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DEPT. COMM. NO. 348

February 11, 2026

VIA EMAIL

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

VIA EMAIL

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

Re: *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Hawaiian Home Lands*, Report No. 26-04

Dear President Kouchi and Speaker Nakamura:

Please find attached Report No. 26-04, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Hawaiian Home Lands*, along with a copy of the Auditor's Summary. Our review of the department's funds and accounts was performed pursuant to Section 23-12, Hawaiʻi Revised Statutes (HRS), which requires the Auditor to review each state department's special, revolving, and trust funds every five years. Although not mandated by Section 23-12, HRS, we have included trust accounts as part of our review. Trust accounts, like special, revolving, and trust funds, are funded outside of the General Fund appropriation process and, therefore, are generally subject to less legislative scrutiny. We last reported on the Department of Hawaiian Home Land's funds and accounts in 2020.

The report is accessible through our website at:
http://files.hawaii.gov/auditor/Reports/2026/26-04.pdf.

The summary is also accessible through our website at:
http://files.hawaii.gov/auditor/Overviews/2026/26-04AuditorSummary.pdf.

If you or other Legislators have questions about the report or would like a printed version of the report, please let me know.

Very truly yours,

Leslie H. Kondo
State Auditor

Attachments

LHK:LYK:lml
cc/attach: Members of the Senate
Members of the House of Representatives
Carol Taniguchi, Senate Chief Clerk
Brian Takeshita, House Chief Clerk

Auditor's Summary

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Hawaiian Home Lands

Report No. 26-04

Three trust funds and one trust account did not meet criteria

Our review of two special funds, two revolving funds, six trust funds, and one trust account of the Department of Hawaiian Home Lands (DHHL) found three trust funds and one trust account did not meet the criteria for trust funds and trust accounts, respectively, and should be reclassified.

Section 23-12, Hawai'i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds every five years. Reviews are scheduled so that each department's funds are reviewed once every five years. Although not mandated by statute, we included trust accounts as part of our review. This is our seventh review of DHHL's revolving funds, trust funds, and trust accounts. It is our third review of the special funds held by DHHL since Act 130, Session Laws of Hawai'i 2013, amended Section 23-12, HRS, to require review of special funds along with revolving funds and trust funds.

We used criteria developed by the Legislature and by our office based on public finance and accounting literature. For each fund, we present a five-year financial summary, the purpose of the fund, and conclusions about its use. We did not audit the financial data, which is provided for informational purposes. We do not present conclusions about the effectiveness of programs or their management, or whether the programs should be continued.

Reporting shortfall

We noted that DHHL did not file statutorily required reports for non-general funds with balances totaling approximately $261.2 million under the program measures reporting requirement and administratively created non-general funds with balances totaling approximately $4.9 million. Accurate and complete reporting will greatly improve the Legislature's oversight and control of these funds.



FUND TYPES

SPECIAL FUNDS
are used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes.

REVOLVING FUNDS
such as loan funds, are often established with an appropriation of seed money from the general fund, and must demonstrate the capacity to be self-sustaining.

TRUST FUNDS
such as a pension fund, invoke the State's fiduciary responsibility to care for and use the assets held to benefit those with a vested interest in the assets.

TRUST ACCOUNTS
are typically separate holding or clearing accounts and are often used as accounting devices for crediting or charging state agencies or projects for payroll and other costs.

Agency response

DHHL generally agreed with our findings but did not agree with our recommendations for four of the funds and accounts. We maintain our recommendations. DHHL concurred with our findings related to reporting shortfalls and will take appropriate corrective action as recommended.

Link to the complete report:
https://files.hawaii.gov/auditor/Reports/2026/26-04.pdf

Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Hawaiian Home Lands

A Report to the Governor
and the Legislature of
the State of Hawai‘i

Report No. 26-04
February 2026



OFFICE OF THE AUDITOR
STATE OF HAWAI‘I

OFFICE OF THE AUDITOR
STATE OF HAWAIʻI

Constitutional Mandate

Pursuant to Article VII, Section 10 of the Hawai'i State Constitution, the Office of the Auditor shall conduct post-audits of the transactions, accounts, programs and performance of all departments, offices and agencies of the State and its political subdivisions.

The Auditor's position was established to help eliminate waste and inefficiency in government, provide the Legislature with a check against the powers of the executive branch, and ensure that public funds are expended according to legislative intent.

Hawai'i Revised Statutes, Chapter 23, gives the Auditor broad powers to examine all books, records, files, papers and documents, and financial affairs of every agency. The Auditor also has the authority to summon people to produce records and answer questions under oath.

Our Mission

To improve government through independent and objective analyses.

We provide independent, objective, and meaningful answers to questions about government performance. Our aim is to hold agencies accountable for their policy implementation, program management, and expenditure of public funds.

Our Work

We conduct performance audits (also called management or operations audits), which examine the efficiency and effectiveness of government programs or agencies, as well as financial audits, which attest to the fairness of financial statements of the State and its agencies.

Additionally, we perform procurement audits, sunrise analyses and sunset evaluations of proposed regulatory programs, analyses of proposals to mandate health insurance benefits, analyses of proposed special and revolving funds, analyses of existing special, revolving and trust funds, and special studies requested by the Legislature.

We report our findings and make recommendations to the Governor and the Legislature to help them make informed decisions.

For more information on the Office of the Auditor, visit our website:
https://auditor.hawaii.gov

COVER PHOTO: DEPARTMENT OF HAWAIIAN HOME LANDS

Foreword

This is a report of our review of the special funds, revolving funds, trust funds, and trust accounts of the Department of Hawaiian Home Lands.

Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review all existing special, revolving, and trust funds, once every five years. Although not mandated by statute, we include trust accounts as part of our review. This is our seventh review of the revolving funds, trust funds, and trust accounts of the Department of Hawaiian Home Lands. It is our third review of its special funds since Section 23-12, HRS, was amended by Act 130, Session Laws of Hawai‘i 2013, to include reviews of special funds.

We wish to express our appreciation for the cooperation and assistance extended to us by the Department of Hawaiian Home Lands.

Leslie H. Kondo
State Auditor

Table of Contents

Chapter 1 Introduction 1

Description of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts 2

Criteria for Reviewing Special Funds, Revolving Funds, Trust Funds, and Trust Accounts 3

Objectives of the Review 4

Scope and Methodology 4

Chapter 2 Department of Hawaiian Home Lands 7

Chapter 3 Observations on Reporting and Accounting for Funds 21

Non-General Funds Were Not Reported as Required by Law 21

Office of the Auditor's Comments on the Department of Hawaiian Home Lands' Comments 24

Attachment 1 The Department of Hawaiian Home Lands' Comments 26

List of Exhibits

Exhibit 2.1 Cash Balances for the Department of Hawaiian Home Lands' Non-General Funds FY2021 – FY2025 (in millions) 7

Exhibit 2.2 Fund and Account Totals by Type, FY2025 8

Exhibit 2.3 Fund(s) Not Meeting Criteria 9

Exhibit 3.1 Non-General Funds and Administratively Created Funds Not Reported to the Legislature 23

Chapter 1
Introduction

This review encompasses the special funds, revolving funds, trust funds, and trust accounts administered by the State of Hawai‘i Department of Hawaiian Home Lands (DHHL). Section 23-12, Hawai‘i Revised Statutes (HRS), requires the Auditor to review each state department's special, revolving, and trust funds every five years. Although not mandated by Section 23-12, HRS, we have included trust accounts as part of our review. Trust accounts, like special, revolving, and trust funds, are funded outside of the General Fund appropriation process and are therefore generally subject to less legislative scrutiny than the State's General Fund. For each fund and account, our review included:

1. An evaluation of the original intent and purpose of the fund or account, both as expressed by the Legislature and as understood by the expending agency;

2. The degree to which the fund or account achieves its stated and claimed purposes;

3. An evaluation of the fund or account's performance standards as established by the agency; and

4. A summary statement reflecting total fund transactions in the preceding five fiscal years, including the fund or account balance at the beginning of each fiscal year, total deposits and withdrawals, amount of interest earned, total expenditures made from the fund or account, and the ending balance for each fiscal year.

This is our seventh review of DHHL's revolving funds, trust funds, and trust accounts.[1] It is our third review of DHHL's special funds, since Act 130, Session Laws of Hawai‘i (SLH) 2013, amended Section 23-12, HRS, to require review of special funds along with revolving funds and trust funds. We last examined these funds and accounts in 2020.

[1] Prior to 2013, Section 23-12, HRS, did not require reviews of departments' special funds.

Description of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts

Special funds

Section 37-62, HRS, defines a special fund as one that is "dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds." According to the State's *Accounting Manual*, special funds are funds used to account for revenues earmarked for particular purposes and from which expenditures are made for those purposes.

Revolving funds

Section 37-62, HRS, defines a revolving fund as one "from which is paid the cost of goods and services rendered or furnished to or by a state agency and which is replenished through charges made for the goods or services or through transfers from other accounts or funds." Activities commonly financed through revolving funds include loan programs, which are initially established by general fund seed moneys and are then replenished through the repayment of loans.

Trust funds

Section 37-62, HRS, defines a trust fund as one in which "designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes." Trust funds invoke a fiduciary responsibility of state government to care for and use the assets held only for those designated to benefit from the funds. A pension fund is an example of a trust fund. Contributions and payments are to be held for the beneficiaries of the pension fund. Another example is tenants' security deposits, which are held in trust for the future benefit of tenants and landlords. Until forfeited or returned, deposits are the property of the tenants and should be accounted for accordingly.

Trust accounts

The Department of Accounting and General Services (DAGS) defines a trust account as a separate holding or clearing account for state agencies. Trust accounts also serve as accounting devices to credit or charge agencies or projects for payroll or other costs.

Criteria for Reviewing Special Funds, Revolving Funds, Trust Funds, and Trust Accounts

Special and revolving fund criteria

In 2002, the Legislature set the requirements for establishing and continuing special and revolving funds. Sections 37-52.3 and 37-52.4, HRS, state that special and revolving funds may only be established by statute. The criteria used to review special and revolving funds are the extent to which each fund:

- Serves a need, as demonstrated by: (a) the purpose of the program to be supported by the fund; (b) the scope of the program, including financial information on fees to be charged, sources of projected revenue, and costs; and (c) an explanation of why the program cannot be implemented successfully under the General Fund appropriation process;

- Reflects a clear nexus between the benefits sought and charges made upon the program users or beneficiaries, or a clear link between the program and the sources of revenue – as opposed to serving primarily as a means to provide the program or users with an automatic means of support removed from the normal budget and appropriation process;

- Provides an appropriate means of financing for the program or activity that is used only when essential to the successful operation of the program or activity; and

- Demonstrates the capacity to be financially self-sustaining.

Trust fund and trust account criteria

Unlike the requirements for special and revolving funds, the law is silent on whether a trust fund or trust account must be established by statute. The criteria used in this report to review trust funds and trust accounts are the extent to which the fund or account:

- Continues to serve the purpose and intent for which it was originally created, and
- Meets the definition of a trust fund or trust account, respectively.

The first criterion is derived from the objectives of Section 23-12, HRS, which requires the Auditor to evaluate the original intent of each fund and account and the degree to which each fund and account achieves its stated purpose. The second criterion assesses whether a fund is held by the State only for the benefit of those with a vested interest in the assets or an account is held as a separate or clearing account.

Objectives of the Review

1. Identify and review all special funds, revolving funds, trust funds, and trust accounts of DHHL.
2. For each special fund, revolving fund, trust fund, and trust account, determine whether the fund or account meets the respective criteria.
3. Provide a five-year (FY2021 – FY2025) unaudited financial summary for each fund and account of DHHL.

Scope and Methodology

We reviewed all special funds, revolving funds, trust funds, and trust accounts administered by DHHL during the five-year period under review (FY2021 – FY2025). Funds and accounts included those established by statute as well as administratively.

To identify funds subject to this review, we used a variety of sources, including our prior reviews, accounting reports from DAGS, non-general fund reports, legislative budget briefing documents, and other records. To gain an understanding of fund operations, we reviewed applicable agency administrative rules and interviewed key fiscal and program personnel, as necessary.

We obtained a summary statement for each fund that reflects total fund transactions in the preceding five fiscal years (July 1, 2020 to June 30, 2025), including beginning fund balances, total revenues, amount of interest earned, total expenditures, transfers, and ending fund balances

for each fiscal year. We requested explanations for discrepancies between ending balances for FY2020 reported in our last review and opening balances reported for FY2021. We did not audit the department's financial data, which we provide for informational purposes only.

Procedures were performed on each fund using relevant criteria as stated above. We reviewed fund information for consistency with the intent of each fund's use and to ascertain the relationship between charges on users and expenditures. We reviewed information on performance standards established for the funds or accounts and performed other procedures as necessary.

Where appropriate, we relied on our prior reports, including Report No. 20-16, *Review of Special Funds, Revolving Funds, Trust Funds, and Trust Accounts of the Department of Hawaiian Home Lands*.

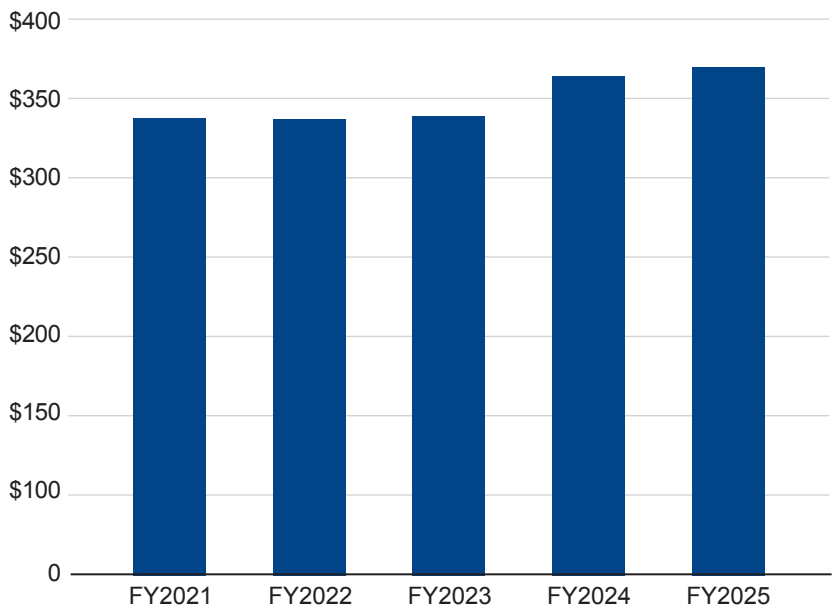
Our review was conducted from October 2025 to December 2025. Recommendations were made where applicable.

Chapter 2
Department of Hawaiian Home Lands

This chapter presents the results of our review of two special funds, two revolving funds, six trust funds and one trust account. Total fund fiscal year-end balances for DHHL were at least $330 million per year during the period reviewed.

Exhibit 2.1 summarizes the totals for these fund balances at the end of each fiscal year.

Exhibit 2.1
Cash Balances for the Department of Hawaiian Home Lands' Non-General Funds
FY2021 – FY2025 (in millions)



Source: Office of the Auditor

In FY2025, the special funds, revolving funds, trust funds, and trust accounts collected approximately $70.7 million and spent or transferred approximately $63.8 million.

Exhibit 2.2 presents totals for the combined revenue and interest, expenses and transfers, and ending fund balances for the different fund types for FY2025.

Exhibit 2.2
Fund and Account Totals by Type, FY2025

Fund Type	Revenue and Interest	Expenses and Transfers	FY2025 End Cash Balance
Special Funds	$25,083,000	$19,066,000	$42,858,000
Revolving Funds	9,071,000	3,138,000	61,469,000
Trust Funds/ Trust Accounts	36,567,000	41,559,000	263,594,000
Total	**$70,721,000**	**$63,763,000**	**$367,921,000**

Source: Office of the Auditor

For each fund and account, we present a five-year financial summary, the purpose of the fund, and conclusions about its use and whether it meets the definition of the type of fund or account. This review does not include an assessment of the effectiveness of the program or its management. Funds are presented in alphabetical order.

Exhibit 2.3 presents DHHL funds that did not meet criteria for continuance and should be closed or reclassified.

Exhibit 2.3
Funds Not Meeting Criteria

Fund Name	Fund Type	FY2025 Ending Balance	No longer serves original purpose and/or does not serve a need	No clear nexus between benefits sought and user charges or a clear link between the program and revenue sources	Inappropriate financing mechanism	Not financially self-sustaining	Does not meet special fund, revolving fund, trust fund, or trust account definition
Hawaiian Home Operating Fund	Trust Fund	$75,998,570					✓
Hawaiian Home Receipts Fund	Trust Fund	3,064,575					✓
Hawaiian Home Trust Fund (Not in State Treasury)	Trust Fund	1,302,247					✓
Security Deposits Clearing Account	Trust Account	3,628,984					✓
Total		**$83,994,376**					

Source: Office of the Auditor

Department of Hawaiian Home Lands Revenue Bond Special Fund

Section 213.5, Hawaiian Homes Commission Act

Financial Data for Fiscal Years 2021 – 2025 (in thousands)

	FY2021	FY2022	FY2023	FY2024	FY2025
Beginning Balance	$21,116	$11,661	$11,210	$11,448	$11,857
Revenues	3,000	2,250	3,000	3,000	3,000
Interest	87	58	244	416	371
Expenditures	(2,542)	(2,759)	(3,006)	(3,007)	(3,010)
Transfers*	(10,000)	0	0	0	0
Ending Balance	**$11,661**	**$11,210**	**$11,448**	**$11,857**	**$12,218**
Encumbrances	$1,307	$1,747	$1,862	$2,054	$2,244

*Transfer of $10,000,000 to the Hawaiian Home Administration Account to reimburse funds previously transferred in FY2020.

Fund Summary	
Account Type	Special fund
How was the fund created?	Act 283 (SLH 1989)
Why was it created?	The fund is used to account for each undertaking financed by revenue bonds issued by the department and to maintain a reserve account as required by the bond resolution.
Fund meets criteria?	This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues include all rentals, income, receipts, and other revenues derived by the department from the particular undertaking for which financing is undertaken and interest from investments of reserve accounts.
Expenditures	Expenditures include debt service payments for bonds. Moneys in the fund are also used to maintain required reserves.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.

Hawaiian Home Administration Account

Section 213(f), Hawaiian Homes Commission Act

Financial Data for Fiscal Years 2021 – 2025 (in thousands)*

	FY2021	FY2022	FY2023	FY2024	FY2025
Beginning Balance	$21,829	$30,073	$30,617	$23,681	$24,984
Revenues	15,588	18,148	18,365	19,402	20,828
Interest	174	116	664	990	884
Expenditures	(17,518)	(17,720)	(25,965)	(19,089)	(16,057)
Transfers**	10,000	0	0	0	0
Ending Balance	$30,073	$30,617	$23,681	$24,984	$30,639
Encumbrances	$3,942	$2,451	$2,561	$2,539	$2,718

*This fund is the parent account and original source of revenue for two sub-accounts. The financial data presented is a consolidation of this fund and its sub-accounts.

**Transfer of $10,000,000 from the Department of Hawaiian Home Lands Revenue Bond Special Fund as reimbursement of funds transferred in FY2020.

Fund Summary	
Account Type	Special fund
How was the fund created?	Chapter 544, 55 Stat. 782 (1941)
Why was it created?	The fund is used to support the salaries and administrative expenses of DHHL with receipts from any leasing or other dispositions of “available lands.”
Fund meets criteria?	This fund meets the criteria of a special fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from general leases, licenses, revocable permits, rights of entry, and other dispositions of Hawaiian home lands.
Expenditures	Expenditures include salaries and other administrative expenses of DHHL, excluding capital improvements.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	Yes.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.

Hawaiian Home General Loan Fund

Section 213(c), Hawaiian Homes Commission Act

Financial Data for Fiscal Years 2021 – 2025 (in thousands)

	FY2021	FY2022	FY2023	FY2024	FY2025
Beginning Balance	$47,329	$54,146	$62,962	$43,218	$51,746
Revenues	8,634	11,819	11,692	12,829	8,972
Interest	0	0	0	0	0
Expenditures	(1,817)	(3,003)	(31,436)	(4,301)	(3,137)
Transfers	0	0	0	0	0
Ending Balance	**$54,146**	**$62,962**	**$43,218**	**$51,746**	**$57,581**
Encumbrances	$0	$0	$0	$0	$0

Fund Summary

Account Type	Revolving fund
How was the fund created?	Act 229 (SLH 1978), as amended by Act 249 (SLH 1986)
Why was it created?	The fund is used to issue loans to Native Hawaiians for the construction and maintenance of dwellings, purchase of livestock and farm equipment, commercial loans, and loan or guarantee the repayment of loans allowed by the United States Department of Housing and Urban Development, Federal Housing Administration (FHA).
Fund meets criteria?	This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from loan principal repayments.
Expenditures	Expenditures include loans issued for the construction and maintenance of dwellings, purchase of livestock and farm equipment, commercial loans, and loan or guarantee the repayment of loans allowed by FHA.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.

Hawaiian Home Lands Trust Fund

Section 213.6, Hawaiian Homes Commission Act

Financial Data for Fiscal Years 2021 – 2025 (in thousands)					
	FY2021	**FY2022**	**FY2023**	**FY2024**	**FY2025**
Beginning Balance	$150,719	$150,052	$148,237	$143,659	$143,493
Revenues	0	5,435	0	2,442	794
Interest	871	654	3,141	5,256	4,525
Expenditures	(1,538)	(7,904)	(7,719)	(7,864)	(17,305)
Transfers	0	0	0	0	0
Ending Balance	**$150,052**	**$148,237**	**$143,659**	**$143,493**	**$131,507**
Encumbrances	$12,284	$16,845	$22,746	$23,879	$61,470

Fund Summary	
Account Type	Trust fund
How was the fund created?	Act 14 (First Special Session 1995)
Why was it created?	The fund is used to hold moneys from claims made on behalf of the Hawaiian Home Lands Trust against the State between August 21, 1959 and July 1, 1988, pursuant to the DHHL Land Claims Settlement Act. Funds can be used by the department for capital improvements and other purposes undertaken in furtherance of the Hawaiian Homes Commission Act.
Fund meets criteria?	This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from investment income and interest.
Expenditures	Expenditures include capital improvement projects and other purposes undertaken in furtherance of the Hawaiian Homes Commission Act. The Hawaiian Homes Commission Act established a homesteading program for Native Hawaiians.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.

Hawaiian Home Loan Fund

Section 213(b), Hawaiian Homes Commission Act

Financial Data for Fiscal Years 2021 – 2025 (in thousands)

	FY2021	FY2022	FY2023	FY2024	FY2025
Beginning Balance	$3,325	$3,384	$3,574	$3,675	$3,790
Revenues	59	190	101	117	98
Interest	0	0	0	0	0
Expenditures	0	0	0	(2)	0
Transfers	0	0	0	0	0
Ending Balance	**$3,384**	**$3,574**	**$3,675**	**$3,790**	**$3,888**
Encumbrances	$0	$0	$0	$0	$0

Fund Summary

Account Type	Revolving fund
How was the fund created?	Chapter 42, 42 Stat. 108 (1921)
Why was it created?	The fund is used to provide loans to Native Hawaiians leasing tracts of Hawaiian home lands and to pay the net proceeds when a homestead lease is cancelled or surrendered or when a lessee passes away without leaving a qualified successor.
Fund meets criteria?	This fund meets the criteria of a revolving fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from principal repayments of loans made from the fund. Interest payments are credited to the Hawaiian Home Operating Fund.
Expenditures	Expenditures include loans to Native Hawaiians leasing tracts of Hawaiian home lands and to pay net proceeds when a homestead lease is cancelled or surrendered or when a lessee passes away without leaving a qualified successor.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.

Hawaiian Home Operating Fund

Section 213(e), Hawaiian Homes Commission Act

Financial Data for Fiscal Years 2021 – 2025 (in thousands)*

	FY2021	FY2022	FY2023	FY2024	FY2025
Beginning Balance	$66,553	$59,575	$50,855	$54,802	$72,560
Revenues	16,652	17,331	23,622	31,383	17,959
Interest	46	41	96	158	138
Expenditures	(23,676)	(26,092)	(19,771)	(13,783)	(14,658)
Transfers	0	0	0	0	0
Ending Balance	**$59,575**	**$50,855**	**$54,802**	**$72,560**	**$75,999**
Encumbrances	$50,241	$43,522	$32,961	$41,087	$37,539

* This fund is the parent account and original source of revenue for one sub-account. The financial data presented is a consolidation of this fund and its sub-account.

Fund Summary

Account Type	Trust fund
How was the fund created?	Chapter 464, 62 Stat. 390 (1948), as amended by Act 27 (SLH 1998)
Why was it created?	The fund is used to support projects and activities that serve occupants on Hawaiian home lands.
Fund meets criteria?	This fund does *not* meet all the criteria of a trust fund because it functions more like a special fund, but continues to serve the purpose for which it was originally established. Pursuant to Act 27 (SLH 1998), this fund was reclassified from a special fund to a trust fund. ***The fund should be reclassified as a special fund.***
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from loan and investment interest from the Hawaiian Home Loan Fund, and all moneys received by the department from any other source, excluding funds prescribed in other funds within the Hawaiian Homes Commission Act.
Expenditures	Expenditures from the operating portion of the fund include construction, operation, and maintenance of revenue-producing activities; purchase of goods and services to be resold, rented or furnished on a charge basis to occupants of Hawaiian home lands; and the costs of appraisals, studies, and consultants to develop or operate projects. With the governor's approval, expenditures from the development portion of the fund include improvements and developments necessary to serve present and future occupants of Hawaiian home lands.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	Yes.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.

Hawaiian Home Receipts Fund

Section 213(g), Hawaiian Homes Commission Act

Financial Data for Fiscal Years 2021 – 2025 (in thousands)

	FY2021	FY2022	FY2023	FY2024	FY2025
Beginning Balance	$818	$331	$401	$611	$599
Revenues	3,130	4,350	4,444	3,498	3,092
Interest	752	535	2,691	5,090	4,974
Expenditures	(4,369)	(4,815)	(6,925)	(8,600)	(5,600)
Transfers	0	0	0	0	0
Ending Balance	**$331**	**$401**	**$611**	**$599**	**$3,065**
Encumbrances	$0	$0	$0	$0	$0

Fund Summary

Account Type	Trust fund
How was the fund created?	Act 229 (SLH 1978), as amended by Act 249 (SLH 1986) and Act 27 (SLH 1998)
Why was it created?	The fund was created to hold all interest moneys from loans or investments received by the department from any fund, except as provided for in each respective fund.
Fund meets criteria?	This fund does *not* meet all the criteria of a trust fund because it functions more like a trust account by holding interest moneys from loans and investments, with exceptions, before being transferred to other department funds. It continues to serve the purpose for which it was originally established. ***The fund should be reclassified as a trust account.***
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from all interest moneys from loans or investments received by the department from any fund, except as provided for in each respective fund.
Expenditures	At the end of each quarter, all moneys in this fund may be transferred to the Hawaiian Home Operating Fund, Hawaiian Home Administration Fund, Hawaiian Home Trust Fund, or any loan fund in accordance with rules adopted by the department.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.
Additional Information	In the past five reports since 2001, we have reported that this fund functions more like a trust account. In Report Nos. 15-15 and 20-16, we recommended the department reclassify this fund from a trust fund to a trust account. We maintain our recommendation.

Hawaiian Home Trust Fund

Section 213(h), Hawaiian Homes Commission Act

Financial Data for Fiscal Years 2021 – 2025 (in thousands)

	FY2021	FY2022	FY2023	FY2024	FY2025
Beginning Balance	$11,799	$11,809	$11,809	$40,124	$41,472
Revenues	10	0	28,315	1,348	941
Interest	0	0	0	0	0
Expenditures	0	0	0	0	0
Transfers	0	0	0	0	0
Ending Balance	**$11,809**	**$11,809**	**$40,124**	**$41,472**	**$42,413**
Encumbrances	$0	$0	$0	$0	$0

Fund Summary

Account Type	Trust fund
How was the fund created?	Act 229 (SLH 1978), as amended by Act 27 (SLH 1998)
Why was it created?	The fund is used as a reserve for loans insured or guaranteed by the Federal Housing Administration (FHA), Veterans Administration, or any other federal agency authorized to insure or guarantee loans for DHHL beneficiaries.
Fund meets criteria?	This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are premiums paid as a reserve for loans insured by the FHA 247 loan program. Reserves are set pursuant to a Memorandum of Understanding with the U.S. Department of Housing and Urban Development. Revenues are also from the sale of homes from reassigned loans insured by the FHA 247 loan program.
Expenditures	There were no expenditures during our review period, but the fund is used to pay off any claims DHHL receives from the U.S. Department of Housing and Urban Development on delinquent loans that DHHL beneficiaries have with outside lenders.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.

Hawaiian Home Trust Fund (Not in State Treasury)

Financial Data for Fiscal Years 2021 – 2025 (in thousands)

	FY2021	FY2022	FY2023	FY2024	FY2025
Beginning Balance	$1,808	$1,100	$1,099	$1,152	$1,228
Revenues	2,292	3,009	3,006	3,008	3,009
Interest	0	1	53	76	74
Expenditures	(3,000)	(3,011)	(3,006)	(3,008)	(3,009)
Transfers	0	0	0	0	0
Ending Balance	**$1,100**	**$1,099**	**$1,152**	**$1,228**	**$1,302**
Encumbrances	$0	$0	$0	$0	$0

Fund Summary

Account Type	Trust fund
How was the fund created?	Administratively established (2010)
Why was it created?	The fund is used to account for moneys related to Department of Hawaiian Home Lands Revenue Bonds, Series 2009, that are held outside of the State Treasury at Wells Fargo Bank.
Fund meets criteria?	This fund does *not* meet all the criteria of a trust fund because it functions more like a trust account, but continues to serve the purpose for which it was originally established. ***The fund should be reclassified as a trust account.***
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are moneys committed for debt service, maintenance of reserve accounts, and interest from investments of reserve accounts.
Expenditures	Expenditures include debt service payments for bonds. Moneys in the account are also used to maintain required reserves.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	No.

Native Hawaiian Rehabilitation Fund

Section 213(i), Hawaiian Homes Commission Act

Financial Data for Fiscal Years 2021 – 2025 (in thousands)

	FY2021	FY2022	FY2023	FY2024	FY2025
Beginning Balance	$6,558	$5,936	$5,939	$5,886	$6,072
Revenues	250	494	225	653	380
Interest	37	26	125	211	189
Expenditures	(909)	(517)	(403)	(678)	(961)
Transfers	0	0	0	0	0
Ending Balance	**$5,936**	**$5,939**	**$5,886**	**$6,072**	**$5,680**
Encumbrances	$1,114	$1,859	$2,356	$2,818	$1,907

Fund Summary

Account Type	Trust fund
How was the fund created?	Act 192 (SLH 1981), as amended by Act 27 (SLH 1998)
Why was it created?	The fund was created to finance activities intended to benefit Native Hawaiians.
Fund meets criteria?	This fund meets the criteria of a trust fund and continues to serve the purpose for which it was originally established.
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from leasing of former sugarcane fields on ceded lands and water licenses.
Expenditures	Expenditures include financing community-based projects and educational scholarship programs within the Native Hawaiian community, as well as costs associated with community capacity building.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	Not applicable, the fund was established pursuant to an act.

Security Deposits Clearing Account

Financial Data for Fiscal Years 2021 – 2025 (in thousands)

	FY2021	FY2022	FY2023	FY2024	FY2025
Beginning Balance	$2,805	$2,971	$3,043	$3,245	$3,163
Revenues	242	519	212	172	492
Interest	0	0	0	0	0
Expenditures	(76)	(447)	(10)	(254)	(26)
Transfers	0	0	0	0	0
Ending Balance	**$2,971**	**$3,043**	**$3,245**	**$3,163**	**$3,629**
Encumbrances	$0	$0	$0	$0	$71

Fund Summary

Account Type	Trust account
How was the account created?	Administratively established (1998)
Why was it created?	The account is used to hold security deposits for leased properties until they are refunded and hold transactions and payments with insufficient documentation until the purpose of the payment is determined. Moneys are also deposited into the account for community benefits on behalf of Hawaiian home associations.
Account meets criteria?	This account does *not* meet all the criteria of a trust account because it functions more like a trust fund, but continues to serve the purpose for which it was originally established. ***The account should be reclassified as a trust fund.***
Performance standards	No, the fund does not have performance standards.
Revenues	Revenues are from security deposits for leased properties, transactions, and payments with insufficient documentation to identify their purposes, and deposits on behalf of Hawaiian home associations.
Expenditures	Expenditures include refunds of security deposits, and dispositions of insufficiently documented payments once their purposes are determined.
Reported pursuant to Section 37-47, HRS	Yes.
Reported pursuant to Section 37-48, HRS	No.
Reported pursuant to Section 37-49, HRS	Yes.
Reported pursuant to Section 37-52.5, HRS	No.

Chapter 3
Observations on Reporting and Accounting for Funds

Special, revolving, and other types of non-general funds are not subject to the same level of legislative scrutiny as the General Fund. Accurate and complete reporting of all funds, as required by law, would greatly improve the Legislature's oversight and control of these funds and provide increased budgetary flexibility. Fund reports are one of the primary means through which the Legislature tracks non-general funds. The reports are used to monitor fund balances and identify excess moneys for possible transfer to the General Fund.

Non-General Funds Were Not Reported as Required by Law

Section 37-47, HRS, requires departments to submit to the Legislature an annual report of each non-general fund account, including information such as the intended purpose of the fund, current program activities supported by the fund, and financial data. The Director of Finance annually issues a memorandum requesting all departments complete and submit Form 37-47, *Report on Non-General Fund Information*, to the Department of Budget and Finance for each of their non-general funds. The Department of Budget and Finance compiles a report of all non-general fund accounts and submits it to the Legislature prior to the start of each legislative session.

Section 37-48, HRS, enacted by the Legislature through Act 87 in 2021, requires departments to submit to the Legislature an annual program measures report of each non-general fund account, including information such as program objectives, program activities, metrics for target population, and metrics for assessing effectiveness over the ensuing six fiscal years. The report must be filed no later than October 1 annually.

Section 37-49, HRS, also enacted by the Legislature through Act 87 in 2021, requires departments to submit to the Legislature an annual cost element report of each non-general fund account, including information such as budget details by cost element and non-general fund names and account codes for each item or object code. The report must be filed no later than October 1 annually.

Section 37-52.5, HRS, requires the Judiciary and any department that administratively establishes a new fund or account to submit a report to the Legislature. The report must be filed within 30 working days of a fund or account's creation and should include a justification for the

fund or account and identification of its sources of revenue. In addition, prior to the start of each legislative session, the law also requires each department to submit to the Legislature a listing of all administratively established funds or accounts along with a statement of their revenues, expenditures, encumbrances, and ending balances for each fund or account. This report is separate from the non-general fund report required under Section 37-47, HRS.

During our review, we noted noncompliance with statutory requirements to report program measures, as required by Section 37-48, HRS, and fund information for administratively established funds and accounts under Section 37-52.5, HRS.

As shown in Exhibit 3.1, DHHL had administratively created non-general funds with balances totaling approximately $4.9 million that were not reported to the Legislature as required by Section 37-52.5, HRS, and non-general funds with balances totaling $261.3 million that were not reported to the Legislature as required by Section 37-48, HRS.

Exhibit 3.1
Non-General Funds and Administratively Created Funds Not Reported to the Legislature

Fund Name	Fund Type	HRS 37-47 (Non-General)	FY2025 Ending Balance (rounded)	HRS 37-48 (Non-General Program Measures)	FY2025 Ending Balance (rounded)	HRS 37-49 (Non-General Cost Element)	FY2025 Ending Balance (rounded)	HRS 37-52.5 (Admin Created)	FY2025 Ending Balance (rounded)
Department of Hawaiian Home Lands Revenue Bond Special Fund	Special Fund			✓	$12,218,000				
Hawaiian Home General Loan Fund	Revolving Fund			✓	57,581,000				
Hawaiian Home Lands Trust Fund	Trust Fund			✓	131,507,000				
Hawaiian Home Loan Fund	Revolving Fund			✓	3,888,000				
Hawaiian Home Receipts Fund	Trust Fund			✓	3,065,000				
Hawaiian Home Trust Fund	Trust Fund			✓	42,413,000				
Hawaiian Home Trust Fund (Not in State Treasury)	Trust Fund			✓	1,302,000			✓	$1,302,000
Native Hawaiian Rehabilitation Fund	Trust Fund			✓	5,680,000				
Security Deposits Clearing Account	Trust Account			✓	3,629,000			✓	3,629,000
Total			**$0**		**$261,283,000**		**$0**		**$4,931,000**

Source: Office of the Auditor

Office of the Auditor's Comments on the Department of Hawaiian Home Lands' Response

Comments on Agency Response

The Department of Hawaiian Home Lands (DHHL) provided written comments to the draft report, generally agreeing with the findings but disagreeing with our recommendations for four of the funds and accounts. We subsequently met with the DHHL Deputy to the Chairman and their staff to discuss the draft report and their comments. Their written response and our discussion did not change our conclusions and recommendations. DHHL's comments are attached in their entirety as Attachment 1.

DHHL does not agree that the Hawaiian Home Operating Fund should be reclassified as a Special Fund. Section 37-62, HRS, defines a special fund as one that is "dedicated or set aside by law for a specified object or purpose, but excluding revolving funds and trust funds." Based on the information provided by DHHL for the revenue sources and expenditures of the fund, we maintain our conclusion that it functions more like a special fund and should be reclassified as such.

DHHL does not agree that the Hawaiian Home Receipts Fund should be reclassified as a trust account and believes that any reclassification would require Congressional consent. However, during our meeting, we explained that the recommended change would only be internal and, in our opinion, would not require Congressional consent, as FAMIS does not differentiate between trust funds and trust accounts –the means of financing or MOF for both trust funds and trust accounts is designated as "T" in FAMIS. However, the Department of Accounting and General Services defines trust accounts as a separate holding or clearing account for state agencies. The Hawaiian Home Receipts Fund is a temporary holding account for interest moneys from loans and investments before those moneys are transferred to other department funds. Therefore, we maintain our conclusion that the Hawaiian Home Receipts Fund functions like a trust account and should be reclassified as such.

DHHL does not agree that the Hawaiian Home Trust Fund (Not in State Treasury) should be reclassified as a trust account. As explained above, trust accounts are defined as a separate holding or clearing account for state agencies. Since the fund holds reserve funds pursuant to the requirements of revenue bonds, it should be classified as a trust account.

DHHL does not agree that the Security Deposits Clearing Account should be reclassified as a trust fund. Section 37-62, HRS, defines a trust fund as one in which "designated persons or classes of persons have a vested beneficial interest or equitable ownership, or which was created or established by a gift, grant, contribution, devise or bequest that limits the use of the fund to designated objects or purposes." Trust funds invoke a fiduciary responsibility of state government to care for and use the assets held only for those designated to benefit from the funds. The security deposits are held in trust for the future benefit of tenants and landlords. For that reason, we maintain that the account functions more like a trust fund and should be reclassified as such.

During the exit conference, DHHL advised us that they mistakenly identified the Act 279 Special Fund as a sub-account of the Hawaiian Home Administration Account and requested that the fund be removed as a sub-account. DHHL advised that the Act 279 Special Fund was an appropriation fund only, which would have otherwise been excluded from our review. We removed the fund and its financial activities from the Hawaiian Home Administration Account, including approximately $228.5 million in revenues, $24.6 million in expenditures, and $93.3 million in encumbrances.

Lastly, DHHL concurred with our findings that nine funds were not reported pursuant to either Section 37-48 or 37-52.5, HRS, and will take appropriate measures to ensure compliance.

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
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HONOLULU, HAWAII 96805

January 22, 2026

The Honorable Leslie H. Kondo
Auditor, State of Hawaii
465 S. King Street, Room 500
Honolulu, Hawaii 96813-2917

Dear Mr. Kondo:

Subject: 2025 Review of Special Funds, Revolving Funds, Trust Funds and Trust Accounts of the Department of Hawaiian Home Lands

Thank you for the opportunity to comment on the State Auditor's draft report, Review of Special Funds, Revolving Funds, Trust Funds and Trust Accounts of the Department of Hawaiian Home Lands. We are in general agreement with the findings of the review. However, we would like to highlight several areas where the department does not concur.

1. Exhibit 2.3, "DHHL Funds Not Meeting Criteria" on Page 9 should be amended. DHHL does not agree that 1)the Hawaiian Home Operating Fund is not a Trust Fund and should be reclassified to a Special Fund, 2)the Hawaiian Home Receipts Fund is an account and not a fund, 3)the Hawaiian Home Trust Fund(Not in State Treasury) is an account and not a fund and 4)the Security Deposits Clearing Account is a fund and not a Trust Account.

   The Hawaiian Home Operating Fund is split into two separate portions the Operating portion which includes expenditures for construction, operation and maintenance of department owned water systems on the islands of Kauai, Molokai and Hawaii island, appraisals, etc.. The development portion expenditures include specified operational costs as authorized by Section 213(e) of the Hawaiian Homes Commission Act.

   The Hawaiian Home Receipts Fund is an important component in the accounting of mortgage loan interest receivable and investment income accounts that reflect complex and integrated transactions with DHHL programs. Any reclassification of this trust fund to a trust account would require Congressional consent as this would be a monumental change for the trust.

   The Hawaiian Home Trust Fund (Not in State Treasury) was administratively created by DAGS to report DHHL's Revenue Bond Special Funds reserve funds outside of the State

Treasury with a Revenue Bond Trustee pursuant to a bond resolution between the bondholders and DHHL.

The Security Deposits Clearing Account includes security deposits for commercial lessees until refunded, payments received with insufficient documentation which are transferred out when it is determined what the payment is actually for and can be credited to the correct fund and monies received on behalf of various Hawaiian Homestead Associations for community benefits.

2. For Exhibit 3.1, as shown on page 23, we concur the noncompliance with statutory requirements to report program measures, as required by Section 37-48, HRS and administratively created non-general funds, as required by Section 37-52.5. HRS. We will take corrective action to make sure that the required information will be reported under Section 37-48, HRS and Section 37-52.5, HRS in the future.

We appreciate the opportunity to comment on the draft report and are pleased with the diligent review performed on the department's special revolving and trust funds.

Aloha,

Kali Watson

Kali Watson, Chairperson
Hawaiian Homes Commission