

**DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII**

FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT

Fiscal Year Ended June 30, 2018

**Submitted by
The Auditor
State of Hawaii**

**DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII**

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**DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII**

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PART I
FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

The Auditor
State of Hawaii

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Land and Natural Resources of the State of Hawaii (Department) as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2018, and the respective changes in financial position, and the respective budgetary comparison for each major fund for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Relationship to the State of Hawaii

As discussed in Note A, the financial statements of the Department are intended to present the financial position, the changes in financial position, and budgetary comparisons of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information 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, 2018, and the changes in its financial position and budgetary comparisons, for the fiscal 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.

Correction of an Error

As discussed in Note O to the basic financial statements, the 2017 financial statements have been restated to correct misstatements for amounts due to and from the Capital Projects Fund and understatement of bonds payable. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 - 18 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial

statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and is not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements 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 January 8, 2020, 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 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.

N&K CPAs, Inc.

Honolulu, Hawaii
January 8, 2020

**Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2018**

As management of the Department of Land and Natural Resources (the DLNR), we offer readers of these financial statements this narrative overview and analysis of the financial activities of DLNR for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the financial statements, which follows this section.

FINANCIAL HIGHLIGHTS FOR THE FISCAL YEAR 2018

- The assets of the DLNR exceeded its liabilities at June 30, 2018, by \$749.4 million. Of this amount, \$239.3 million is unrestricted and may be used to meet the DLNR's ongoing obligations.
- As of June 30, 2018, the DLNR's governmental funds reported a combined ending fund balance of \$276.3 million.
- During the fiscal year ended June 30, 2018, the DLNR's governmental funds total revenue (net) was \$207.4 million and expenses totaled \$187.9 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the DLNR basic financial statements. The basic financial statements are comprised of three (3) components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional supplementary information. These components are described below:

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the DLNR's finances, in a manner similar to a private-sector business. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The government-wide financial statements include two statements:

- The *Statement of Net Position* presents information on all of the DLNR's assets and liabilities, with the difference between the two reported as "net position." Increases and decreases in the net position serve as a useful indicator of whether the financial position of the DLNR is improving or deteriorating.
- The *Statement of Activities* presents information showing how the DLNR's net position changed during the most recent fiscal year.

Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2018

Fund Financial Statements

The fund financial statements provide more detailed information about the DLNR's most significant funds and not the DLNR as a whole. The financial activities of the DLNR are recorded in individual funds, each of which is deemed to be a separate accounting entity. Funds are either reported as major funds or non-major funds. The Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*, which sets forth the minimum criteria for the determination of major funds. The non-major funds are combined in a column in the fund financial statements and are detailed in the combining section of the financial statements.

The DLNR has two types of funds: governmental funds and fiduciary funds.

- Governmental Funds - These funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental 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.

The DLNR presents five major funds in the fund financial statement: (1) General Fund, (2) Federal Grant Fund, (3) Ocean-Based Recreation Fund, (4) Special Land and Development Fund, and (5) Capital Projects Fund.

The DLNR has an annual appropriated budget for its general and federal grant funds. A budgetary comparison schedule has been provided for these funds to demonstrate compliance with the budget.

- Fiduciary Funds - These funds account for assets held by the DLNR in a trustee or agent capacity for other State departments, individuals, and organizations.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information including combining financial statements referred to earlier in connection with other non-major Governmental Funds.

Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2018

DEPARTMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net position may serve over time as a useful indicator of the DLNR's financial position. As of the year ended June 30, 2018, the DLNR's total net position was approximately \$749.4 million.

The largest part of the DLNR's net position reflects its investment in capital assets (land, buildings, improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The DLNR uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the DLNR's investment in 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 themselves cannot be used to liquidate these liabilities.

The following is a comparative statement of net position:

Government-wide Statements of Net Position
Fiscal years 2018 and 2017
(Amounts in millions)

	Governmental activities		Increase (decrease)
	2018	2017	
Assets:			
Current	\$ 303.2	\$ 284.4	\$ 18.8
Noncurrent (capital assets, net of depreciation)	<u>518.1</u>	<u>514.5</u>	<u>3.6</u>
Total assets	<u>\$ 821.3</u>	<u>\$ 798.9</u>	<u>\$ 22.4</u>
Liabilities:			
Current	\$ 29.9	\$ 25.7	\$ 4.2
Noncurrent	<u>42.0</u>	<u>9.1</u>	<u>32.9</u>
Total liabilities	<u>71.9</u>	<u>34.8</u>	<u>37.1</u>
Net position:			
Investment in capital assets	481.8	513.1	(31.3)
Restricted	28.3	29.1	(0.8)
Unrestricted	<u>239.3</u>	<u>221.9</u>	<u>17.4</u>
Total net position	<u>749.4</u>	<u>764.1</u>	<u>(14.7)</u>
Total liabilities and net position	<u>\$ 821.3</u>	<u>\$ 798.9</u>	<u>\$ 22.4</u>

Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2018

The DLNR's net position decreased by \$14.7 million for the year ended June 30, 2018. The \$31.3 million decrease in investment in capital assets is primarily due to the recognition of previously unrecorded debt. The \$17.4 million increase in unrestricted net position is due to additional appropriations from the Legislature and an increase in allotments for specific appropriations to provide more funding for various programs.

Analysis of the DLNR's Operations: The following table provides a summary of the DLNR's operations for the year ended June 30, 2018:

Government-wide Changes in Net Position Fiscal years 2018 and 2017 (Amounts in millions)			
	<u>Governmental activities</u>		<u>Increase</u>
	<u>2018</u>	<u>2017</u>	<u>(decrease)</u>
Revenues:			
Program revenues:			
Charges for services	\$ 49.8	\$ 41.0	\$ 8.8
Operating grants and contributions	28.8	35.1	(6.3)
Capital grants and contributions	0.5	3.9	(3.4)
General revenues:			
State allotted appropriations, net of lapses	99.0	72.0	27.0
Non-imposed employee wages and fringe benefits	15.2	13.2	2.0
Conveyance taxes	6.8	6.8	0.0
Liquid fuel taxes	2.0	1.9	0.1
Transient accommodations taxes	4.5	2.4	2.1
Interest and investment earnings	0.7	0.7	--
Total	\$ 207.3	\$ 177.0	\$ 30.3
Transfers, net	\$ 0.5	(3.7)	4.2
Expenses:			
Economic development	\$ 23.6	20.9	2.7
Environmental protection	78.2	81.9	(3.7)
Cultural and recreation	62.1	59.3	2.8
Public safety	4.3	3.4	0.9
Individual rights	5.2	5.5	(0.3)
Government wide support	10.6	18.7	(8.1)
Total	184.0	189.7	(5.7)
Change in net position	\$ 23.8	\$ (16.4)	\$ 40.2
Net Position:			
Beginning of year	\$ 764.1	\$ 780.5	\$ (16.4)
Prior period adjustment	(38.5)	--	(38.5)
Beginning of year , as restated	\$ 725.6	\$ 780.5	\$ (54.9)
End of year	\$ 749.4	\$ 764.1	\$ (14.7)

**Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2018**

The DLNR's results of operations for the year ended June 30, 2018 resulted in a decrease in net position of \$14.7 million.

There was an \$8.8 million increase in charges for services and decreases of \$6.3 million and \$3.4 million in operating grants and contributions and capital grants and contributions. The increase of \$27.0 million in State allotted appropriations, net of lapses, is a result of additional funding appropriated by the legislature to cover costs of various programs. There was a decrease of \$5.7 million in total expenditures mainly due to cost savings resulting from vacant positions and increased restrictions on general spending.

FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS

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. As noted earlier, the DLNR uses fund accounting to ensure and demonstrate compliance with finance and related legal requirements.

The General Fund is the primary operating fund of the DLNR. As of June 30, 2018, there was a \$15.1 million encumbrance balance that remained after the current year's net gain in the General Fund and is reflected as assigned fund balance in accordance with GASB Statement No. 54.

The DLNR has three major and several non-major special funds. A fund is categorized as major if the percentages of its assets, liabilities, revenues, or expenditures exceed pre-defined percentages when compared to the corresponding total of all funds in that category. The DLNR's three major special revenue funds are 1) Federal Grant Fund, 2) Ocean-Based Recreation Fund, and 3) Special Land Development Fund.

The Federal Grant Fund accounts for funds received from a variety of federal grantor agencies for specific purposes ranging from restoration, protection, and acquisition of natural resources to assistance following a natural disaster. Total federal grant expenditures for the year approximated \$24.3 million from nearly 147 individual grants.

The Ocean-Based Recreation Fund accounts for revenues collected to implement the boating and ocean recreation program. Deposits into this fund include a portion of the liquid fuel tax used by recreational boaters. Revenues were approximately \$18.9 million and expenditures were approximately \$14.4 million.

The Special Land Development Fund accounts for revenues collected from general lease rents, sales of easements, rents from the issuance of right-of-entry permits and revocable permits, and other administrative charges. The fund also receives a portion of the highway fuel tax and transient accommodations tax revenues. Revenues were approximately \$20.8 million and expenditures were approximately \$8.0 million.

The Capital Projects Fund received approximately \$45.5 million in State allotted appropriations, net of lapses, and federal grants for capital projects. Capital projects funds are used to account for financial resources to acquire or construct major capital facilities.

Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2018

Within the governmental fund financial statements, the overall net change in fund balance, for the fiscal year ended June 30, 2018, was \$16.7 million, net of prior period adjustments.

Presented in the following tables are condensed summary comparison of the balance sheets and statements of revenues and expenses for the governmental funds.

Comparison of Balance Sheets (in millions)										
	Assets			Liabilities			Fund Balances			
	2018	2017	Change	2018	2017	Change	2018	2017	Change	
General Fund	\$ 19.7	\$ 19.4	\$ 0.3	\$ 4.6	\$ 4.1	\$ 0.5	\$ 15.1	\$ 15.3	\$ (0.2)	
Federal Grant Fund	12.3	11.5	0.8	12.3	11.5	0.8	--	--	--	
Ocean-Based Recreation Fund	13.6	11.2	2.4	1.8	1.5	0.3	11.8	9.7	2.1	
Special Land Development Fund	25.5	18.5	7.0	1.5	1.7	(0.2)	24.0	16.8	7.2	
Capital Projects Fund	141.2	137.5	3.7	9.8	5.9	3.9	131.4	131.6	(0.2)	
Other Governmental Funds	95.5	88.1	7.4	1.5	1.9	(0.4)	94.0	86.2	7.8	
Total	\$ 307.8	\$ 286.2	\$ 21.6	\$ 31.5	\$ 26.6	\$ 4.9	\$ 276.3	\$ 259.6	\$ 16.7	

Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2018

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

	Gross Appropriations			Lapsed Appropriations			Other Revenues			Net Revenues		
	2018	2017	Change	2018	2017	Change	2018	2017	Change	2018	2017	Change
General Fund	\$ 55.2	\$ 57.9	\$ (2.7)	\$ 1.2	\$ 5.8	\$ (4.6)	\$ 15.2	13.2	2.0	\$ 69.2	\$ 65.3	\$ 3.9
Federal Grant Fund	--	--	--	--	--	--	24.3	21.6	2.7	24.3	21.6	2.7
Ocean-Based Recreation Fund	--	--	--	--	--	--	18.9	16.7	2.2	18.9	16.7	2.2
Special Land Development Fund	--	--	--	--	--	--	20.8	16.6	4.2	20.8	16.6	4.2
Capital Projects Fund	51.8	21.6	30.2	6.8	1.7	5.1	0.5	3.9	(3.4)	45.5	23.8	21.7
Other Governmental Funds	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>28.7</u>	<u>33.0</u>	<u>(4.3)</u>	<u>28.7</u>	<u>33.0</u>	<u>(4.3)</u>
Total	\$ <u>107.0</u>	\$ <u>79.5</u>	\$ <u>27.5</u>	\$ <u>8.0</u>	\$ <u>7.5</u>	\$ <u>0.5</u>	\$ <u>108.4</u>	\$ <u>105.0</u>	\$ <u>3.4</u>	\$ <u>207.4</u>	\$ <u>177.0</u>	\$ <u>30.4</u>

Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2018

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

	Net Revenues			Expenditures			Net Transfers			Net Changes in Fund Balance		
	2018	2017	Change	2018	2017	Change	2018	2017	Change	2018	2017	Change
General Fund	\$ 69.2	\$ 65.3	\$ 3.9	\$ 69.4	\$ 68.1	\$ 1.3	\$ --	\$ --	\$ --	\$ (0.20)	\$ (2.80)	\$ 2.60
Federal Grant Fund	24.3	21.6	2.7	24.3	21.6	2.7	--	--	--	--	--	--
Ocean-Based Recreation Fund	18.9	16.7	2.2	14.4	16.8	(2.4)	(2.4)	(2.0)	(0.4)	2.1	(2.1)	4.2
Special Land Development Fund	20.8	16.6	4.2	8.0	9.5	(1.5)	(7.5)	(3.6)	(3.9)	5.3	3.5	1.8
Capital Projects Fund	45.5	23.8	21.7	43.7	54.9	(11.2)	2.0	(3.7)	5.7	3.8	(34.8)	38.6
Other Governmental Funds	<u>28.7</u>	<u>33.0</u>	<u>(4.3)</u>	<u>28.1</u>	<u>33.8</u>	<u>(5.7)</u>	<u>8.4</u>	<u>5.6</u>	<u>2.8</u>	<u>9.0</u>	<u>4.8</u>	<u>4.2</u>
Total	\$ <u>207.4</u>	\$ <u>177.0</u>	\$ <u>30.4</u>	\$ <u>187.9</u>	\$ <u>204.7</u>	\$ <u>(16.8)</u>	\$ <u>0.5</u>	\$ <u>(3.7)</u>	\$ <u>4.2</u>	\$ <u>20.0</u>	\$ <u>(31.4)</u>	\$ <u>51.4</u>

**Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2018**

FINANCIAL ANALYSIS OF THE DEPARTMENT'S FIDUCIARY NET POSITION

These agency funds account for assets held by the DLNR in a trustee or agent capacity for other State departments, individuals, and organizations.

Comparison of Statements of Fiduciary Net Position - Agency Funds
(in millions)

	2018	Agency Funds 2017	Change
ASSETS			
Cash and short-term cash investments held in State Treasury	\$ 11.9	\$ 34.8	\$ (22.9)
Receivables:			
General leases and licenses, net of allowances	<u>0.7</u>	<u>0.9</u>	<u>(0.2)</u>
Total Assets	\$ <u>12.6</u>	\$ <u>35.7</u>	\$ <u>(23.1)</u>
LIABILITIES			
Due to State Treasury	\$ 6.5	\$ 30.1	\$ (23.6)
Due to other State Agencies	1.2	0.6	0.6
Unearned revenues	1.1	1.3	(0.2)
Deposits	<u>3.8</u>	<u>3.7</u>	<u>0.1</u>
Total Liabilities	\$ <u>12.6</u>	\$ <u>35.7</u>	\$ <u>(23.1)</u>

In compliance with Executive Order 06-06, which carries out the requirements of Act 178, SLH 2006, the DLNR established holding accounts to accumulate the general fund's share of receipts derived from the use of ceded land. The DLNR uses these funds to cover the difference in payments made by all state agencies and the total amount owed to the Office of Hawaiian Affairs. During fiscal year 2018, cash and short term investments decreased by \$22.9 million due to the remittance of excess funds to the State of Hawaii treasury. Additionally, the DLNR transferred \$26.6 million to the State of Hawaii general fund, representing its portion of ceded land proceeds.

BUDGETARY HIGHLIGHTS

General Fund - Actual expenditures for general funded programs were \$2.9 million less than the budgeted expenditures due to budget restrictions and vacancy savings.

Federal Funds - Federal grants usually require that the DLNR expend funds first then submit a claim. Therefore, if expenditures are lower than expected, then actual revenue will similarly be lower than budgeted. Lower than budgeted expenditures may be the result of project reprioritizations and/or staff shortages.

**Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2018**

Ocean-Based Recreation Fund - This special fund is the primary operating fund for the Division of Boating and Ocean Recreation (DOBOR). Actual expenditures for the DOBOR were \$4.1 million less than the budgeted expenditures mainly due to the vacant positions and their corresponding fringe benefits. Expenditures of this special fund are supported by the revenue it generates; a lower than anticipated revenue collection means curtailment of its expenditures, resulting in expenditure levels being less than budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

As of June 30, 2018, the DLNR had invested approximately \$518.1 million (net of accumulated depreciation) in a broad range of capital assets. There was a net increase of \$3.6 million as of the year ended June 30, 2018. A major portion of the change is due to a \$12.2 million increase in non-depreciable assets, resulting from \$22.4 million of construction in progress costs offset by \$10.2 million of projects completed. Depreciable assets increased by \$13.4 million resulting from a \$10.5 million increase in land improvements, a \$2.1 million net increase in furniture and equipment, a \$0.4 million net increase in vehicles, and a \$0.4 million increase in buildings and improvements.

See Note E to the financial statements for a description of capital assets activities for the fiscal year ended June 30, 2018.

Long-term obligations consist of accrued vacation and State of Hawaii reimbursable general obligation bonds.

Post-retirement health care and insurance benefits paid by the State on behalf of the DLNR for the fiscal years ended June 30 2018, 2017, and 2016 was approximately \$4,137,000, \$3,476,000, and \$4,005,000, respectively.

The accrued vacation balance as of June 30, 2018 was \$8.5 million, a decrease of \$0.5 million from fiscal year 2017. As of June 30, 2018, the value attributed to fringe benefits was \$15.2 million.

The outstanding balance of the State of Hawaii general obligation bonds allocated to the DLNR is approximately \$36.2 million as of June 30, 2018. These bonds are backed by the full faith, credit, and taxing power of the State. Repayment of allocated bond debts is made to the State of Hawaii general fund.

The recognition of 2016 series EU general obligation bonds have resulted in a prior period adjustment to the DLNR beginning net position as of July 1, 2017. See Note O to the financial statements for additional details.

See Note H to the financial statements for a description of the outstanding State of Hawaii general obligation bonds allocated to the DLNR as of June 30, 2018.

**Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2018**

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

For the period ended June 30, 2018, management has determined that there are currently no known facts, decisions, or conditions that would have a material financial impact on the DLNR.

FINANCIAL CONTACT

This financial report is designed to provide a general overview of the DLNR's finances for all interested parties. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Department of Land and Natural Resources, Administrative Services Office, P.O. Box 621, Honolulu, Hawaii 96809.

Department of Land and Natural Resources
State of Hawaii
STATEMENT OF NET POSITION
June 30, 2018

	<u>Governmental Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 299,556,639
Receivables	
Federal grants	2,889,717
General leases and licenses, net of allowance for losses of \$1,097,462	<u>766,260</u>
Total current assets	303,212,616
Noncurrent assets	
Capital assets, net of accumulated depreciation	<u>518,060,362</u>
Total noncurrent assets	<u>518,060,362</u>
Total assets	<u>\$ 821,272,978</u>
LIABILITIES AND NET POSITION	
Current liabilities	
Vouchers and contracts payable	\$ 9,629,481
Accrued wages and employee benefits	3,561,861
Interest payable	253,855
Accrued compensated absences, current portion	2,992,542
General obligation bonds, current portion	1,658,407
Due to other State agencies	824,748
Due to State Treasury	7,253,221
Unearned revenues	<u>3,747,895</u>
Total current liabilities	29,922,010
Noncurrent liabilities	
General obligation bonds, less current portion	34,567,561
Accrued compensated absences, less current portion	5,474,445
Note payable to State Treasury	<u>1,909,135</u>
Total noncurrent liabilities	<u>41,951,141</u>
Total liabilities	<u>71,873,151</u>
Net position	
Net investment in capital assets	481,834,394
Restricted	28,272,280
Unrestricted	<u>239,293,153</u>
Total net position	<u>749,399,827</u>
Total liabilities and net position	<u>\$ 821,272,978</u>

See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources
State of Hawaii
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2018**

		Program revenues			Net revenue (expenses) and change in net position
			Operating, Grants and Contributions	Capital Grants and Contributions	Governmental activities
	Expenses	Charges for Services			
Governmental activities:					
Economic development	\$ 23,605,198	\$ 641,955	\$ 1,350,322	\$ --	\$ (21,612,921)
Environmental protection	78,235,768	290,361	19,594,194	--	(58,351,213)
Cultural and recreation	62,103,388	22,434,183	7,338,083	529,670	(31,801,452)
Public safety	4,289,959	602,497	494,110	--	(3,193,352)
Individual rights	5,249,719	8,189,514	3,764	--	2,943,559
Government-wide support	10,605,716	17,654,754	63,747	--	7,112,785
Total governmental activities	\$ <u>184,089,748</u>	\$ <u>49,813,264</u>	\$ <u>28,844,220</u>	\$ <u>529,670</u>	\$ (104,902,594)
General revenues:					
					99,002,969
					15,193,351
					6,800,000
					1,971,559
					4,500,000
					746,719
			Total general revenues		<u>128,214,598</u>
			Transfers		<u>528,960</u>
			Change in net position		23,840,964
			Net position at June 30, 2017, as previously reported		764,120,965
			Prior period adjustment		<u>(38,562,102)</u>
			Net position at June 30, 2017, as restated		<u>725,558,863</u>
			Net position at June 30, 2018		\$ <u>749,399,827</u>

See accompanying notes to the basic financial statements.

Department of Land and Natural Resources
State of Hawaii
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	<u>General Fund</u>	<u>Federal Grant Fund</u>	<u>Ocean-Based Recreation Fund</u>	<u>Special Land Development Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:							
Cash and cash equivalents	\$ 19,742,986	\$ 9,437,625	\$ 11,758,584	\$ 23,495,314	\$ 141,249,998	\$ 93,872,132	\$ 299,556,639
Receivables:							
Federal grants	--	2,889,717	--	--	--	--	2,889,717
General leases and licenses, net of allowance for losses	--	--	609,087	26,545	--	130,628	766,260
Due from other State agencies	--	--	--	--	--	35,750	35,750
Due from Capital Projects Fund	--	--	--	1,999,986	--	--	1,999,986
Due from Federal Grant Fund	--	--	1,244,841	--	--	1,328,463	2,573,304
Total assets	<u>\$ 19,742,986</u>	<u>\$ 12,327,342</u>	<u>\$ 13,612,512</u>	<u>\$ 25,521,845</u>	<u>\$ 141,249,998</u>	<u>\$ 95,366,973</u>	<u>\$ 307,821,656</u>
LIABILITIES:							
Vouchers and contracts payable	\$ 2,296,046	\$ 2,010,793	\$ 532,390	\$ 27,882	\$ 4,188,990	\$ 573,380	\$ 9,629,481
Accrued wages and employee benefits payable	2,313,693	196,427	315,888	203,988	--	531,865	3,561,861
Due to State Treasury	--	5,359,076	--	--	1,894,145	--	7,253,221
Due to other State agencies	--	--	680,283	17,485	--	162,730	860,498
Due to other governmental funds	--	2,573,304	--	--	1,999,986	--	4,573,290
Unearned revenue	--	1,837,742	317,592	1,209,094	111,962	271,505	3,747,895
Notes payable to State Treasury	--	350,000	--	--	1,559,135	--	1,909,135
Total liabilities	<u>4,609,739</u>	<u>12,327,342</u>	<u>1,846,153</u>	<u>1,458,449</u>	<u>9,754,218</u>	<u>1,539,480</u>	<u>31,535,381</u>
FUND BALANCES:							
Restricted	--	--	--	--	--	28,272,280	28,272,280
Committed	--	--	11,766,359	24,063,396	--	65,555,213	101,384,968
Assigned	15,133,247	--	--	--	131,495,780	--	146,629,027
Unassigned	--	--	--	--	--	--	--
Total fund balances	<u>15,133,247</u>	<u>--</u>	<u>11,766,359</u>	<u>24,063,396</u>	<u>131,495,780</u>	<u>93,827,493</u>	<u>276,286,275</u>
Total liabilities and fund balances	<u>\$ 19,742,986</u>	<u>\$ 12,327,342</u>	<u>\$ 13,612,512</u>	<u>\$ 25,521,845</u>	<u>\$ 141,249,998</u>	<u>\$ 95,366,973</u>	<u>\$ 307,821,656</u>

See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources
State of Hawaii
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018**

Total fund balances - governmental funds		\$ 276,286,275
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capital Assets		
Governmental capital assets	\$ 765,312,232	
Less accumulated depreciation	<u>(247,251,870)</u>	518,060,362
Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.		(8,466,987)
Interest payable is expensed on the government-wide statement of activities		(253,855)
Bonds payable is not due in the current period and, therefore, is not reported in the funds.		<u>(36,225,968)</u>
Net position of governmental activities		\$ <u>749,399,827</u>

See accompanying notes to the basic financial statements.

Department of Land and Natural Resources
State of Hawaii
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2018

	General Fund	Federal Grant Fund	Ocean-Based Recreation Fund	Special Land Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:							
State allotments, net	\$ 54,012,576	\$ --	\$ --	\$ --	\$ 44,990,393	\$ --	\$ 99,002,969
Nonimposed employee fringe benefits	15,193,351	--	--	--	--	--	15,193,351
Intergovernmental revenue	--	24,091,437	--	--	529,670	--	24,621,107
General leases, licenses and permits	--	--	15,965,451	17,597,274	--	4,792,807	38,355,532
Fees and service charges	--	--	1,093,721	57,480	--	10,306,531	11,457,732
Taxes, fuel and others	--	--	1,721,559	3,000,000	--	8,550,000	13,271,559
Interest	--	3,420	55,955	119,878	1,171	566,295	746,719
Other	--	223,600	13,543	63,747	--	4,451,895	4,752,785
Total revenues	<u>\$ 69,205,927</u>	<u>24,318,457</u>	<u>18,850,229</u>	<u>20,838,379</u>	<u>45,521,234</u>	<u>28,667,528</u>	<u>207,401,754</u>
EXPENDITURES:							
Economic development	6,950,064	2,202,190	--	--	--	1,705,363	10,857,617
Environmental protection	48,065,750	14,774,974	--	--	--	9,503,556	72,344,280
Culture and recreation	14,011,076	6,871,580	14,128,256	--	--	8,752,225	43,763,137
Public safety	--	466,183	--	--	--	1,268,796	1,734,979
Individual rights	--	--	--	--	--	5,189,092	5,189,092
Government-wide support	336,788	--	--	8,008,943	--	679,236	9,024,967
Capital improvement projects	--	--	--	--	43,732,951	--	43,732,951
Debt Service:							
Principal on long-term debt	--	--	180,601	--	--	--	180,601
Interest on long-term debt	--	--	68,542	--	--	1,015,419	1,083,961
Total expenditures	<u>69,363,678</u>	<u>24,314,927</u>	<u>14,377,399</u>	<u>8,008,943</u>	<u>43,732,951</u>	<u>28,113,687</u>	<u>187,911,585</u>
Excess (deficiency) of revenues over expenditures	<u>(157,751)</u>	<u>3,530</u>	<u>4,472,830</u>	<u>12,829,436</u>	<u>1,788,283</u>	<u>553,841</u>	<u>19,490,169</u>
OTHER FINANCING SOURCES (USES):							
Transfers in	--	--	20,178,704	1,870,189	2,003,530	58,505,288	82,557,711
Transfers out	--	(3,530)	(22,524,327)	(9,404,996)	--	(50,095,898)	(82,028,751)
Total other financing sources (uses)	<u>--</u>	<u>(3,530)</u>	<u>(2,345,623)</u>	<u>(7,534,807)</u>	<u>2,003,530</u>	<u>8,409,390</u>	<u>528,960</u>
Net change in fund balances	<u>(157,751)</u>	<u>--</u>	<u>2,127,207</u>	<u>5,294,629</u>	<u>3,791,813</u>	<u>8,963,231</u>	<u>20,019,129</u>
Fund balances, beginning of year as previously reported	15,290,998	--	9,639,152	16,768,781	131,568,049	86,308,413	259,575,393
Prior period adjustment	--	--	--	1,999,986	(3,864,082)	(1,444,151)	(3,308,247)
Fund balances, beginning of year, as restated	<u>15,290,998</u>	<u>--</u>	<u>9,639,152</u>	<u>18,768,767</u>	<u>127,703,967</u>	<u>84,864,262</u>	<u>256,267,146</u>
Fund balances, end of year	<u>\$ 15,133,247</u>	<u>\$ --</u>	<u>\$ 11,766,359</u>	<u>\$ 24,063,396</u>	<u>\$ 131,495,780</u>	<u>\$ 93,827,493</u>	<u>\$ 276,286,275</u>

See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources
State of Hawaii
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2018**

Net change in fund balances - total government funds	\$	20,019,129
--	----	------------

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

Governmental funds report capital outlays as expenditures.
However, in the statement of activities the cost of those
assets are depreciated over their estimated useful lives
as depreciation expense.

Expenditures for capital assets	\$	26,280,513	
Less current fiscal year depreciation		<u>(22,677,568)</u>	3,602,945

Change in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds		38,289
--	--	--------

Bond principal retirements		<u>180,601</u>
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Change in net position of governmental activities	\$	<u>23,840,964</u>
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See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND
Fiscal Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State allotments	\$ <u>57,573,925</u>	\$ <u>58,067,386</u>	\$ <u>55,199,230</u>	\$ <u>(2,868,156)</u>
EXPENDITURES				
Economic development	6,665,613	6,812,462	6,215,284	597,178
Environmental protection	39,756,652	39,615,111	38,247,278	1,367,833
Culture and recreation	10,949,410	11,429,355	10,632,174	797,181
Government-wide support	<u>202,250</u>	<u>210,458</u>	<u>57,054</u>	<u>153,404</u>
	<u>57,573,925</u>	<u>58,067,386</u>	<u>55,151,790</u>	<u>2,915,596</u>
Excess of revenues over expenditures	\$ <u> --</u>	\$ <u> --</u>	\$ <u> 47,440</u>	\$ <u> 47,440</u>

See accompanying notes to the basic financial statements.

Department of Land and Natural Resources
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - FEDERAL FUNDS
Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual on	Variance
	Original	Final	Budgetary	Favorable
			Basis	(Unfavorable)
REVENUES				
Federal grants	\$ 30,288,000	\$ 19,700,544	\$ 19,700,544	\$ --
	<u>30,288,000</u>	<u>19,700,544</u>	<u>19,700,544</u>	<u>--</u>
EXPENDITURES				
Economic development	3,378,035	1,874,359	809,683	1,064,676
Environmental protection	18,079,221	11,979,480	6,279,065	5,700,415
Culture and recreation	8,570,718	5,597,406	3,244,762	2,352,644
Public safety	<u>260,026</u>	<u>249,299</u>	<u>43,411</u>	<u>205,888</u>
	<u>30,288,000</u>	<u>19,700,544</u>	<u>10,376,921</u>	<u>9,323,623</u>
Excess of revenues over expenditures	\$ --	\$ --	\$ 9,323,623	\$ 9,323,623

See accompanying notes to the basic financial statements.

Department of Land and Natural Resources
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - OCEAN-BASED RECREATION FUND
Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual on	Variance
	Original	Final	Budgetary	Favorable
			Basis	(Unfavorable)
REVENUES				
Revenues	\$ 17,404,731	\$ 18,484,647	\$ 18,484,647	\$ --
	<u>17,404,731</u>	<u>18,484,647</u>	<u>18,484,647</u>	<u>--</u>
EXPENDITURES				
Culture and recreation	17,404,731	18,484,647	14,382,845	4,101,802
	<u>17,404,731</u>	<u>18,484,647</u>	<u>14,382,845</u>	<u>4,101,802</u>
Excess of revenues over expenditures	\$ --	\$ --	\$ 4,101,802	\$ 4,101,802

See accompanying notes to the basic financial statements.

Department of Land and Natural Resources
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - SPECIAL LAND
DEVELOPMENT FUND
Fiscal Year Ended June 30, 2018

	Budgeted Amounts		Actual on	Variance
	Original	Final	Budgetary	Favorable
			Basis	(Unfavorable)
REVENUES				
Revenues	\$ 12,474,435	\$ 21,478,294	\$ 21,478,294	\$ --
	<u>12,474,435</u>	<u>21,478,294</u>	<u>21,478,294</u>	<u>--</u>
EXPENDITURES				
Culture and recreation	12,474,435	21,478,294	9,305,003	12,173,291
	<u>12,474,435</u>	<u>21,478,294</u>	<u>9,305,003</u>	<u>12,173,291</u>
Excess of revenues over expenditures	\$ --	\$ --	\$ 12,173,291	\$ 12,173,291

See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources
State of Hawaii
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS
June 30, 2018**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 11,943,765
Receivables:	
General leases and licenses, net of allowance for losses of \$471,974	<u>740,841</u>
Total assets	\$ <u>12,684,606</u>
LIABILITIES	
Due to State Treasury	\$ 6,516,324
Due to other State agencies	1,217,059
Unearned revenues	1,135,839
Deposits	<u>3,815,384</u>
Total liabilities	\$ <u>12,684,606</u>

See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE A - FINANCIAL REPORTING ENTITY

- (1) **Introduction** - The Department of Land and Natural Resources (DLNR), State of Hawaii (the State), is headed by the Board of Land and Natural Resources. The DLNR manages, administers, and exercises control over public lands, water resources, minerals and all other interests therein and exercises such powers of disposition thereof as authorized by law. The DLNR also manages and administers the State's parks, historical sites, forests, forest reserves, fisheries, wildlife sanctuaries, game management areas, public hunting areas, natural area reserves, and other functions assigned to it by law. In connection with the above, the DLNR leases certain lands and facilities under its jurisdiction to individuals and organizations under long-term and short-term agreements.

The DLNR is a part of the executive branch of the State. The financial statements of the DLNR are intended to present the financial position, the changes in financial position, and budgetary comparisons 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 DLNR. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2018, 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 (GAAP). The State Comptroller maintains the central accounts for all state funds and publishes the State's Comprehensive Annual Financial Report (CAFR), which includes the DLNR's financial activities.

- (2) **Reporting Entity** - The DLNR has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the DLNR are such that exclusion would cause the DLNR's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. The DLNR has determined, based on the GASB criteria, that it has no component units.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the DLNR have been prepared in accordance with GAAP as prescribed by the GASB.

- (1) **Government-Wide and Fund Financial Statements** - The government-wide financial statements report all assets, liabilities, and activities of the DLNR as a whole.

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. State allotments are reported as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net position is restricted when constraints placed on it are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net position. When both restricted and unrestricted resources are available for use, generally it is the DLNR's policy to use restricted resources first, then unrestricted resources as they are needed.

Separate financial statements are provided for governmental funds and fiduciary funds. The fiduciary funds, however, are excluded from the government-wide financial statements because the DLNR cannot use those assets to finance its operations. Major individual governmental funds are reported as separate columns in the fund financial statements. Nonmajor funds are summarized into a single column.

(2) ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

Government-Wide Financial Statements

The government-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 the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 DLNR considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

Principal revenue sources considered susceptible to accrual include federal grants. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with GAAP since they have been earned and are expected to be collected within 60 days of the end of the period. Other revenues are considered to be measurable and available only when cash is received by the DLNR.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation, which are recorded as expenditures when utilized or paid. The amount of accumulated vacation at June 30, 2018 has been reported only in the government-wide financial statements.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances are recorded obligations in the form of purchase orders or contracts. The State records encumbrances at the time purchase orders or contracts are awarded and executed. Encumbrances outstanding at fiscal year-end do not constitute expenditures or liabilities.

Fiduciary Funds

The financial statement of fiduciary funds is reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. Agency funds do not have a measurement focus and report only assets and liabilities.

(3) Fund Accounting

The financial transactions of the DLNR are recorded in individual funds that are reported in the fund financial statements and are described in the following sections. Each fund is considered a separate accounting entity. The operations of each are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

The fund financial statements focus on major funds rather than reporting funds by type. Each major fund is reported in separate columns and nonmajor funds are combined in one column. Major funds are funds that have total assets, liabilities, revenues, or expenditures of the fund that are at least 10% of the same element for all funds of its fund type or at least 5% of the same element for all governmental funds combined.

Governmental Funds

General Fund - The general fund is the main operating fund of the DLNR. 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 assessments and fees. The DLNR's major special revenue funds are as follows:

Federal Grant Fund - This special revenue fund was established by the DLNR to account for its federal grant expenditures and related federal grant reimbursements. It does not account for monies received from the federal government for the rehabilitation of the island of Kaho'olawe.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ocean-Based Recreation Fund - This special revenue fund was established under HRS §248-8. The fund receives its revenues from fuel taxes and rents from mooring permits at the State's small boat harbors. These revenues are used for the planning, development, management, operations or maintenance of the small boat harbors.

Special Land Development Fund - This special revenue fund was established under HRS §171-19. The fund receives its revenues through general lease rents, sales of easements, rents from the issuance of right-of-entry and issuance of revocable permits, and other administrative charges. The fund also receives a portion of the highway fuel tax and transient accommodations tax revenues (as a pass through account). These revenues fund the operations of the Land Management Division and assist with funding for the operations and maintenance of public lands under the management jurisdiction of the Board and the DLNR.

Capital Projects Fund - The capital projects fund is used to account for financial resources used for the acquisition, construction, or improvement of major capital facilities. These resources are derived from State appropriations and federal grants.

Other Governmental Funds - The other governmental funds is used to account for all financial activities of funds not required to be reported as a major fund. It includes special revenue funds, which account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Fund Balance

In the governmental funds financial statements, fund balances are classified using a hierarchy based on the extent to which the DLNR is bound to follow constraints on how resources can be spent. Classifications include:

Restricted - Restricted fund balances are amounts that are restricted for specific purposes which are usually imposed by external parties such as grantors, contributors, or laws or regulations of other governments.

Committed - Committed fund balances are amounts that can only be used for specific purposes pursuant to formal action of the State legislature.

Assigned - Assigned fund balances are amounts that are constrained by the policy board or management for specific purposes, but are neither restricted nor committed.

Unassigned - Unassigned fund balances is the residual classification for the general fund. The classification represents amounts in the general fund that has not been assigned to other funds and that has not been restricted or assigned to specific purposes within the general fund.

When both restricted and unrestricted resources are available for use, generally it is the DLNR's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned and unassigned resources are available for use, generally it is the DLNR's policy that committed amounts be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

Agency Fund - The DLNR presents as a fiduciary fund, assets held by the DLNR in a trustee or agent capacity for other State departments, individuals and organizations. Agency funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations.

- (4) **Cash and Cash Equivalents** - Cash and cash equivalents consist of amounts held in the State Treasury. The State Director of Finance (Director) is responsible for safekeeping of all monies paid into the State Treasury. The Director 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 participates 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, governmental 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 DLNR. However, as all of the DLNR's monies are held in the State cash pool, the DLNR does not manage its own investments and the types of investments and related interest rate, credit and custodial risks are not determinable at the organization level. The risk disclosures of the State's cash pool are included in the CAFR which may be obtained from the State Department of Accounting and General Services' website: <http://ags.hawaii.gov/accounting/annual-financial-reports/>.

- (5) **Receivables from Federal Government** - Revenues for all federal reimbursement-type grants are recorded as a receivable from federal government when costs are incurred.
- (6) **Capital Assets** - Capital assets which include land, improvements to land, buildings, building improvements, vehicles, machinery, equipment, and all other tangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period are reported in the government-wide financial statements. Capital assets are valued at cost where historical records are available and at estimated historical cost where no records exist. Donated capital assets are valued at their estimated fair value on the date of donation. Capital assets used in governmental fund operations are accounted for as capital expenditures in the governmental fund upon acquisition.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Improvements to capital assets that materially add to the value or extend the life of the assets are capitalized. Maintenance and repairs are expensed as incurred.

**Department of Land and Natural Resources
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Depreciation expense is recorded in the government-wide financial statements. The DLNR utilizes the straight-line method over the assets' estimated useful life. No depreciation is recorded for land. The DLNR has adopted the following capitalization policy:

Asset Type	Minimum Capitalization Amount	Estimated Useful Life
Land	All	Not applicable
Land improvements	\$ 100,000	15 years
Buildings and improvements	\$ 100,000	30 years
Furniture and equipment	\$ 5,000	7 years
Motor vehicles	\$ 5,000	5 years

- (7) **Compensated Absences** - Employees are credited with vacation at the rate of 96 to 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net position.
- (8) **Accumulated Sick Leave** - Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System (ERS). At June 30, 2018, accumulated sick leave was approximately \$24.4 million.
- (9) **Long-term Obligations** - In the government-wide financial statements, long-term debt are reported as liabilities in the statement of net position. Initial-issue bond premiums and discounts 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. Amortization of bond premiums or discounts, and deferred amounts on refunding are included in interest expense. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental funds recognize bond premiums, discounts, and issuance costs 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.

**Department of Land and Natural Resources
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (10) ***State Allotted Appropriations*** - Appropriations represent the authorizations granted by the State Legislature that permit 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 or encumbered at the end of the fiscal year.
- (11) ***Intrafund and Interfund Transactions*** - Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the basic financial statements.
- (12) ***Risk Management*** - The DLNR is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.
- (13) ***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. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or the DLNR's basic financial statements.
- (14) ***Use of Estimates*** - The preparation of the basic 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.
- (15) ***Recently Issued Accounting Pronouncements*** - The GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The Statement requires the liability of employers for defined benefit OPEB to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the OPEB plan's fiduciary net position. The requirements of this Statement was effective for the fiscal year ending June 30, 2018. The adoption of this Statement did not have a significant impact on the DLNR's financial statements.

**Department of Land and Natural Resources
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June 30, 2018**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

The GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

The GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement was effective for the fiscal year ending June 30, 2018. The adoption of this Statement did not have a significant impact on the DLNR's financial statements.

The GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement addresses in-substance defeasance of debt when a government places cash and other monetary assets acquired with only existing resources, as opposed to proceeds of refunding debt, in an irrevocable trust to extinguish the debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management has adopted the applicable requirements of this new standard as presented in the DLNR's financial statements.

The GASB issued Statement No. 87, *Leases*. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

The GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments, including direct borrowings (for example, a government entering into a loan agreement with a lender) and direct placements (for example, a government issuing a debt security directly to an investor). Direct borrowings and direct placements have terms

**Department of Land and Natural Resources
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June 30, 2018**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

negotiated directly with the investor or lender and are not offered for public sale. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. Changes adopted to conform to the provisions of this Statement should be applied prospectively. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

The GASB issued Statement No. 90, *Majority Equity Interest - an Amendment of GASB Statement No. 14 and No. 61*. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information of certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. Changes adopted to conform to the provisions of this Statement should be applied retroactively, except certain provisions that should be applied on a prospective basis. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

The GASB issued Statement No. 91, *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

NOTE C - BUDGETING AND BUDGETARY CONTROL

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 DLNR as budgeted revenues are those estimates as compiled by the Council on Revenues and the State Director of Finance. Budgeted expenditures for the DLNR's general fund are provided to the Department of Budget and Finance (B&F), 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.

**Department of Land and Natural Resources
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE C - BUDGETING AND BUDGETARY CONTROL (Continued)

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

For purposes of budgeting, the DLNR's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with GAAP. Since the budgetary basis differs from GAAP, budget and actual amounts in the statements budgetary comparison statements are presented on the budgetary basis.

A reconciliation of revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2018, to revenues in excess of expenditures presented in GAAP, is set forth as follows:

	<u>General</u>	<u>Federal Grants Fund</u>	<u>Ocean Based Recreation</u>	<u>Special Land Development</u>
Excess of revenues over expenditures - actual on a budgetary basis	\$ 47,440	\$ 9,323,623	\$ 4,101,802	\$ 12,173,291
Reserved for encumbrance at fiscal year end	15,805,207	5,171,549	2,045,316	2,020,256
Expenditures for liquidation of prior fiscal year encumbrances	(15,496,942)	(13,485,710)	(2,090,723)	(1,513,365)
Net accrued revenues and expenditures	<u>(513,456)</u>	<u>(1,005,932)</u>	<u>416,435</u>	<u>149,254</u>
Excess of revenues over (under) expenditures - GAAP basis	\$ <u>(157,751)</u>	\$ <u>3,530</u>	\$ <u>4,472,830</u>	\$ <u>12,829,436</u>

NOTE D - RECEIVABLES

At June 30, 2018, receivables for general leases and licenses for governmental funds consisted of the following:

Rents, fees and licenses	\$ 1,863,722
Less allowance for doubtful accounts	<u>(1,097,462)</u>
	\$ <u>766,260</u>

The DLNR also has two general lease installment settlement agreements with lessees for accounts receivable of the agency fund for \$123,255 and \$112,034 at June 30, 2018. These agreements provide for interest rates at 5.0% and 1.0%, respectively. The agreements are due in April 2027 and September 2020, respectively. The DLNR does not expect to collect \$176,400 within one year.

At June 30, 2018, receivables for general leases and licenses for fiduciary funds consisted of the following:

Rents, fees and licenses	\$ 1,212,815
Less allowance for doubtful accounts	<u>(471,974)</u>
	\$ <u>740,841</u>

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE E - CAPITAL ASSETS

For the fiscal year ended June 30, 2018, capital assets activity for the DLNR was as follows:

	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2018</u>
Government activities:				
Capital asset, not being depreciated:				
Land and improvements	\$ 235,328,506	\$ --	\$ --	\$ 235,328,506
Construction in progress	<u>111,388,313</u>	<u>22,478,603</u>	<u>(10,232,652)</u>	<u>123,634,264</u>
Total capital assets not being depreciated	<u>346,716,819</u>	<u>22,478,603</u>	<u>(10,232,652)</u>	<u>358,962,770</u>
Capital assets, being depreciated:				
Land improvements	275,129,396	10,531,424	--	285,660,820
Buildings and improvements	70,394,654	410,691	--	70,805,345
Furniture and equipment	22,202,117	2,078,667	(29,962)	24,250,822
Vehicles	<u>25,253,467</u>	<u>1,013,780</u>	<u>(634,772)</u>	<u>25,632,475</u>
Total capital assets being depreciated	<u>392,979,634</u>	<u>14,034,562</u>	<u>(664,734)</u>	<u>406,349,462</u>
Less accumulated depreciation for:				
Land improvements	(153,956,415)	(17,238,477)	--	(171,194,892)
Buildings and improvements	(35,240,927)	(1,807,034)	--	(37,047,961)
Furniture and equipment	(16,369,850)	(1,605,967)	29,962	(17,945,855)
Vehicles	<u>(19,671,844)</u>	<u>(2,026,090)</u>	<u>634,772</u>	<u>(21,063,162)</u>
Total accumulated depreciation	<u>(225,239,036)</u>	<u>(22,677,568)</u>	<u>664,734</u>	<u>(247,251,870)</u>
Government activities, net	<u>\$ 514,457,417</u>	<u>\$ 13,835,597</u>	<u>\$ (10,232,652)</u>	<u>\$ 518,060,362</u>

Depreciation expense was charged to functions as follows:

	<u>Amount</u>
Economic development	\$ 8,816,708
Environmental protection	2,937,331
Culture and recreation	8,217,544
Public safety	2,403,224
Individual rights	90,399
Government-wide support	<u>212,362</u>
	<u>\$ 22,677,568</u>

NOTE F - DUE TO OTHER STATE AGENCIES

The DLNR receives revenue from numerous leases of State lands and properties. These include leases of ceded lands which are held in trust for native Hawaiians by the State. The State is required to pay 20% of revenues generated from ceded lands to the Office of Hawaiian Affairs (OHA), State of Hawaii, which administers and manages the proceeds related to the ceded lands. DLNR accounts for the revenues derived from ceded lands and determines the amounts due which are paid to OHA.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE F - DUE TO OTHER STATE AGENCIES (Continued)

As of June 30, 2018, the DLNR held cash of approximately \$7,733,000 received as ceded land revenues in the current year and prior years. These amounts are reported on the statement of fiduciary net position - agency funds and are reflected in the due to State Treasury, due to other State agencies, and unearned revenue liability accounts.

During the fiscal year ended June 30, 2018, DLNR's special revenue funds were charged by the B&F, approximately \$3,651,000 in central service and administration fees. As of June 30, 2018, the DLNR owed the B&F approximately \$825,000.

NOTE G - DUE TO STATE TREASURY

The DLNR is a sub-recipient to Federal Transit Administration grants for small boat harbor improvement projects on the Island of Maui. The B&F previously approved two interest-free loans to the DLNR of up to \$2,000,000 each and another interest-free loan of up to \$1,000,000 whereby the B&F would advance funds to the DLNR for the sole purpose of paying project costs subject to federal reimbursement. In October 2013, the loans were consolidated into a single interest-free loan of up to \$5,000,000. The loan is renewable annually, subject to the review and approval of the Director of Finance. As of June 30, 2018, the outstanding balance on this note payable was \$1,559,135.

The DLNR also received a temporary loan from the B&F to prepay costs that are reimbursable by federal grants. The outstanding balance on this loan was \$350,000 as of June 30, 2018.

NOTE H - LONG-TERM LIABILITIES

The change in long-term liabilities during the fiscal year ended June 30, 2018, was as follows:

	<u>Accrued Vacation</u>	<u>General Obligation Bonds</u>
Balance at July 1, 2017	\$ 8,505,276	\$ 36,406,569
Additions	3,934,856	--
Reductions	<u>(3,973,145)</u>	<u>(180,601)</u>
Balance at June 30, 2018	8,466,987	36,225,968
Less: current portion	<u>(2,992,542)</u>	<u>(1,658,407)</u>
	<u>\$ 5,474,445</u>	<u>\$ 34,567,561</u>

The accrued vacation liability will be liquidated by the DLNR's governmental funds. The general obligation bonds will be liquidated by the Ocean-Based Recreation Fund.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE H - LONG-TERM LIABILITIES (Continued)

The following are portions of the State of Hawaii general obligation bonds allocated to the DLNR under Acts of various Session Laws of Hawaii. These bonds are backed by the full faith, credit and taxing power of the State. Repayment of allocated bond debts are made to the State general fund. The details of these general obligation bonds at June 30, 2018 are as follows:

	<u>Amount</u>
Series CP bonds dated October 1, 1997; due in varying annual installments beginning in April 2002, with final payment in April 2021; partially refunded by the issuance of refunding General Obligation Bonds, series DG, dated June 15, 2005; interest at 5.00% payable semi-annually.	\$ 15
Series DI bonds dated March 2006; due in varying annual installments beginning in September 2009 through March 2026; interest at various interest rates payable semi-annually.	869,615
Series DJ bonds dated April 2007; due in varying annual installments beginning in October 2009 through April 2027; interest at various interest rates payable semi-annually.	356,338
Series EU bonds dated October 2015; due in varying annual installments beginning October 2018 through October 2035; interest at various interest rates payable semi-annually.	<u>35,000,000</u>
	\$ <u>36,225,968</u>

Debt service requirements to maturity on the general obligation bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,658,407	\$ 1,061,322	\$ 2,719,729
2020	1,699,570	1,016,260	2,715,830
2021	1,746,041	970,145	2,716,186
2022	1,792,819	922,496	2,715,315
2023	1,844,960	873,660	2,718,620
2024-2028	9,689,171	3,575,087	13,264,258
2029-2033	10,575,000	2,083,313	12,658,313
2034-2036	<u>7,220,000</u>	<u>377,409</u>	<u>7,597,409</u>
Total	\$ <u>36,225,968</u>	\$ <u>10,879,692</u>	\$ <u>47,105,660</u>

Interest cost amounted to \$1,083,961 was expensed for the fiscal year ended June 30, 2018.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE I - FUND BALANCE

Fund balance constraints by purpose as of June 30, 2018 were as follows:

		Major Special Revenue Funds						
	General Fund	Federal Grant Fund	Ocean-Based Recreation Fund	Special Land Development Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds	
FUND BALANCES:								
Restricted:								
Economic development	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 125,673	\$ 125,673	
Environmental protection	--	--	--	--	--	11,553,584	11,553,584	
Government-wide support	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>16,593,023</u>	<u>16,593,023</u>	
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>28,272,280</u>	<u>28,272,280</u>	
Committed:								
Economic development	--	--	--	--	--	3,244,187	3,244,187	
Environmental protection	--	--	--	--	--	20,075,447	20,075,447	
Culture and recreation	--	--	11,766,359	--	--	3,072,684	14,839,043	
Public safety	--	--	--	--	--	3,522,487	3,522,487	
Individual rights	--	--	--	--	--	3,787,712	3,787,712	
Government-wide support	<u>--</u>	<u>--</u>	<u>--</u>	<u>24,063,396</u>	<u>--</u>	<u>31,852,696</u>	<u>55,916,092</u>	
	<u>--</u>	<u>--</u>	<u>11,766,359</u>	<u>24,063,396</u>	<u>--</u>	<u>65,555,213</u>	<u>101,384,968</u>	
Assigned:								
Land and natural resources	15,133,247	--	--	--	--	--	15,133,247	
Capital improvement projects	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>131,495,780</u>	<u>--</u>	<u>131,495,780</u>	
	<u>15,133,247</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>131,495,780</u>	<u>--</u>	<u>146,629,027</u>	
Unassigned	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	
Total Fund Balances	\$ 15,133,247	\$ --	\$ 11,766,359	\$ 24,063,396	\$ 131,495,780	\$ 93,827,493	\$ 276,286,275	

The fund balance of the Kaho'olawe Rehabilitation Trust Fund represents unexpended federal awards received for the restoration of the Island of Kaho'olawe as outlined in Title X of the fiscal Year 1994 Department of Defense Appropriations Act, Public Law 103-139, 107 Stat. 1418.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE J - NONIMPOSED EMPLOYEE WAGES AND FRINGE BENEFITS

Payroll fringe benefit costs that are funded by state appropriations are assumed by the State and are not charged to the DLNR's operating funds. These costs, totaling approximately \$15,193,000 for the fiscal year ended June 30, 2018, have been reported as revenues and expenditures in the general fund of the DLNR.

NOTE K - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2018 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
Federal Grant Fund	\$ --	\$ 3,530
Ocean-Based Recreation Fund	20,178,704	22,524,327
Special Land Development Fund	1,870,189	9,404,996
Capital Projects Fund	2,003,530	--
Other Governmental Funds	<u>58,505,288</u>	<u>50,095,898</u>
	\$ <u>82,557,711</u>	\$ <u>82,028,751</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

Interfund due from/to other funds consist of the following as of June 30, 2018:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Land Development Fund	Capital Projects Fund	\$ 1,999,986
Ocean-Based Recreation Fund	Federal Grants Fund	1,244,841
Other Governmental Funds	Federal Grants Fund	<u>1,328,463</u>
Total all funds		\$ <u>4,573,290</u>

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE L - COMMITMENTS AND CONTINGENCIES

(1) *Encumbrances*

The DLNR is committed under contracts awarded and orders placed for construction, repairs and maintenance, expenses, supplies, etc. These commitments as of June 30, 2018 were as follows:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 17,059,953
Federal Grant Fund	9,579,749
Ocean Based Recreation Fund	2,543,607
Special Land Development Fund	3,279,541
Capital Projects Fund	110,857,403
Non-Major Governmental Funds	<u>18,183,691</u>
	\$ <u><u>161,503,944</u></u>

(2) *Leases*

The DLNR leases equipment from third-party lessors under various operating leases expiring through 2024. Future minimum lease rentals under noncancelable operating leases with terms of one year or more at June 30, 2018 were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 264,000
2020	202,000
2021	161,000
2022	101,000
2023	58,000
Thereafter	<u>9,000</u>
	\$ <u><u>795,000</u></u>

Total rent expense related to the above leases for the fiscal year ended June 30, 2018 amounted to approximately \$389,000.

(3) *Litigation*

The DLNR 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 DLNR. However, such claim amounts cannot be reasonably estimated at this time. Although the DLNR and its counsel are unable to express opinions as to the outcome of on-going litigation, it is their opinion that any potential liability arising therefrom will not have a material adverse effect on the financial position of the DLNR because any judgments against the DLNR are judgments against the State and would be funded by the legislative appropriation of the State General Fund.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE M - RETIREMENT BENEFITS

(1) *Employees' Retirement System (ERS)*

Plan Description - Generally, all full-time employees of the State and counties are required to be members of the 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 ERS' website: <http://www.ers.ehawaii.gov>.

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 classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) 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. Retirement benefits for certain groups, such as police officers, firefighters, some investigators, sewer workers, judges, and elected officials, vary from general employees.

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 30 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 is 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.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE M - RETIREMENT BENEFITS (Continued)

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 dependent children, no benefit is payable.

Ordinary death benefits are available to employees who were active at 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 dependent children (up to age 18) receive a benefit equal to a percentage of the 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 dependent children receive a percentage of the member's accrued maximum allowance unreduced for age.

Contributory Plan 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 is 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 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 children (up to age 18) or dependent parents are eligible for the monthly benefit. If there is no spouse/reciprocal beneficiary or 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 12 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.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE M - RETIREMENT BENEFITS (Continued)

Contributory Plan 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 refund of contributions and accrued interest. Ten years of credited service is required for ordinary disability.

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 Plan 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 30 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 is 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 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.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE M - RETIREMENT BENEFITS (Continued)

Hybrid Plan 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 30 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.

Contributions - Contributions are governed 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 2018 were 28.0% for police officers and fire fighters and 18.00% for all other employees. Contributions to the pension plan from the DLNR were approximately \$9,497,000 for the year ended June 30, 2018.

On May 18, 2017, the Governor signed into law Act 17 SLH 2017. Per Act 17, future employer contributions from the State and counties are expected to increase pursuant to a phased-in contribution rate increase over four years beginning July 1, 2017. The rate for police and firefighters increases to 31.0% on July 1, 2018; 36.0% on July 1, 2019; and 41.0% on July 1, 2020, and the rate for all other employees increases to 19.0% on July 1, 2018; 22.0% on July 1, 2019; and 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, except for police officers and firefighters who are required to contribute 12.2% of their salary. Contributory members hired after June 30, 2012 are required to contribute 9.8% of their salary, except for police officers and firefighters who are required to contribute 14.2% 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.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE M - RETIREMENT BENEFITS (Continued)

State Policy - Measurement of assets and actuarial valuations are made for the ERS as a whole and are not separately computed for individual participating employers such as the DLNR. It is the State's policy on the accounting and reporting for pension benefits to allocate a portion of the net pension liability, pension expense, and related deferred inflows and outflows of resources to only component units and proprietary funds that are reported separately in the State's CAFR. The State's CAFR includes the note disclosures and required supplementary information on the State's pension plan.

(2) *Post-Employment Healthcare and Life Insurance Benefits*

The State provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State of Hawaii contributes to the Hawaii Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer 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. The report may 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 monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 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 less than 10 years of service, the State makes no contributions. For those retiring with at least 10 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. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE M - RETIREMENT BENEFITS (Continued)

The State is required to contribute the annual required contribution (ARC) of the employer, an amount that is actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Measurement of the actuarial valuation and the ARC are made for the State as a whole and are not separately computed for the individual state departments and agencies such as the DLNR. The State has only computed the allocation of the other postemployment benefit (OPEB) costs to component units and proprietary funds that are reported separately in the State's CAFR. Therefore, the OPEB costs for the DLNR was not available and are not included in the financial statements. The State's CAFR includes the note disclosures and required supplementary information on the State's OPEB plans.

The DLNR's contributions made to the plan were approximately \$4,137,000 for the fiscal year ended June 30, 2018.

NOTE N - RISK MANAGEMENT

The DLNR is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State records a liability for risk financing and insurance related losses 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. The excess layers insured with commercial insurance companies are consistent with the prior fiscal year. Settled claims have not exceeded the coverage provided by commercial insurance companies in any of the past three fiscal years. A summary of the State's underwriting risks is as follows:

Property Insurance - The State has an insurance policy with a variety of insurers in a variety of layers for property coverage. The deductible for coverage is 3% of loss subject to a \$1 million per occurrence minimum. This policy includes windstorm, earthquake, flood damage, terrorism, and boiler and machinery coverage. The limit of loss per occurrence is \$200 million, except for terrorism which is \$50 million per occurrence and a \$10,000 deductible. The State also has a crime insurance policy for various types of coverages with a limit of loss of \$10 million per occurrence with a \$500,000 deductible per occurrence, except for claims expense coverage which has a \$100,000 per occurrence and a \$1,000 deductible. Losses not covered by insurance are paid from legislative appropriations of the State's General Fund.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE N - RISK MANAGEMENT (Continued)

General Liability (including torts) - Liability claims under \$10,000 and automobile claims up to \$15,000 are handled by the Risk Management Office of the Department of Accounting and General Services. All other claims are handled by the Department of the Attorney General. The State has personal injury and property damage liability, including automobile and public errors and omissions, insurance policy in force with a \$4 million self-insured retention per occurrence. The annual aggregate per occurrence is \$9 million and for crime loss, \$10 million with no aggregate limit. Losses under the deductible amount or over the aggregate limit are paid from legislative appropriations of the State's General Fund.

Cyber Liability Insurance - The State is insured for various types of cyber-related activities with a loss limit of \$50 million with a deductible of \$500,000 per occurrence. This policy includes (with sub-limits) system failure business interruption, dependent business interruption system failure, and Payment Card Industry - Data Security Standard coverage.

Self-Insured Risks - The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses up to \$15,000 are administered by Risk Management Office. The State administers its workers' compensation losses. 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.

At June 30, 2018, the State recorded an estimated loss for workers' compensation, automobile and general liability claims as long-term debt 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.

NOTE O - RESTATEMENT

In October 2015, the State issued general obligation bond series EU for \$35 million for the acquisition of land by the DLNR. The DLNR's Turtle Bay Conservation Fund is responsible for making the debt service payments to the State to make payments on these bonds. In fiscal year 2017, the DLNR understated the bonds and interest payable related to this bond.

The Capital Projects Fund accounts for all financial resources used for all capital project activities of the DLNR. As a result, the Capital Projects Fund will incur expenses on behalf of other funds that subsequently reimburse the Capital Projects Fund or receive funds in advance from other funds to conduct the projects. In fiscal year 2017, the DLNR understated receivables for amounts due from other funds for expenditures incurred on projects conducted and overstated amounts received in advance from other funds for projects in which expenditures had not yet been incurred. In addition, for completed projects that had received funds in advance from the State Treasury or other sources, the funds should have been returned to the

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE O - RESTATEMENT (Continued)

State Treasury or the originating fund source once reimbursements from grantors were received. These errors resulted in misstatements of amounts due to/from the Special Land Development Fund, the State Treasury and Federal government and affected the fund balances/net position of the governmental and government-wide funds as of June 30, 2017 as follows:

	Fund Level			
	Governmental Funds			Government-Wide
	Capital Projects Fund	Special Land Development Fund	Other Governmental Funds	Governmental Activities
Fund balance/Net position at June 30, 2017, as previously reported	\$ 131,568,049	\$ 16,768,781	\$ 86,308,413	\$ 764,120,965
Misstatement of due from (to) other fund	(1,999,986)	1,999,986	--	--
Misstatement of due to State Treasury	(1,894,145)	--	--	(1,894,145)
Misstatement of Federal grant receivable	30,049	--	--	30,049
Misstatement of bonds payable and interest payable	--	--	--	(35,253,855)
Misstatement of due to Budget and Finance for accrued interest	<u>--</u>	<u>--</u>	<u>(1,444,151)</u>	<u>(1,444,151)</u>
Fund Balance at June 30, 2017, as restated	\$ <u>127,703,967</u>	\$ <u>18,768,767</u>	\$ <u>84,864,262</u>	\$ <u>725,558,863</u>

SUPPLEMENTARY INFORMATION

Department of Land and Natural Resources
State of Hawaii
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

	Special Land Development Fund - Other	Land Conservation Fund	Bureau of Conveyances Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Wildlife Revolving Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historic Preservation Fund	Na Ala Hele Park Development Fund	Subtotal Carried Forward
ASSETS:											
Cash and cash equivalents	\$ 1,567,739	\$ 25,290,088	\$ 4,142,318	\$ 272,332	\$ 572,861	\$ 621,908	\$ 951,766	\$ 15,220,170	\$ 145,793	\$ 35,545	\$ 48,820,520
Receivables:											
General leases and licenses, net of allowance for losses	--	--	--	--	--	--	--	--	--	--	--
Due from other State agencies	--	35,750	--	--	--	--	--	--	--	--	35,750
Due from Capital Projects Fund	--	--	--	--	--	--	--	--	--	--	--
Due from Federal Grant Fund	--	--	--	16,011	13,435	--	101,367	850,000	279,313	--	1,260,126
Total assets	<u>\$ 1,567,739</u>	<u>\$ 25,325,838</u>	<u>\$ 4,142,318</u>	<u>\$ 288,343</u>	<u>\$ 586,296</u>	<u>\$ 621,908</u>	<u>\$ 1,053,133</u>	<u>\$ 16,070,170</u>	<u>\$ 425,106</u>	<u>\$ 35,545</u>	<u>\$ 50,116,396</u>
LIABILITIES:											
Vouchers and contracts payable	\$ 1,912	\$ --	\$ 47,988	\$ 5,897	\$ 3,009	\$ 15,189	\$ 9,003	\$ --	\$ --	\$ --	\$ 82,998
Accrued wages and employee benefits payable	14,864	13,572	161,962	2,845	--	8,451	7,770	--	7,805	24,348	241,617
Due to other State agencies	--	--	144,656	1,079	2,785	--	297	--	13	1,314	150,144
Unearned revenue	--	--	--	--	9,866	--	--	--	--	--	9,866
Total liabilities	<u>16,776</u>	<u>13,572</u>	<u>354,606</u>	<u>9,821</u>	<u>15,660</u>	<u>23,640</u>	<u>17,070</u>	<u>--</u>	<u>7,818</u>	<u>25,662</u>	<u>484,625</u>
FUND BALANCES:											
Restricted	--	--	--	--	--	--	--	--	--	--	--
Committed	1,550,963	25,312,266	3,787,712	278,522	570,636	598,268	1,036,063	16,070,170	417,288	9,883	49,631,771
Total fund balances	<u>1,550,963</u>	<u>25,312,266</u>	<u>3,787,712</u>	<u>278,522</u>	<u>570,636</u>	<u>598,268</u>	<u>1,036,063</u>	<u>16,070,170</u>	<u>417,288</u>	<u>9,883</u>	<u>49,631,771</u>
Total liabilities and fund balances	<u>\$ 1,567,739</u>	<u>\$ 25,325,838</u>	<u>\$ 4,142,318</u>	<u>\$ 288,343</u>	<u>\$ 586,296</u>	<u>\$ 621,908</u>	<u>\$ 1,053,133</u>	<u>\$ 16,070,170</u>	<u>\$ 425,106</u>	<u>\$ 35,545</u>	<u>\$ 50,116,396</u>

Department of Land and Natural Resources
State of Hawaii
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
June 30, 2018

	Subtotal Brought Forward	Sport-Fish Restoration Fund	State Parks Operations Fund	Turtle Bay Conservation Fund	Water and Land Development Fund	Donations, Gifts and Grants Fund	In-Lieu Fee Mitigation Program Fund	Ecosystem Protection and Restoration Fund	International Union for Conservation of Nature Fund	Donations, Gifts and Grants - Private & Gov't Fund	Subtotal Carried Forward
ASSETS:											
Cash and cash equivalents	\$ 48,820,520	\$ 72,259	\$ 2,328,136	\$ 6,540,430	\$ 1,581,167	\$ 97	\$ 6,099,740	\$ 5,637	\$ 19,874	\$ 16,764,691	\$ 82,232,551
Receivables:											
General leases and licenses, net of allowance for losses	--	--	130,628	--	--	--	--	--	--	--	130,628
Due from other State agencies	35,750	--	--	--	--	--	--	--	--	--	35,750
Due from Capital Projects Fund	--	--	--	--	--	--	--	--	--	--	--
Due from Federal Grant Fund	1,260,126	--	--	--	--	--	--	--	--	--	1,260,126
Total assets	<u>\$ 50,116,396</u>	<u>\$ 72,259</u>	<u>\$ 2,458,764</u>	<u>\$ 6,540,430</u>	<u>\$ 1,581,167</u>	<u>\$ 97</u>	<u>\$ 6,099,740</u>	<u>\$ 5,637</u>	<u>\$ 19,874</u>	<u>\$ 16,764,691</u>	<u>\$ 83,659,055</u>
LIABILITIES:											
Vouchers and contracts payable	\$ 82,998	\$ 244	\$ 67,488	\$ --	\$ 63,382	\$ --	\$ --	\$ --	\$ --	\$ 171,765	\$ 385,877
Accrued wages and employee benefits payable	241,617	866	143,710	--	17,452	--	--	--	--	--	403,645
Due to other State agencies	150,144	--	11,825	--	145	--	--	--	--	--	162,114
Unearned revenue	9,866	--	260,120	--	--	--	--	--	--	--	269,986
Total liabilities	<u>484,625</u>	<u>1,110</u>	<u>483,143</u>	<u>--</u>	<u>80,979</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>171,765</u>	<u>1,221,622</u>
FUND BALANCES:											
Restricted	--	--	--	--	--	97	6,099,740	--	--	16,592,926	22,692,763
Committed	49,631,771	71,149	1,975,621	6,540,430	1,500,188	--	--	5,637	19,874	--	59,744,670
Total fund balances	<u>49,631,771</u>	<u>71,149</u>	<u>1,975,621</u>	<u>6,540,430</u>	<u>1,500,188</u>	<u>97</u>	<u>6,099,740</u>	<u>5,637</u>	<u>19,874</u>	<u>16,592,926</u>	<u>82,437,433</u>
Total liabilities and fund balances	<u>\$ 50,116,396</u>	<u>\$ 72,259</u>	<u>\$ 2,458,764</u>	<u>\$ 6,540,430</u>	<u>\$ 1,581,167</u>	<u>\$ 97</u>	<u>\$ 6,099,740</u>	<u>\$ 5,637</u>	<u>\$ 19,874</u>	<u>\$ 16,764,691</u>	<u>\$ 83,659,055</u>

Department of Land and Natural Resources
State of Hawaii
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS (Continued)
June 30, 2018

	Subtotal Carried Forward	Assistance in Managing Land Fund	Kahoolawe Rehabilitation Trust Fund	Endangered Species Trust Fund	Dam and Reservoir Safety Fund	Native Resources and Fire Protection Fund	Water Resources Fund	Water Resources Trust Fund	Natural Physical Environment Fund	Natural Physical Environment Trust Fund	Hawaii Association of Conservation Districts Fund	Total Other Governmental Funds
ASSETS:												
Cash and cash equivalents	\$ 82,232,551	\$ 125,673	\$ 504,212	\$ 4,858,179	\$ 3,549,848	\$ 1,199,899	\$ 766,191	\$ 221,046	\$ 414,525	\$ 8	\$ --	\$ 93,872,132
Receivables:												
General leases and licenses, net of allowance for losses	130,628	--	--	--	--	--	--	--	--	--	--	130,628
Due from other State agencies	35,750	--	--	--	--	--	--	--	--	--	--	35,750
Due from Capital Projects Fund	--	--	--	--	--	--	--	--	--	--	--	--
Due from Federal Grant Fund	1,260,126	--	49,935	--	18,402	--	--	--	--	--	--	1,328,463
Total assets	<u>\$ 83,659,055</u>	<u>\$ 125,673</u>	<u>\$ 554,147</u>	<u>\$ 4,858,179</u>	<u>\$ 3,568,250</u>	<u>\$ 1,199,899</u>	<u>\$ 766,191</u>	<u>\$ 221,046</u>	<u>\$ 414,525</u>	<u>\$ 8</u>	<u>\$ --</u>	<u>\$ 95,366,973</u>
LIABILITIES:												
Vouchers and contracts payable	\$ 385,877	\$ --	\$ 21,792	\$ 157,744	\$ 6,329	\$ --	\$ 953	\$ --	\$ 685	\$ --	\$ --	\$ 573,380
Accrued wages and employee benefits payable	403,645	--	--	--	39,283	--	--	--	88,937	--	--	531,865
Due to other State agencies	162,114	--	--	--	151	--	230	--	235	--	--	162,730
Unearned revenue	269,986	--	--	--	--	--	1,519	--	--	--	--	271,505
Total liabilities	<u>1,221,622</u>	<u>--</u>	<u>21,792</u>	<u>157,744</u>	<u>45,763</u>	<u>--</u>	<u>2,702</u>	<u>--</u>	<u>89,857</u>	<u>--</u>	<u>--</u>	<u>1,539,480</u>
FUND BALANCES:												
Restricted	22,692,763	125,673	532,355	4,700,435	--	--	--	221,046	--	8	--	28,272,280
Committed	59,744,670	--	--	--	3,522,487	1,199,899	763,489	--	324,668	--	--	65,555,213
Total fund balances	<u>82,437,433</u>	<u>125,673</u>	<u>532,355</u>	<u>4,700,435</u>	<u>3,522,487</u>	<u>1,199,899</u>	<u>763,489</u>	<u>221,046</u>	<u>324,668</u>	<u>8</u>	<u>--</u>	<u>93,827,493</u>
Total liabilities and fund balances	<u>\$ 83,659,055</u>	<u>\$ 125,673</u>	<u>\$ 554,147</u>	<u>\$ 4,858,179</u>	<u>\$ 3,568,250</u>	<u>\$ 1,199,899</u>	<u>\$ 766,191</u>	<u>\$ 221,046</u>	<u>\$ 414,525</u>	<u>\$ 8</u>	<u>\$ --</u>	<u>\$ 95,366,973</u>

Department of Land and Natural Resources
State of Hawaii
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2018

	Special Land Development Fund - Other	Land Conservation Fund	Bureau of Conveyances Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Wildlife Revolving Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historic Preservation Fund	Na Ala Hele Park Development Fund	Subtotal Carried Forward
REVENUES:											
Intergovernmental revenue	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
General leases, licenses and permits	--	--	--	263,541	261,519	602,141	--	--	--	--	1,127,201
Fees and service charges	--	--	8,189,514	2,000	114,895	2,475	2,446	--	66,362	35,471	8,413,163
Taxes, fuel and others	--	6,800,000	--	--	--	--	--	--	--	250,000	7,050,000
Interest	9,737	145,628	7,270	1,205	4,795	45,169	4,400	99,154	347	976	318,681
Other	--	--	3,763	--	30,000	--	3,059	--	--	--	36,822
Total revenues	<u>\$ 9,737</u>	<u>\$ 6,945,628</u>	<u>\$ 8,200,547</u>	<u>\$ 266,746</u>	<u>\$ 411,209</u>	<u>\$ 649,785</u>	<u>\$ 9,905</u>	<u>\$ 99,154</u>	<u>\$ 66,709</u>	<u>\$ 286,447</u>	<u>\$ 16,945,867</u>
EXPENDITURES:											
Economic development	\$ 596,669	\$ --	\$ --	\$ 166,551	\$ 454,290	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 1,217,510
Environmental protection	720,274	--	--	--	--	--	2,066,138	278,444	--	--	3,064,856
Culture and recreation	450,707	--	--	--	--	482,487	--	--	139,975	648,984	1,722,153
Public safety	--	--	--	--	--	--	--	--	--	--	--
Individual rights	--	--	5,189,092	--	--	--	--	--	--	--	5,189,092
Government-wide support	--	344,716	--	--	--	--	--	--	--	--	344,716
Debt service:											
Principal on long-term debt	--	--	--	--	--	--	--	--	--	--	--
Interest on long-term debt	--	--	--	--	--	--	--	--	--	--	--
Total expenditures	<u>1,767,650</u>	<u>344,716</u>	<u>5,189,092</u>	<u>166,551</u>	<u>454,290</u>	<u>482,487</u>	<u>2,066,138</u>	<u>278,444</u>	<u>139,975</u>	<u>648,984</u>	<u>11,538,327</u>
Excess (deficiency) of revenues over expenditures	<u>(1,757,913)</u>	<u>6,600,912</u>	<u>3,011,455</u>	<u>100,195</u>	<u>(43,081)</u>	<u>167,298</u>	<u>(2,056,233)</u>	<u>(179,290)</u>	<u>(73,266)</u>	<u>(362,537)</u>	<u>5,407,540</u>
OTHER FINANCING SOURCES (USES):											
Transfers in	2,577,578	11,660,126	610,101	129,193	218,047	377,460	2,964,359	--	52,610	322,729	18,912,203
Transfers out	(337,765)	(13,500,000)	(900,000)	(210,663)	(349,437)	(377,460)	(415,818)	--	(52,097)	(78,157)	(16,221,397)
Total other financing sources (uses)	<u>2,239,813</u>	<u>(1,839,874)</u>	<u>(289,899)</u>	<u>(81,470)</u>	<u>(131,390)</u>	<u>--</u>	<u>2,548,541</u>	<u>--</u>	<u>513</u>	<u>244,572</u>	<u>2,690,806</u>
Net change in fund balances	<u>481,900</u>	<u>4,761,038</u>	<u>2,721,556</u>	<u>18,725</u>	<u>(174,471)</u>	<u>167,298</u>	<u>492,308</u>	<u>(179,290)</u>	<u>(72,753)</u>	<u>(117,965)</u>	<u>8,098,346</u>
Fund balances, beginning of year, as previously reported	1,069,063	20,551,228	1,066,156	259,797	745,107	430,970	543,755	16,249,460	490,041	127,848	41,533,425
Prior period adjustment	--	--	--	--	--	--	--	--	--	--	--
Fund balances, beginning of year, as restated	<u>1,069,063</u>	<u>20,551,228</u>	<u>1,066,156</u>	<u>259,797</u>	<u>745,107</u>	<u>430,970</u>	<u>543,755</u>	<u>16,249,460</u>	<u>490,041</u>	<u>127,848</u>	<u>41,533,425</u>
Fund balances, end of year	<u>\$ 1,550,963</u>	<u>\$ 25,312,266</u>	<u>\$ 3,787,712</u>	<u>\$ 278,522</u>	<u>\$ 570,636</u>	<u>\$ 598,268</u>	<u>\$ 1,036,063</u>	<u>\$ 16,070,170</u>	<u>\$ 417,288</u>	<u>\$ 9,883</u>	<u>\$ 49,631,771</u>

Department of Land and Natural Resources
State of Hawaii
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)
Fiscal Year Ended June 30, 2018

	Subtotal Brought Forward	Sport-Fish Restoration Fund	State Parks Operations Fund	Turtle Bay Conservation Fund	Water and Land Development Fund	Donations, Gifts and Grants Fund	In-Lieu Fee Mitigation Program Fund	Ecosystem Protection and Restoration Fund	International Union for Conservation of Nature Fund	Donations, Gifts and Grants - Private & Gov't Fund	Subtotal Carried Forward
REVENUES:											
Intergovernmental revenue	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
General leases, licenses and permits	1,127,201	26,419	3,584,403	--	--	--	--	--	--	--	4,738,023
Fees and service charges	8,413,163	296	1,057,444	--	--	--	--	--	--	--	9,470,903
Taxes, fuel and others	7,050,000	--	--	1,500,000	--	--	--	--	--	--	8,550,000
Interest	318,681	374	14,305	--	10,447	--	39,718	17	--	117,193	500,735
Other	36,822	--	61,378	--	--	--	--	--	--	1,584,997	1,683,197
Total revenues	<u>\$ 16,945,867</u>	<u>\$ 27,089</u>	<u>\$ 4,717,530</u>	<u>\$ 1,500,000</u>	<u>\$ 10,447</u>	<u>\$ --</u>	<u>\$ 39,718</u>	<u>\$ 17</u>	<u>\$ --</u>	<u>\$ 1,702,190</u>	<u>\$ 24,942,858</u>
EXPENDITURES:											
Economic development	\$ 1,217,510	\$ --	\$ --	\$ --	\$ 487,853	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 1,705,363
Environmental protection	3,064,856	--	--	--	--	--	101,369	--	--	1,457,148	4,623,373
Culture and recreation	1,722,153	21,455	7,008,617	--	--	--	--	--	--	--	8,752,225
Public safety	--	--	--	--	--	--	--	--	--	--	--
Individual rights	5,189,092	--	--	--	--	--	--	--	--	--	5,189,092
Government-wide support	344,716	--	--	--	--	19,520	--	--	--	--	364,236
Debt service:											
Principal on long-term debt	--	--	--	--	--	--	--	--	--	--	--
Interest on long-term debt	--	--	--	1,015,419	--	--	--	--	--	--	1,015,419
Total expenditures	<u>11,538,327</u>	<u>21,455</u>	<u>7,008,617</u>	<u>1,015,419</u>	<u>487,853</u>	<u>19,520</u>	<u>101,369</u>	<u>--</u>	<u>--</u>	<u>1,457,148</u>	<u>21,649,708</u>
Excess (deficiency) of revenues over expenditures	<u>5,407,540</u>	<u>5,634</u>	<u>(2,291,087)</u>	<u>484,581</u>	<u>(477,406)</u>	<u>(19,520)</u>	<u>(61,651)</u>	<u>17</u>	<u>--</u>	<u>245,042</u>	<u>3,293,150</u>
OTHER FINANCING SOURCES (USES):											
Transfers in	18,912,203	48,801	3,792,651	7,500,000	1,869,733	--	5,000,000	5,620	--	14,000,000	51,129,008
Transfers out	(16,221,397)	(47,754)	(2,024,462)	(6,000,000)	(1,202,188)	--	(5,000,000)	(5,620)	--	(15,646,000)	(46,147,421)
Total other financing sources (uses)	<u>2,690,806</u>	<u>1,047</u>	<u>1,768,189</u>	<u>1,500,000</u>	<u>667,545</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,646,000)</u>	<u>4,981,587</u>
Net change in fund balances	<u>8,098,346</u>	<u>6,681</u>	<u>(522,898)</u>	<u>1,984,581</u>	<u>190,139</u>	<u>(19,520)</u>	<u>(61,651)</u>	<u>17</u>	<u>--</u>	<u>(1,400,958)</u>	<u>8,274,737</u>
Fund balances, beginning of year as previously reported	41,533,425	64,468	2,498,519	6,000,000	1,310,049	19,617	6,161,391	5,620	19,874	17,993,884	75,606,847
Prior period adjustment	--	--	--	(1,444,151)	--	--	--	--	--	--	(1,444,151)
Fund balances, beginning of year, as restated	<u>41,533,425</u>	<u>64,468</u>	<u>2,498,519</u>	<u>4,555,849</u>	<u>1,310,049</u>	<u>19,617</u>	<u>6,161,391</u>	<u>5,620</u>	<u>19,874</u>	<u>17,993,884</u>	<u>74,162,696</u>
Fund balances, end of year	<u>\$ 49,631,771</u>	<u>\$ 71,149</u>	<u>\$ 1,975,621</u>	<u>\$ 6,540,430</u>	<u>\$ 1,500,188</u>	<u>\$ 97</u>	<u>\$ 6,099,740</u>	<u>\$ 5,637</u>	<u>\$ 19,874</u>	<u>\$ 16,592,926</u>	<u>\$ 82,437,433</u>

Department of Land and Natural Resources
State of Hawaii
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS (Continued)
Fiscal Year Ended June 30, 2018

	Subtotal Carried Forward	Assistance in Managing Land Fund	Kahoolawe Rehabilitation Trust Fund	Endangered Species Trust Fund	Dam and Reservoir Safety Fund	Native Resources and Fire Protection Fund	Water Resources Fund	Water Resources Trust Fund	Natural Physical Environment Fund	Natural Physical Environment Trust Fund	Hawaii Association of Conservation Districts Fund	Total Other Governmental Funds
REVENUES:												
Intergovernmental revenue	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
General leases, licenses and permits	4,738,023	--	2,100	--	--	--	52,684	--	--	--	--	4,792,807
Fees and service charges	9,470,903	--	40,020	180,408	602,497	--	12,703	--	--	--	--	10,306,531
Taxes, fuel and others	8,550,000	--	--	--	--	--	--	--	--	--	--	8,550,000
Interest	500,735	744	2,146	25,359	21,656	6,360	6,650	--	2,645	--	--	566,295
Other	1,683,197	--	323,260	2,341,868	27,927	--	--	--	75,643	--	--	4,451,895
Total revenues	<u>\$ 24,942,858</u>	<u>\$ 744</u>	<u>\$ 367,526</u>	<u>\$ 2,547,635</u>	<u>\$ 652,080</u>	<u>\$ 6,360</u>	<u>\$ 72,037</u>	<u>\$ --</u>	<u>\$ 78,288</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 28,667,528</u>
EXPENDITURES:												
Economic development	\$ 1,705,363	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 1,705,363
Environmental protection	4,623,373	--	250,217	2,479,010	--	--	325,563	51,047	1,775,769	(1,423)	--	9,503,556
Culture and recreation	8,752,225	--	--	--	--	--	--	--	--	--	--	8,752,225
Public safety	--	--	--	--	1,268,796	--	--	--	--	--	--	1,268,796
Individual rights	5,189,092	--	--	--	--	--	--	--	--	--	--	5,189,092
Government-wide support	364,236	--	--	--	--	--	--	--	--	--	315,000	679,236
Debt service:												
Principal on long-term debt	--	--	--	--	--	--	--	--	--	--	--	--
Interest on long-term debt	1,015,419	--	--	--	--	--	--	--	--	--	--	1,015,419
Total expenditures	<u>21,649,708</u>	<u>--</u>	<u>250,217</u>	<u>2,479,010</u>	<u>1,268,796</u>	<u>--</u>	<u>325,563</u>	<u>51,047</u>	<u>1,775,769</u>	<u>(1,423)</u>	<u>315,000</u>	<u>28,113,687</u>
Excess (deficiency) of revenues over expenditures	<u>3,293,150</u>	<u>744</u>	<u>117,309</u>	<u>68,625</u>	<u>(616,716)</u>	<u>6,360</u>	<u>(253,526)</u>	<u>(51,047)</u>	<u>(1,697,481)</u>	<u>1,423</u>	<u>(315,000)</u>	<u>553,841</u>
OTHER FINANCING SOURCES (USES):												
Transfers in	51,129,008	124,822	337,628	2,086,113	1,271,519	300,002	665,865	245,743	2,029,588	--	315,000	58,505,288
Transfers out	(46,147,421)	(124,822)	(337,628)	(1,557,153)	(321,316)	(300,002)	(703,392)	(245,743)	(358,421)	--	--	(50,095,898)
Total other financing sources (uses)	<u>4,981,587</u>	<u>--</u>	<u>--</u>	<u>528,960</u>	<u>950,203</u>	<u>--</u>	<u>(37,527)</u>	<u>--</u>	<u>1,671,167</u>	<u>--</u>	<u>315,000</u>	<u>8,409,390</u>
Net change in fund balances	<u>8,274,737</u>	<u>744</u>	<u>117,309</u>	<u>597,585</u>	<u>333,487</u>	<u>6,360</u>	<u>(291,053)</u>	<u>(51,047)</u>	<u>(26,314)</u>	<u>1,423</u>	<u>--</u>	<u>8,963,231</u>
Fund balances, beginning of year as previously reported	75,606,847	124,929	415,046	4,102,850	3,189,000	1,193,539	1,054,542	272,093	350,982	(1,415)	--	86,308,413
Prior period adjustment	<u>(1,444,151)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(1,444,151)</u>
Fund balances, beginning of year, as restated	<u>74,162,696</u>	<u>124,929</u>	<u>415,046</u>	<u>4,102,850</u>	<u>3,189,000</u>	<u>1,193,539</u>	<u>1,054,542</u>	<u>272,093</u>	<u>350,982</u>	<u>(1,415)</u>	<u>--</u>	<u>84,864,262</u>
Fund balances, end of year	<u>\$ 82,437,433</u>	<u>\$ 125,673</u>	<u>\$ 532,355</u>	<u>\$ 4,700,435</u>	<u>\$ 3,522,487</u>	<u>\$ 1,199,899</u>	<u>\$ 763,489</u>	<u>\$ 221,046</u>	<u>\$ 324,668</u>	<u>\$ 8</u>	<u>\$ --</u>	<u>\$ 93,827,493</u>

PART II

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

**INDEPENDENT AUDITOR'S REPORT 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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Land and Natural Resources of the State of Hawaii (Department) as of and for the fiscal year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated January 8, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2018-001 to 2018-004 that we consider to be material weaknesses.

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

The Department's response to the findings identified in our audit is described in the accompanying response of the Department of Land and Natural Resources, State of Hawaii. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

N&K CPAs, Inc.

Honolulu, Hawaii
January 8, 2020

PART III
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2018**

Ref. No. Financial Statement Internal Control Findings

2018-001 Improve Recordkeeping to Prepare Accrual Basis Financial Statements

Criteria:

Management is responsible for establishing and maintaining internal control over financial reporting to permit the preparation of the DLNR's financial statements in conformity with accounting principles generally accepted in the United States of America. These accounting principles require government-wide financial statements to be prepared on an accrual basis and the governmental fund financial statements to be prepared on a modified accrual basis. The performance of reconciliations is a standard internal control procedure over financial reporting.

Condition:

During our audit, management restated balances in the capital projects fund related to amounts due to another fund and the State Treasury. The adjustment for approximately \$3.9 million was recorded to the beginning fund balance and approximately \$1.9 million was recorded to beginning net position as of July 1, 2017 in the DLNR's financial statements as of June 30, 2018.

Management also restated balances related to a bond payable and the related interest due to the Department of Budget and Finance for the acquisition of land. The DLNR recorded the land, however, they did not record the bond the State used to fund the acquisition. The adjustment for \$35 million for the bond payable was recorded to beginning net position as of July 1, 2017. The accrued interest due to Budget and Finance of approximately \$1.4 million was recorded to beginning net position and beginning fund balance as of July 1, 2017.

Cause:

The DLNR did not perform a reconciliation of the balances held in the capital improvement fund prior to the current year. The DLNR did not include the bond issuance due to oversight in preparation of the debt schedules.

Effect:

Due to the lack of the reconciliation in the prior years, the DLNR overstated the fund balance in the capital projects fund and understated the balance due to the State Treasury. In addition, the oversight in the preparation of the schedules lead to the understatement of the bonds payable.

Identification as a Repeat Finding, if applicable:

See finding 2017-001 included in the Summary Schedule of Prior Audit Findings.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018**

Ref. No. Financial Statement Internal Control Findings (Continued)

2018-001 Improve Recordkeeping to Prepare Accrual Basis Financial Statements (Continued)

Recommendation:

The DLNR should improve the coordination within the department in its recordkeeping process in preparing accrual basis accounting schedules. All accounting schedules prepared on an accrual basis should be reviewed and reconciled to the supporting account totals in a timely manner. Accounting procedures should be consistently applied throughout the department and reconciliation procedures and format should be standardized to simplify the review and approval process.

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on page 73.

2018-002 Reconcile Security Deposits to Cash Held

Criteria:

The performance of reconciliations is a standard internal control procedure over financial reporting. Reconciliations between detailed security deposit listings to the amounts of cash held as of security deposits held would detect discrepancies of funds not being properly remitted back to former lessees or not appropriately applied to delinquent rents and fees.

Condition:

The DLNR collects security deposits related to the lease of various State lands and facilities including small boat harbor facilities. The divisions that collect the security deposits upon entering lease agreements maintain listings of these cash security deposits. The cash security deposits are to be returned to the lessee upon termination of their lease if no balances are owed for rents or other charges. These funds are deposited into the State Treasury in the Temporary Deposits account and the Boating Security Deposits account. No reconciliations are performed between the security deposit lists and the amount of cash held.

Cause:

The DLNR had not performed reconciliations for several years and difference between the balance in the account and the reconciliation has grown.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018**

Ref. No. Financial Statement Internal Control Findings (Continued)

2018-002 Reconcile Security Deposits to Cash Held (Continued)

Effect:

As of June 30, 2018, the cash balances for the Temporary Deposits account and the Boating Security Deposits account were more than the listings of security deposits. Funds that possibly should be applied to delinquent rents and fees are being held in the respective DLNR Deposit accounts.

Identification as a Repeat Finding, if applicable:

See finding 2017-003 included in the Summary Schedule of Prior Audit Findings.

Recommendation:

The DLNR should perform reconciliations between the security deposit listings to the respective amount of cash held in the Temporary Deposits account and Boating Security Deposits account. Amounts of security deposits identified for past tenants that were delinquent in rents and fees should be transferred and applied to those delinquent rents and fees. Reconciliations should be done monthly in order to properly remit funds back to tenants or apply them to back rents and fees on a timely basis.

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on page 73.

2018-003 Update Allowance for Uncollectible Accounts and Formalize Procedures to Follow up on Delinquent Receivable Accounts

Criteria:

Accounting principles generally accepted in the United States of America require that receivables should be stated at its net realizable value. For receivables, net realizable value is the amount that can be expected to be collected.

HRS Section 40-82 requires that lists of uncollectible accounts be submitted to the Attorney General before they can be removed from the records as a receivable after all efforts have been done to collect the receivable and the Land Board determined and approved the receivable is not collectible.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018**

Ref. No. Financial Statement Internal Control Findings (Continued)

2018-003 Update Allowance for Uncollectible Accounts and Formalize Procedures to Follow up on Delinquent Receivable Accounts (Continued)

Condition:

We noted that the accounts receivable aging schedules for rentals of State lands and small boat harbors contained receivable accounts in which the Land Division or the Boating and Ocean Recreation Division had identified as not collectible. The listing contained some receivables from 2004 and also included notes on the status of collection efforts or whether the lessee was bankrupt or deceased. However the receivable amounts still remain on the receivable listings due to not obtaining proper approvals for write-offs from either the Land Board or submission to the Attorney General.

The amount of the allowance for uncollectible accounts did not include amounts that are currently delinquent. Because some of the current delinquencies may not be collected at all, the allowance should include amounts for this uncollectibility.

Cause:

The DLNR does not have formal written standardized procedures for the follow-up of delinquent receivables and for the write-off of uncollectible balances. This leads to timing and processing discrepancies in the write-off process. The DLNR also does not currently have a debt collector contracted, which results in a slower process of determining which accounts have been truly deemed uncollectible and should then go through the approval process to be written off.

Amounts included in the allowance for uncollectible accounts appear to be only old receivables in which there is absolute certainty that no collection will be made rather than also include portions of current delinquencies. It does not factor the uncollectibility of current delinquencies into what is net realizable value.

Effect:

The gross receivable balance reported in the Ocean Boating and Recreation fund as a receivable and the amounts reported in the Agency fund are comprised of balances that will never be collected.

Identification as a Repeat Finding, if applicable:

See finding 2017-004 included in the Summary Schedule of Prior Audit Findings.

Recommendation:

The allowance for uncollectible accounts should be updated to include portions of current receivable delinquencies. The DLNR should also formalize in writing the procedures to follow up on delinquent receivables. This may include contracting a collection agency, if needed to expedite the process of determining which accounts are uncollectible and then properly seeking Land Board approval for the receivable to be written off followed by submission of the listing to the Attorney General.

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on page 74.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018**

Ref. No. Financial Statement Internal Control Findings (Continued)

2018-004 Improve Documentation and Procedures for Accounts Receivable System

Criteria:

Documentation provides substance to activities related to legal matters, audits, disputes, and rules and regulations. Documentation reduces operational ambiguity. It also provides a record and trail of what was performed and whether any issues arose during the process. Reconciliations between two different systems or between records of details to summary records provide the opportunity to detect whether there are differences and discrepancies.

Established written procedures as documentation provide personnel with a clear and easily understood plan of action required to carry out or implement an activity or function. Well-written procedures will also help eliminate common misunderstandings by identifying processes required and the steps required to properly complete the process.

In addition, having written standard operating procedures documented makes it easier to train new employees, provides consistency in the performance of operational activities or tasks, and potentially reduces mistakes due to improper performance of tasks. It allows management to guide operations without constant supervisory intervention.

Condition:

We noted that during the current fiscal year, the Boating and Ocean Recreation Division implemented a new property management software to account for the rentals of State lands and facilities at small boat harbors. The receivable report from the new property management software was inaccurate and tenant payments were not properly applied to the tenant balances.

Cause:

The Boating and Ocean Recreation Division did not maintain documentation of the transfer of balances between the old system and the new system. In addition, the Division had not finalized the policies and procedures over the new system which led to errors in the new system.

Effect:

As of June 30, 2018, the Boating and Ocean Recreation Division's property management software's balance for the tenant receivable balance is inaccurate.

Identification as a Repeat Finding, if applicable:

Not applicable.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
Fiscal Year Ended June 30, 2018**

Ref. No. Financial Statement Internal Control Findings (Continued)

**2018-004 Improve Documentation and Procedures for Accounts Receivable System
(Continued)**

Recommendation:

The Boating and Ocean Recreation Division should complete the documentation of the opening balance in the new property management system and finalize written policies and procedures for the new system to ensure the accuracy of the tenant receivable balances.

Views of Responsible Official(s) and Planned Corrective Action:

Management agrees with the finding and recommendation. See Corrective Action Plan on page 74.

PART IV

RESPONSE OF

THE DEPARTMENT OF LAND AND NATURAL RESOURCES, STATE OF HAWAII

(Provided by the Department Land and Natural Resources, State of Hawaii)

DAVID Y. IGE
GOVERNOR OF
HAWAII



**STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES**

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

SUZANNE D. CASE
CHAIRPERSON
BOARD OF LAND AND NATURAL RESOURCES
COMMISSION ON WATER RESOURCE MANAGEMENT

ROBERT K. MASUDA
FIRST DEPUTY

M. KALEO MANUEL
DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES
BOATING AND OCEAN RECREATION
BUREAU OF CONVEYANCES
COMMISSION ON WATER RESOURCE MANAGEMENT
CONSERVATION AND COASTAL LANDS
CONSERVATION AND RESOURCES ENFORCEMENT
ENGINEERING
FORESTRY AND WILDLIFE
HISTORIC PRESERVATION
KAHOLAWE ISLAND RESERVE COMMISSION
LAND
STATE PARKS

November 13, 2019

Mr. Blake S. Isobe, Managing Principal
N&K CPAs, Inc.
1001 Bishop Street, Suite 1700
Honolulu, Hawaii 96813

Dear Mr. Isobe:

The Department of Land and Natural Resources has reviewed your audit findings and recommendations. We respectfully submit the enclosed corrective action plan for the fiscal year ended June 30, 2018.

If you have any questions, please contact Cynthia Gomez, Fiscal Management Officer, at (808) 587-0340 or email at cynthia.c.gomez@hawaii.gov.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "Suzanne D. Case".

Suzanne D. Case
Chairperson, BLNR

PART III SCHEDULE OF FINDINGS

2018-001 Improve Recordkeeping to Prepare Accrual Basis Financial Statements (Page 65)

Corrective Action Plan:

Concur. The Department of Land and Natural Resources (DLNR) continues to work on improving the coordination within the department to improve the recordkeeping process when preparing accrual basis accounting schedules. The Administrative Services Office (ASO) will work closely with the various divisions to ensure they maintain adequate accounting schedules and adhere to generally accepted accounting principles. The DLNR will work to develop a standardized, well-defined, and efficient business process to ensure that financial information is reported accurately and timely.

Responsible Official(s): Cynthia C. Gomez, Fiscal Management Officer

Anticipated Completion Date: Ongoing

2018-002 Reconcile Security Deposits to Cash Held (Page 66)

Corrective Action Plan:

Concur. The DLNR Division of Boating and Ocean Recreation (DOBOR) has reconciled the security deposits in the Boating Security Deposits account and will perform reconciliations quarterly or semi-annually. Security deposits are applied to any outstanding balance and any remaining balance is refunded to the customer. Reconciling items will be adjusted to accurately reflect the total security deposits held on the Boating Security Deposits account.

It is standard operating policy for Land Division to close an account after expenses, unless there are cleanup costs or other monetary defaults outstanding. Only after the property/land is cleaned up and defaults cured, will the division return any remaining funds to the lessee/permittee. Land Division and ASO are continually working together to reconcile the balances in the Temporary Deposits accounts. Appropriate adjustments will be made to reconcile security deposit lists and the amount of cash held.

Responsible Official(s): Kevin Yim, Boating Staff Officer, DOBOR
Russell Tsuji, Administrator, Land Division
Cynthia C. Gomez, Fiscal Management Officer

Anticipated Completion Date: Ongoing

Concur. DOBOR will update the allowance for uncollectible accounts to include portions of current receivable delinquencies using its new Property Management software. DOBOR has submitted accounts to the Board of Land and Natural Resources for approval to write-off and then to the Department of the Attorney General for the accounts to be written off. DOBOR has used a collection agency in the past with marginal results. DOBOR and Land Division (Land) have also attempted to solicit a collection agency in the past but were unsuccessful due to a lack of bidders. DOBOR is open to using a collection agency and will develop written procedures to follow up on delinquent receivables.

Land will update the allowance for uncollectible accounts to include portions of current receivable delinquencies. Land is exploring all avenues on collections. Land has met with the Department of the Attorney General and is also evaluating whether to request an additional position through the legislature to hire a staff person specializing in collections. Land has formal written standard procedures for the write-off of uncollectible balances and will update these procedures with formal written standards procedures for the follow up of delinquent receivables.

Anticipated Completion Date: June 30, 2020

2018-004 Improve Documentation and Procedures for Accounts Receivable System (Page 69)

Concur. The new accounts receivable system is not fully operational and DOBOR is still in the process of completing the documentation of the opening balance and finalizing written policies and procedures for the new system.

Anticipated Completion Date: June 30, 2020

PART V
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**Department of Land and Natural Resources
State of Hawaii
STATUS REPORT
Fiscal Year Ended June 30, 2017**

This section contains the current status of our prior audit recommendations. The recommendations are referenced to the pages of the previous audit report for the fiscal year ended June 30, 2017, dated April 3, 2019.

SECTION II - FINANCIAL STATEMENT FINDINGS

Recommendations	Status
<p>2017-001 Improve Recordkeeping to Prepare Accrual Basis Financial Statements</p> <p>The DLNR should improve the coordination within the department of its recordkeeping process when preparing accrual-basis accounting schedules which should also be reviewed and reconciled to the supporting account totals in a timely manner. Accounting procedures should be consistently applied throughout the department and reconciliation procedures and format should be standardized to simplify the review and approval process.</p>	<p>Not accomplished, refer to current finding number 2018-001.</p>
<p>2017-002 Improve Accounting for Construction in Progress</p> <p>The DLNR should establish formal procedures to ensure that errors in the FAIS reports and completed construction work in progress and projects are communicated timely by the divisions to the administrative service office in order to properly capitalize, depreciate capital assets and expense costs for completed projects in the appropriate accounting period.</p>	<p>Accomplished.</p>
<p>2017-003 Reconcile Security Deposits to Cash Held</p> <p>The DLNR should perform reconciliations between the security deposit listings to the respective amount of cash held in the Temporary Deposits account and the Boating Security Deposits account.</p>	<p>Not accomplished, refer to current finding number 2018-002</p>
<p>2017-004 Update Allowance for Uncollectible Accounts and Formalize Procedures to Follow-up on Delinquent Accounts</p> <p>The allowance for uncollectible accounts should be updated to include portions of current receivable delinquencies. The DLNR should also develop formal written procedures to follow-up on delinquent receivables.</p>	<p>Not accomplished, refer to current finding number 2018-003.</p>

**Department of Land and Natural Resources
State of Hawaii
STATUS REPORT (Continued)
Fiscal Year Ended June 30, 2017**

Recommendations	Status
2017-005 Remit Funds Due to Others on a Timely Basis Ceded land related revenues should be remitted quarterly to OHA. For funds collected from years prior to the current year, if the total amount of funds already remitted to OHA met the State's annual obligation to OHA, these funds should be transferred to B&F who maintains a trust account for funds collected from ceded lands in excess of the annual required OHA payment.	Accomplished.