645,060</u>

Interest expense of approximately \$299,000 is reported as administration and support services expense in the statement of activities.

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

Years ending June 30,	
2025	\$ 1,397,000
2026	1,397,000
2027	1,396,000
2028	1,396,000
2029	1,394,000
2030-2032	<u>4,192,885</u>
Total minimum lease payments	11,172,885
Less: Amount representing interest	(1,963,000)
Unamortized premium on certificates of participation	<u>1,351,000</u>
Present value of minimum lease payments	10,560,885
Less: Current portion	<u>(960,000)</u>
Long-term portion	<u>\$ 9,600,885</u>

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11. Note Payable

In December 2022, the Department entered into a note payable to the U.S. Department of Agriculture ("USDA") in connection with capital improvements to water systems. The note provides for annual interest-only payments until December 2024 and annual payments of approximately \$347,000 each December thereafter with any remainder due upon maturity in December 2057. Interest accrues on outstanding balances at 2.75% per annum.

The annual requirements of the note payable are as follows:

	Principal	Interest	Total
Years ending June 30,			
2025	\$ -	\$ 205,013	\$ 205,013
2026	141,646	205,013	346,659
2027	145,541	201,117	346,658
2028	149,543	197,115	346,658
2029	153,656	193,002	346,658
2030–2034	834,033	899,257	1,733,290
2035–2039	955,196	778,094	1,733,290
2040–2044	1,093,961	639,329	1,733,290
2045–2049	1,252,884	480,406	1,733,290
2050–2054	1,434,894	298,396	1,733,290
2055–2058	1,293,646	90,025	1,383,671
	<u>\$ 7,455,000</u>	<u>\$ 4,186,767</u>	<u>\$ 11,641,767</u>

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12. 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 2087. Some leases include provisions for adjustments of future lease payments based on fair market values at specified intervals. The calculated interest rates used vary depending on the inception of the lease. For the year ended June 30, 2024, the Department recognized approximately \$10,956,000 in lease revenue and approximately \$10,291,000 in interest revenue.

The future principal and income from general leases adjusted for collectibility as of June 30, 2024 are as follows:

	Principal	Interest	Total
Years ending June 30,			
2025	\$ 12,312,285	\$ 706,465	\$ 13,018,750
2026	4,790,838	8,514,298	13,305,136
2027	5,903,427	8,352,297	14,255,724
2028	6,029,018	8,159,667	14,188,685
2029	6,597,304	7,979,365	14,576,669
2030–2034	36,085,864	36,416,711	72,502,575
2035–2039	23,193,975	32,067,014	55,260,989
2040–2044	22,065,340	28,650,228	50,715,568
2045–2049	20,930,283	25,478,730	46,409,013
2050–2054	24,872,515	22,030,744	46,903,259
2055–2059	29,735,642	17,972,841	47,708,483
2060–2064	27,750,252	13,835,373	41,585,625
2065–2069	33,338,285	9,410,644	42,748,929
2070–2074	20,915,864	5,111,294	26,027,158
2075–2079	17,813,833	2,526,524	20,340,357
2080–2084	7,711,233	382,445	8,093,678
2085–2088	586,601	7,889	594,490
	<u>\$ 300,632,559</u>	<u>\$ 227,602,529</u>	<u>\$ 528,235,088</u>

13. Retirement Benefits

Pension Plan

Plan Description

Generally, all full-time employees of the State and counties, which includes the Department, are required to be members of the Employees' Retirement System of the State of Hawaii ("ERS"), a cost-sharing multiple-employer defined benefit pension plan that administers the State's pension benefits program. Benefits, eligibility and contribution requirements are governed by HRS Chapter 88 and can be amended through legislation. The ERS issues publicly available annual financial reports that can be obtained at the ERS website: <http://ers.ehawaii.gov/resources/financials>.

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Benefits Provided

The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement plans. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2.25%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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

The following summarizes the provisions relevant to the largest employee groups of the respective membership class.

Noncontributory Class

- **Retirement Benefits** – General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with thirty years of credited service are eligible to retire at age 55.
- **Disability Benefits** – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 12.5% of average final compensation.
- **Death Benefits** – For service-connected deaths, the surviving spouse/reciprocal beneficiary receives a monthly benefit of 30% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. Additional benefits are payable to surviving dependent children up to age 18. If there is no spouse/reciprocal beneficiary or surviving dependent children, no benefit is payable.

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Ordinary death benefits are available to employees who were active at the time of death with at least ten years of credited service. The surviving spouse/reciprocal beneficiary (until remarriage/reentry into a new reciprocal beneficiary relationship) and surviving dependent children (up to age 18) receive a benefit equal to a percentage of member's accrued maximum allowance unreduced for age or, if the member was eligible for retirement at the time of death, the surviving spouse/reciprocal beneficiary receives 100% joint and survivor lifetime pension and the surviving dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a one-time payment of the member's contributions and accrued interest plus a lifetime pension of 50% of their average final compensation. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined as 1.75% of average final compensation multiplied by the years of credited service but are payable immediately, without an actuarial reduction, and at a minimum of 30% of average final compensation.
- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member's contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least one year of service. Ordinary death benefits consist of a lump sum payment of the member's contributions and accrued interest plus a percentage of the salary earned in the twelve months preceding death, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Contributory Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees' retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 60.
- Disability and Death Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 50% of their average final compensation plus a refund of contributions and accrued interest. Ten years of credited service are required for ordinary disability.

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Death benefits for contributory members hired after June 30, 2012 are generally the same as those for contributory members hired June 30, 2012 and prior.

Hybrid Class for Members Hired Prior to July 1, 2012

- Retirement Benefits – General employees’ retirement benefits are determined as 2% of average final compensation multiplied by the years of credited service. General employees with five years of credited service are eligible to retire at age 62. General employees with thirty years of credited service are eligible to retire at age 55.
- Disability Benefits – Members are eligible for service-related disability benefits regardless of length of service and receive a lifetime pension of 35% of their average final compensation plus refund of their contributions and accrued interest. Ten years of credited service are required for ordinary disability. Ordinary disability benefits are determined in the same manner as retirement benefits but are payable immediately, without an actuarial reduction, and at a minimum of 25% of average final compensation.
- Death Benefits – For service-connected deaths, the designated surviving spouse/reciprocal beneficiary receives a lump sum payment of the member’s contributions and accrued interest plus a monthly benefit of 50% of the average final compensation until remarriage or re-entry into a new reciprocal beneficiary relationship. If there is no surviving spouse/reciprocal beneficiary, surviving dependent children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or surviving dependent children/parents, the ordinary death benefit is payable to the designated beneficiary.

Ordinary death benefits are available to employees who were active at time of death with at least five years of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest plus a percentage multiplied by 150%, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

Hybrid Class for Members Hired After June 30, 2012

- Retirement Benefits – General employees’ retirement benefits are determined as 1.75% of average final compensation multiplied by the years of credited service. General employees with ten years of credited service are eligible to retire at age 65. Employees with thirty years of credited service are eligible to retire at age 60. Sewer workers, water safety officers, and emergency medical technicians may retire with 25 years of credited service at age 55.
- Disability and Death Benefits – Provisions for disability and death benefits generally remain the same except for ordinary death benefits. Ordinary death benefits are available to employees who were active at time of death with at least ten years of service. Ordinary death benefits consist of a lump sum payment of the member’s contributions and accrued interest, or 50% joint and survivor lifetime pension if the member was not eligible for retirement at the time of death but was credited with at least ten years of service and designated one beneficiary, or 100% joint and survivor lifetime pension if the member was eligible for retirement at the time of death and designated one beneficiary.

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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. Since July 1, 2005, the employer contribution rate is a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liabilities. The contribution rate for fiscal year 2024 was 24% for general employees. Contributions to the pension plan from the Department were approximately \$2,064,000 for the year ended June 30, 2024.

Pursuant to Act 17, SLH 2017, employer contributions from the State and counties are expected to increase over four years beginning July 1, 2017. The rate for general employees increased to 24.0% on July 1, 2020.

The employer is required to make all contributions for noncontributory members. Contributory members hired prior to July 1, 2012 are required to contribute 7.8% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary. Hybrid members hired prior to July 1, 2012 are required to contribute 6.0% of their salary. Hybrid members hired after June 30, 2012 are required to contribute 8.0% of their salary.

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

Measurement of the actuarial valuation of the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is made for the State as a whole and is not separately computed for the individual State departments and agencies such as the Department. The State allocates the pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension only to component units and proprietary funds that are reported separately in stand-alone financial statements or in the State's ACFR. Accordingly, the Department's proportionate share of the State's pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension is not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net pension liability, pension expense, and deferred outflows of resources and deferred inflows of resources related to pension can be found in the State's ACFR. The State's ACFR can be obtained at the Department of Accounting and General Services' website: <http://hawaii.gov/dags/rpts>.

Postemployment Healthcare and Life Insurance Benefits

Plan Description

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the Hawaii Employer-Union Health Benefits Trust Fund ("EUTF"), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for state and county workers, retirees, and their dependents. The EUTF issues an annual financial report that is available to the public at <https://eutf.hawaii.gov/reports>. The report may also be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with ten or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than ten years of credited service. A retiree can elect a family plan to cover dependents.

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For employees hired after June 30, 1996, but before July 1, 2001, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with fewer than ten years of service, the State makes no contributions. For those retiring with at least ten years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage, but must pay the difference.

Contributions

Contributions are governed by HRS Chapter 87A and may be amended through legislation. Contributions to the EUTF paid by the Department was approximately \$2,069,000 for the year ended June 30, 2024. The employer is required to make all contributions for members.

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

Measurement of the actuarial valuation of the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB is made for the State as a whole and is not separately computed for the individual State departments and agencies such as the Department. The State allocates the OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB only to component units and proprietary funds that are reported separately in stand-alone financial statements or in the State's ACFR. Accordingly, the Department's proportionate share of the State's OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB are not reported in the accompanying financial statements.

Additional disclosures and required supplementary information pertaining to the State's net OPEB liability, OPEB expense, and deferred outflows of resources and deferred inflows of resources related to OPEB can be found in the State's ACFR.

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 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 unforeseeable emergency.

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

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14. Commitments and Contingencies

Litigation

The Department has been named as defendant in a number of lawsuits and claims arising in the normal course of operations. A number of claims may possibly result in adverse judgments against the Department. However, such claim amounts cannot be reasonably estimated at this time. Although the Department and its counsel are unable to express opinions as to the outcome of ongoing litigation, it is their opinion that any potential liability arising therefrom will not have a material adverse effect on the financial position of the Department because any judgments against the Department are judgments against the State and would be funded by the legislative appropriation of the State General Fund.

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

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, 2024, the State recorded estimated losses for workers' compensation, automobile, and general liability claims as long-term liabilities as the losses will not be liquidated with currently expendable available financial resources. The estimated losses will be paid from legislative appropriations of the State's General Fund. The Department's portion of the State's workers' compensation liability was not material at June 30, 2024.

Guaranteed and Insured Loans

The Department is a party to a mortgage loan insurance agreement with HUD. The agreement provides that HUD will perform underwriting processing for the insurance program and will administer an insurance fund for mortgages originated and held by HUD-approved lenders. The Department will maintain and provide the necessary and proper funds for payment of any mortgage insurance claims and expenditures incurred by HUD in connection with the lessee borrowers. The Department has reserved cash of approximately \$2,350,000 in the trust fund and has deposited \$150,000 with HUD. As of June 30, 2024, loans outstanding totaled approximately \$530,104,000 under this agreement, of which approximately \$30,390,000 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 HHCA is used as collateral for the loan. As of June 30, 2024, loans outstanding totaled approximately \$110,117,000 under this agreement, of which approximately \$2,402,000 has been reported as delinquent.

The Department is contingently liable for certain loans originated by the Rural Development Agency of the USDA for which the Department has guaranteed repayment. The Department has estimated the balance of these loans is between \$50,000,000 and \$70,000,000 as of June 30, 2024. The Department was unable to obtain the delinquent balance as of June 30, 2024.

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State of Hawaii
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June 30, 2024

As of June 30, 2024, the Department was also contingently liable for approximately \$6,472,000 in loans originated by financial institutions and other lenders for which it had guaranteed repayment. Approximately \$1,491,000 of these loans have been reported delinquent as of June 30, 2024.

As of June 30, 2024, the Department cumulatively paid approximately \$8,186,000 for delinquent mortgage loan payments of lessees. These payments are carried as loans receivable from lessees and bear similar terms as stipulated in the lessees' mortgage notes with the lenders.

The Department has certain loans for which the collateral for the loans is not covered by casualty insurance. As of June 30, 2024, loans not covered by casualty insurance totaled approximately \$87,027,000.

Other

In December 2008, the Department entered into a collaborative financing arrangement with the Office of Hawaiian Affairs, State of Hawaii ("OHA") in which OHA will provide funds for the Department's use in the planning, design, and construction of infrastructure for homesteads for native Hawaiians on properties owned and controlled by the Department. Under the agreement, OHA will pay the Department on an annual basis the lesser of \$3,000,000 or the debt service of bonds, including refunding bonds, issued by the Department to finance infrastructure for housing for native Hawaiians. The Department received \$3,000,000 from OHA during the year ended June 30, 2024, and as of June 30, 2024, the Department received a cumulative total of approximately \$43,987,000 from OHA.

15. Assessments for Central Service and Administrative Expenses

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

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

As of June 30, 2024, the Department's estimate of the accumulated asserted assessments since the inception of these laws approximated \$28,671,000.

16. Subsequent Events

The Department entered into multiple settlement agreements regarding the Temporary Hazard Pay ("THP") with unions for periods covering dates in March 2020 through March 2022, for those employees who performed essential functions during the COVID-19 pandemic. Total accrued payroll for the year ended June 30, 2024, related to temporary hazard pay, was approximately \$1,910,000.

As of March 27, 2025, the State continues to negotiate with the remaining unions, and it was not practical to estimate the total liability owed to eligible employees.

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER THAN MANAGEMENT'S DISCUSSION
AND ANALYSIS (UNAUDITED)**

Department of Hawaiian Home Lands
State of Hawaii
Required Supplementary Information
Other Than Management's Discussion and Analysis
(Unaudited)

General Fund – Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) –
Year Ended June 30, 2024

Hawaiian Home Administration Account – Schedule of Revenues and Expenditures –
Budget and Actual (Budgetary Basis) – Year Ended June 30, 2024

Notes to Required Supplementary Information – Budgetary Control – Year Ended June 30, 2024

Department of Hawaiian Home Lands**State of Hawaii****General Fund****Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Unaudited)
Year Ended June 30, 2024**

	Budgeted Amounts		Actual on	Variance
	Original	Final	Budgetary	Positive
			Basis	(Negative)
State appropriations	<u>\$ 16,428,191</u>	<u>\$ 16,428,191</u>	<u>\$ 13,600,631</u>	<u>\$ (2,827,560)</u>
Expenditures				
Personnel cost	11,610,593	11,610,593	11,120,268	490,325
Current expenditure	4,817,598	4,817,598	8,525,955	(3,708,357)
Equipment	-	-	42,173	(42,173)
Expenditures subtotal	<u>16,428,191</u>	<u>16,428,191</u>	<u>19,688,396</u>	<u>(3,260,205)</u>
Excess of expenditures over appropriations	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (6,087,765)</u>	<u>\$ (6,087,765)</u>

See accompanying report of independent auditors and
note to required supplementary information – budgetary control.

Department of Hawaiian Home Lands**State of Hawaii****Hawaiian Home Administration Account****Schedule of Revenues and Expenditures – Budget and Actual (Budgetary Basis) (Unaudited)****Year Ended June 30, 2024**

	Budgeted Amounts		Actual on	Variance
	Original	Final	Budgetary	Positive
			Basis	(Negative)
Revenues	<u>\$ 4,824,709</u>	<u>\$ 4,824,709</u>	<u>\$ 26,915,704</u>	<u>\$ 22,090,995</u>
Expenditures				
Current expenditure	4,158,709	4,158,709	6,138,027	(1,979,318)
Equipment	606,000	606,000	186,560	419,440
Motor vehicle	60,000	60,000	-	60,000
Expenditures subtotal	<u>4,824,709</u>	<u>4,824,709</u>	<u>6,324,587</u>	<u>(1,499,878)</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,591,117</u>	<u>\$ 20,591,117</u>

See accompanying report of independent auditors and
note to required supplementary information – budgetary control.

Department of Hawaiian Home Lands

State of Hawaii

Note to Required Supplementary Information – Budgetary Control (Unaudited)

Year Ended June 30, 2024

The Department's annual budget is prepared on the budgetary 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 Hawaii, 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 Hawaiian Homes Commission 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. 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 accounting principles generally accepted in the United States of America.

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

Since the budgetary basis differs from accounting principles generally accepted in the United States of America ("GAAP"), budget and actual amounts, in the schedules of revenues and expenditures – budget and actual, are presented on the budgetary basis. The following schedule reconciles the budgetary amounts of the General Fund and the Hawaiian Home Administration Account to the amounts presented in accordance with GAAP:

	General Fund	Hawaiian Home Administration Account
Excess (deficiency) of revenues over (under) expenditures – actual on a budgetary basis	\$ (6,087,765)	\$ 20,591,117
Current year's appropriations encumbered at June 30, 2024	9,000,000	1,902,503
Current year's encumbrances included in vouchers payable	(164,785)	(163,045)
Expenditures for liquidation of prior year's encumbrances	(2,008,083)	(1,594,306)
Fiscal 2023 expenditures funded by fiscal 2024 budget	30,820	-
Fiscal 2024 expenditures funded by fiscal 2025 budget under Section 78-13 HRS	(976,788)	-
Excess (deficiency) of revenues over (under) expenditures – GAAP basis	<u>\$ (206,601)</u>	<u>\$ 20,736,269</u>

See accompanying report of independent auditors.

Supplementary Information

Department of Hawaiian Home Lands
State of Hawaii
Combining Balance Sheet – Non-Major Governmental Funds
June 30, 2024

	Department of Hawaiian Home Lands Revenue Bond Special Fund	Federal Grants	Planning and Development for Hawaiian Homesteads	Geothermal Resources on Hawaiian Home Lands	Hawaiian Home Loan Fund	Native Hawaiian Rehabilitation Fund	Temporary Deposits	East West Collector Road Fund	Total Other Governmental Funds
Assets									
Equity in cash and cash equivalents and investments	\$ 11,856,742	\$ 819,418	\$ 15,356,128	\$ -	\$ 3,789,876	\$ 6,071,839	\$ 3,143,143	\$ 2,350	\$ 41,039,496
Receivables									
Loans, net of allowance for losses of \$763,000	-	23,248,970	-	-	809,823	-	-	-	24,058,793
Accrued interest – leases and licenses	-	61,541	-	-	-	-	-	-	61,541
Accrued interest – investment pool	37,318	-	-	-	-	18,739	-	-	56,057
Other	-	6,087,554	-	-	-	-	-	-	6,087,554
Restricted cash and short-term investments held outside of State Treasury	1,228,003	-	-	-	-	-	-	-	1,228,003
Total assets	<u>\$ 13,122,063</u>	<u>\$ 30,217,483</u>	<u>\$ 15,356,128</u>	<u>\$ -</u>	<u>\$ 4,599,699</u>	<u>\$ 6,090,578</u>	<u>\$ 3,143,143</u>	<u>\$ 2,350</u>	<u>\$ 72,531,444</u>
Liabilities and Fund Balances									
Liabilities									
Vouchers and contracts payable	\$ 325	\$ 3,787,627	\$ 760,936	\$ -	\$ -	\$ 20,437	\$ -	\$ -	\$ 4,569,325
Other liabilities	-	-	-	-	8,068	-	3,143,143	-	3,151,211
Total liabilities	<u>325</u>	<u>3,787,627</u>	<u>760,936</u>	<u>-</u>	<u>8,068</u>	<u>20,437</u>	<u>3,143,143</u>	<u>-</u>	<u>7,720,536</u>
Fund balances									
Restricted for									
Federal loan programs	-	26,900,327	-	-	-	-	-	-	26,900,327
Debt agreements	1,228,003	-	-	-	-	-	-	-	1,228,003
Committed to									
Capital projects	-	-	14,595,192	-	-	-	-	-	14,595,192
Assigned to									
Home loans and homestead services	-	-	-	-	4,591,631	-	-	-	4,591,631
Home construction and land development	11,893,735	-	-	-	-	6,070,141	-	2,350	17,966,226
Unassigned	-	(470,471)	-	-	-	-	-	-	(470,471)
Total fund balances	<u>13,121,738</u>	<u>26,429,856</u>	<u>14,595,192</u>	<u>-</u>	<u>4,591,631</u>	<u>6,070,141</u>	<u>-</u>	<u>2,350</u>	<u>64,810,908</u>
Total liabilities and fund balances	<u>\$ 13,122,063</u>	<u>\$ 30,217,483</u>	<u>\$ 15,356,128</u>	<u>\$ -</u>	<u>\$ 4,599,699</u>	<u>\$ 6,090,578</u>	<u>\$ 3,143,143</u>	<u>\$ 2,350</u>	<u>\$ 72,531,444</u>

See report of independent auditors.

Department of Hawaiian Home Lands

State of Hawaii

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-Major Governmental Funds

Year Ended June 30, 2024

	Department of Hawaiian Home Lands Revenue Bond Special Fund	Federal Grants	Planning and Development for Hawaiian Homesteads	Geothermal Resources on Hawaiian Home Lands	Hawaiian Home Loan Fund	Native Hawaiian Rehabilitation Fund	Temporary Deposits	East West Collector Road Fund	Total Other Governmental Funds
Revenues									
State allotted appropriations	\$ -	\$ -	\$ 9,000,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,000,000
Interest from loans, leases and notes	-	289,027	-	-	-	-	-	-	289,027
Investment income	494,086	-	-	-	-	211,530	-	-	705,616
Intergovernmental revenues	3,000,000	15,586,272	-	-	-	-	-	-	18,586,272
Other	-	136,794	-	-	440	428,467	-	-	565,701
Total revenues	3,494,086	16,012,093	9,000,000	-	440	639,997	-	-	29,146,616
Expenditures									
Current									
Administration and support services	-	8,797,545	2,246,547	-	-	652,676	-	-	11,696,768
Homestead services	-	-	-	-	5,722	-	-	-	5,722
Land development	-	-	243,345	-	-	-	-	-	243,345
Land management	-	83,770	-	324,897	-	-	-	-	408,667
Capital outlay	-	25,222,699	-	-	-	-	-	-	25,222,699
Debt service									
Principal	1,970,325	-	-	-	-	-	-	-	1,970,325
Interest	1,037,500	-	-	-	-	-	-	-	1,037,500
Total expenditures	3,007,825	34,104,014	2,489,892	324,897	5,722	652,676	-	-	40,585,026
Excess (deficiency) of revenues over (under) expenditures	486,261	(18,091,921)	6,510,108	(324,897)	(5,282)	(12,679)	-	-	(11,438,410)
Other financing sources (uses)									
Transfers in	3,007,675	686,687	-	-	-	-	-	-	3,694,362
Transfers out	(3,007,675)	(686,687)	-	-	-	-	-	-	(3,694,362)
Total other financing sources (uses)	-	-	-	-	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	486,261	(18,091,921)	6,510,108	(324,897)	(5,282)	(12,679)	-	-	(11,438,410)
Net change in fund balances	486,261	(18,091,921)	6,510,108	(324,897)	(5,282)	(12,679)	-	-	(11,438,410)
Fund balances at beginning of year	12,635,477	44,521,777	8,085,084	324,897	4,596,913	6,082,820	-	2,350	76,249,318
Fund balances at end of year	\$ 13,121,738	\$ 26,429,856	\$ 14,595,192	\$ -	\$ 4,591,631	\$ 6,070,141	\$ -	\$ 2,350	\$ 64,810,908

See report of independent auditors.

Department of Hawaiian Home Lands
State of Hawaii
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

Federal Grantor/Pass-through Grantor and Program or Cluster Title	Federal Assistance Listing Number	Award Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. Department of Agriculture				
Ho'olehua Water Project	10.760	61-002-990266483-4	\$ -	\$ 15,482,547
Anahola Farm Lots Water Project	10.760	61-002-990266483-5	-	2,473,494
Laiopua Water Project	10.760	61-002-990266483-6	-	532,156
Laiopua Sewer Project	10.760	61-002-990266483-7	-	432,720
Laiopua Storm Water Project	10.760	61-002-990266483-8	-	762,267
Total – U.S. Department of Agriculture			-	19,683,184
U.S. Department of Commerce				
NTIA Tribal Broadband Connectivity Program	11.029	NT23TBCD290054	-	363,465
Total – U.S. Department of Commerce			-	363,465
U.S. Department of Housing and Urban Development				
Native Hawaiian Housing Block Grant, Year 14	14.873	15HBGHI001	961,220	2,125,111
Native Hawaiian Housing Block Grant, Year 16	14.873	17HBGHI001	1,178,097	1,766,592
Native Hawaiian Housing Block Grant, Year 17	14.873	18HBGHI001	550,683	2,117,757
Native Hawaiian Housing Block Grant, Year 18	14.873	19HBGHI001	-	2,635,602
Native Hawaiian Housing Block Grant, Year 19	14.873	20HBGHI001	90,653	2,041,173
Native Hawaiian Housing Block Grant, Year 20	14.873	21HBGHI001	230,000	1,274,215
Total – U.S. Department of Housing and Urban Development			3,010,653	11,960,450
Total expenditures of federal awards			\$ 3,010,653	\$ 32,007,099

See accompanying report of independent auditors and notes to the schedule of expenditures of federal awards.

Department of Hawaiian Home Lands
State of Hawaii
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2024

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") for the year ended June 30, 2024 includes the federal grant activity of the Department of Hawaiian Home Lands ("DHHL") and is presented on the cash basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of the Department, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Department.

2. Loans Outstanding

The Department had the following loan balances outstanding as of June 30, 2024. Loans made during the year are included in the federal expenditures presented in the schedule.

Program Title	Federal Assistance Listing Number	Amount Outstanding
Receivable from homesteaders		
U.S. Department of Housing and Urban Development Native Hawaiian Housing Block Grant	14.873	<u>\$ 30,252,226</u>
Payable to federal government		
U.S. Department of Agriculture Ho'olehua Water Project	10.760	<u>\$ 7,455,000</u>

3. Indirect Cost Rate

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

See accompanying report of independent auditors.

PART II
Compliance and Internal Control



**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 Hawaii

The Hawaiian Homes Commission
Department of Hawaiian Home Lands
State of Hawaii

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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 Department of Hawaiian Home Lands, State of Hawaii (the “Department”) as of and for the year ended June 30, 2024, 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 27, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department’s internal control over financial reporting (“internal control”) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding No. 2024-001 that we consider to be a significant deficiency.

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Report on Compliance and Other Matters

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

Department's Response to Findings

Government Auditing Standards requires the auditors to perform limited procedures on the Department's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Accuity LLP

Honolulu, Hawaii
March 27, 2025



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

The Auditor
State of Hawaii

The Hawaiian Homes Commission
Department of Hawaiian Home Lands
State of Hawaii

Report on Compliance for Each Major Federal Program

Opinion on Major Federal Program

We have audited the Department of Hawaiian Home Lands, State of Hawaii's (the "Department") compliance with the types of compliance requirements described in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the Department's major federal programs for the year ended June 30, 2024. The Department's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Department complied, in all material respects, with the type 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, 2024.

Basis for Opinion on Major Federal Program

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

We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for major federal program. Our audit does not provide a legal determination of the Department's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

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Auditors' Responsibilities for the Audit of Compliance

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

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


- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Department's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Department's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However,



material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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

Accuity LLP

Honolulu, Hawaii
March 27, 2025

Department of Hawaiian Home Lands
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2024

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditors’ report issued

Unmodified

Internal control over financial reporting

- Material weaknesses identified?
- Significant deficiencies identified?

<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
<input checked="" type="checkbox"/> yes	<input type="checkbox"/> none reported
<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no

Noncompliance material to financial statements noted?

Federal Awards

Internal control over major programs

- Material weaknesses identified?
- Significant deficiencies identified?

<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
<input type="checkbox"/> yes	<input checked="" type="checkbox"/> 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?

<input type="checkbox"/> yes	<input checked="" type="checkbox"/> no
------------------------------	--

Identification of major federal programs

Name of Federal Program or Cluster

Federal Assistance Listing Number

Native Hawaiian Housing Block Grant

14.873

Dollar threshold used to distinguish between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

<input checked="" type="checkbox"/> yes	<input type="checkbox"/> no
---	-----------------------------

Department of Hawaiian Home Lands
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2024

Section II – Financial Statement Findings

Finding No. 2024-001 – IT General Control Deficiencies (Significant Deficiency)

Condition

Information technology (“IT”) is a strategic element of the Department of Hawaiian Home Lands, State of Hawaii (the “Department”) operations. Because of the high volume of transactions at the Department, the establishment of internal controls over processes incorporating IT is critical to its operations. As part of our audit of the Department’s basic financial statements for the year ended June 30, 2024, we performed an IT general controls review of the following systems operated by the Department:

- Financial Management System (Oracle)
- CLOAN (APPX)

Our review resulted in IT control deficiencies around logical security as follows:

- Annual user access reviews are not completed to ensure access is appropriate and granted based on job responsibilities.
- Procedures do not exist to maintain the effectiveness of authentication.

Criteria

When IT is used to initiate, record, process and report on transactions included in the financial statements, the systems and related processes should include internal controls to prevent or detect potential misstatements.

Effect

Unauthorized access to financial systems could result in the loss of data, unauthorized or nonexistent transactions being made or transactions being inaccurately recorded.

Cause and Views of Responsible Officials

The Department’s IT policies and procedures do not include internal control procedures addressing the risks discussed above or are not being consistently followed.

Recommendation

We recommend that the Department perform the following:

- Implement procedures to require user access reviews at least annually.
- Implement effective authentication requirements.

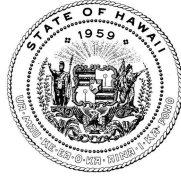
Department of Hawaiian Home Lands
State of Hawaii
Schedule of Findings and Questioned Costs
Year Ended June 30, 2024

Section III – Federal Award Findings and Questioned Costs

None noted.

JOSH GREEN, M.D.
GOVERNOR
STATE OF HAWAII
*Ke Kia'āina o ka Moku'āina 'o
Hawai'i*

SYLVIA J. LUKE
LT. GOVERNOR
STATE OF HAWAII
*Ka Hope Kia'āina o ka Moku'āina
'o Hawai'i*



KALI WATSON
CHAIRPERSON, HHC
Ka Luna Ho'okele

KATIE L. LAMBERT
DEPUTY TO THE CHAIR
Ka Hope Luna Ho'okele

STATE OF HAWAII
DEPARTMENT OF HAWAIIAN HOME LANDS

Ka 'Oihana 'Āina Ho'opulapula Hawai'i

P. O. BOX 1879
HONOLULU, HAWAII 96805

March 27, 2025

Accuity LLP
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Ladies and Gentlemen:

The Single Audit of the Hawaii State Department of Hawaiian Home Lands (Department) for the fiscal year ended June 30, 2024 was completed before the March 31, 2025 Federal deadline. We are pleased that the Department received an unmodified opinion on its financial statements.

We have reviewed your audit findings and recommendations and corrective action plans have been prepared. In accordance with 2 CFR 200.508, the following pages contain the **Corrective Action Plan** for the year ended June 30, 2024.

Sincerely,

Kali Watson
Chairman

Department of Hawaiian Home Lands
State of Hawaii
Status of Prior Year Findings and Questioned Costs
Year Ended June 30, 2024

There were no prior year findings or questioned costs.

Corrective Action Plan

State of Hawaii
Department of Hawaiian Home Lands
Current Year's Audit Findings
Fiscal Year Ended June 30, 2024

Corrective Action Plan

The Department of Hawaiian Home Lands acknowledges the audit finding regarding the IT Control deficiencies over the internal database system, APPX.

The Department's Informational and Technology Branch (IT Branch) will work with the developer to strengthen the security of the Department's internal database infrastructure.

- Increasing password length and complexity
- Enforcing password expiration for active accounts

Person Responsible

Jerry Alambatin, IT Manager

Anticipated Completion Date

December 2025