

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

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITOR'S REPORTS**

Fiscal Year Ended June 30, 2019

**Submitted by  
The Auditor  
State of Hawaii**

**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, 2019, 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, 2019, and the respective changes in financial position 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 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, 2019, and the changes in its financial position 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 N to the basic financial statements, the 2018 financial statements have been restated to correct a misstatement of retainage payable in the Capital Projects Fund and an overstatement of capital assets and construction in progress in the governmental activities of the government-wide statement of net position. Our opinions are not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 - 19 and budgetary comparison information on pages 55 - 60 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 are 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining 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 December 21, 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 the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

N&K CPAs, Inc.

Honolulu, Hawaii  
December 21, 2020



**Department of Land and Natural Resources  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Fiscal Year Ended June 30, 2019**

As management of the Department of Land and Natural Resources ("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, 2019. 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 2019**

- The assets of the DLNR exceeded its liabilities at June 30, 2019, by \$750.3 million. Of this amount, \$233.6 million is unrestricted and may be used to meet the DLNR's ongoing obligations.
- As of June 30, 2019, the DLNR's governmental funds reported a combined ending fund balance of \$273.4 million.
- During the fiscal year ended June 30, 2019, the DLNR's governmental funds total revenue (net) was \$210.5 million and expenses totaled \$195.8 million.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is 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 fiscal 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 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, 2019**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

Fund Financial Statements

The fund financial statements provide more detailed information about the DLNR's governmental and fiduciary 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 supplementary information 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 current financial resources, as well as on balances of current financial resources available at the end of the fiscal year.

The DLNR presents six major funds in the fund financial statements: (1) General Fund, (2) Federal Grant Fund, (3) Ocean-Based Recreation Fund, (4) Special Land Development Fund, (5) Land Conservation Fund, and (6) Capital Projects Fund.

The DLNR has an annual appropriated budget for its major funds. A budgetary comparison schedule has been provided for these major 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 to the financial statements 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.

Required Supplementary information

In addition to the basic financial statements, other supplementary information, and accompanying notes to the financial statements, this report presents certain required supplementary information ("RSI") including combining financial statements referred to earlier in connection with other non-major Governmental Funds and budget to actual schedules for the DLNR General and Special Revenue Funds as well as accompanying notes.

**Department of Land and Natural Resources  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Year Ended June 30, 2019**

**DEPARTMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, the change in net position may serve over time as a useful indicator of the DLNR's financial position. As of the fiscal year ended June 30, 2019, the DLNR's total net position was approximately \$750.3 million.

The largest part of the DLNR's net position reflects its net 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 are comparative condensed statements of net position:

Condensed Statements of Net Position  
June 30, 2019 and 2018  
(Amounts in millions)

	<b>Governmental activities</b>		<b>Increase</b>
	<b>2019</b>	<b>2018</b>	<b>(decrease)</b>
<b>Assets:</b>			
Current	\$ 311.5	\$ 303.2	\$ 8.3
Noncurrent (capital assets, net of depreciation)	<u>519.8</u>	<u>518.1</u>	<u>1.7</u>
Total assets	\$ <u>831.3</u>	\$ <u>821.3</u>	\$ <u>10.0</u>
<b>Liabilities:</b>			
Current	\$ 40.5	\$ 29.9	\$ 10.6
Noncurrent	<u>40.5</u>	<u>42.0</u>	<u>(1.5)</u>
Total liabilities	<u>81.0</u>	<u>71.9</u>	<u>9.1</u>
<b>Net position:</b>			
Net investment in capital assets	485.2	481.8	3.4
Restricted	31.5	28.3	3.2
Unrestricted	<u>233.6</u>	<u>239.3</u>	<u>(5.7)</u>
Total net position	<u>750.3</u>	<u>749.4</u>	<u>0.9</u>
Total liabilities and net position	\$ <u>831.3</u>	\$ <u>821.3</u>	\$ <u>10.0</u>

**Department of Land and Natural Resources**  
**State of Hawaii**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**Fiscal Year Ended June 30, 2019**

**DEPARTMENT-WIDE FINANCIAL ANALYSIS (Continued)**

The DLNR's net position increased by \$0.9 million for the fiscal year ended June 30, 2019. The \$3.4 million increase in net investment in capital assets is primarily due to current year additions offset by current fiscal year adjustments. The \$3.2 million increase in restricted net position is due to funds received for project collaboration agreements with private and public agencies who are working in partnership with the DLNR.

Analysis of the DLNR's Operations: The following table provides a summary of the DLNR's operations for the fiscal year ended June 30, 2019 and 2018:

Condensed Statements of Activities Fiscal Years Ended June 30, 2019 and 2018 (Amounts in millions)			
	<u>Governmental activities</u>		<u>Increase</u>
	<u>2019</u>	<u>2018</u>	<u>(decrease)</u>
Revenues:			
Program revenues:			
Charges for services	\$ 49.2	\$ 49.8	\$ (0.6)
Operating grants and contributions	38.1	28.8	9.3
Capital grants and contributions	0.3	0.5	(0.2)
General revenues:			
State allotted appropriations, net of lapses	93.7	99.0	(5.3)
Non-imposed employee wages and fringe benefits	16.9	15.2	1.7
Conveyance taxes	6.8	6.8	--
Liquid fuel taxes	0.2	2.0	(1.8)
Transient accommodations taxes	4.5	4.5	--
Interest and investment earnings	<u>1.0</u>	<u>0.7</u>	<u>0.3</u>
Total revenues	<u>\$ 210.7</u>	<u>\$ 207.3</u>	<u>\$ 3.4</u>
Transfers, net	\$ (15.7)	\$ 0.5	\$ (16.2)
Expenses:			
Economic development	\$ 24.6	\$ 23.6	\$ 1.0
Environmental protection	73.6	78.2	(4.6)
Cultural and recreation	65.2	62.1	3.1
Public safety	5.0	4.3	0.7
Individual rights	7.0	5.2	1.8
Government-wide support	<u>10.4</u>	<u>10.6</u>	<u>(0.2)</u>
Total	<u>185.8</u>	<u>184.0</u>	<u>1.8</u>
Change in net position	<u>\$ 9.2</u>	<u>\$ 23.8</u>	<u>\$ (14.6)</u>
Net position:			
Beginning of fiscal year	\$ <u>749.4</u>	\$ <u>764.1</u>	\$ <u>(14.7)</u>
Prior period adjustment	<u>(8.3)</u>	<u>(38.5)</u>	<u>30.2</u>
Beginning of fiscal year, as restated	<u>741.1</u>	<u>725.6</u>	<u>15.5</u>
End of fiscal year	<u>\$ 750.3</u>	<u>\$ 749.4</u>	<u>\$ 0.9</u>

**Department of Land and Natural Resources  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Year Ended June 30, 2019**

**DEPARTMENT-WIDE FINANCIAL ANALYSIS (Continued)**

Total revenues increased by \$3.4 million primarily due to a \$9.3 million increase in operating grants and contributions, offset by a \$5.3 million decrease in State allotted appropriations, net of lapses, a \$1.8 million decrease in liquid fuel taxes, and a \$0.6 million decrease in charges for services. The increase in operating grants and contributions is primarily due to increased federal funds for land/easement related deposits and land acquisition, or funds earmarked for specific purposes. There was a \$16.2 million decrease in net transfers primarily due to transfers from the Natural Area Reserve Fund to the State of Hawaii General Fund. There was an increase of \$1.8 million in total expenses primarily due to additional appropriations from the Legislature earmarked for specific projects and programs.

**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, 2019, there was a \$17.4 million assigned fund balance classified in accordance with GASB Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments*.

The DLNR has four major special revenue and several non-major special revenue 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 four major special revenue funds are the 1) Federal Grant Fund, 2) Ocean-Based Recreation Fund, 3) Special Land Development Fund, and 4) Land Conservation 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 fiscal year approximated \$25.8 million from approximately 144 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. Net revenues were approximately \$17.9 million and expenditures were approximately \$15.2 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. Net revenues were approximately \$21.1 million and expenditures were approximately \$8.1 million.

**Department of Land and Natural Resources  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Year Ended June 30, 2019**

**FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS (Continued)**

The Land Conservation Fund accounts for revenues from the operation, management, sale, lease, or other disposition of land or the improvements on the land acquired or constructed under the provisions of Section 173A-5, Hawai'i Revised Statutes; interest earned from participation in the State investment pool, and those sources specifically authorized by Section 173A-5, Hawai'i Revised Statutes, such as the 10% or \$6,800,000 of conveyance taxes collected, whichever is less, is deposited in the fund every fiscal year. Net revenues were approximately \$7.0 million and expenditures were approximately \$0.4 million.

The Capital Projects Fund received approximately \$29.7 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.

Within the governmental fund financial statements, the overall net change in fund balance, for the fiscal year ended June 30, 2019, was a decrease of approximately \$0.7 million.

Presented in the following tables are condensed summary comparison of the balance sheets, revenues, and statements of revenues, expenditures, and changes in fund balances for the governmental funds.

Comparison of Balance Sheets  
June 30, 2019 and 2018  
(Amounts in millions)

	<u>Assets</u>			<u>Liabilities</u>			<u>Fund Balances</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>
General Fund	\$ 24.3	\$ 19.7	\$ 4.6	\$ 6.9	\$ 4.6	\$ 2.3	\$ 17.4	\$ 15.1	\$ 2.3
Federal Grant Fund	13.4	12.3	1.1	13.4	12.3	1.1	--	--	--
Ocean-Based Recreation Fund	15.4	13.6	1.8	1.7	1.8	(0.1)	13.7	11.8	1.9
Special Land Development Fund	32.2	25.5	6.7	1.7	1.5	0.2	30.5	24.0	6.5
Land Conservation Fund	33.2	25.3	7.9	1.8	--	1.8	31.4	25.3	6.1
Capital Projects Fund	136.0	141.2	(5.2)	15.0	9.8	5.2	121.0	131.4	(10.4)
Other Governmental Funds	<u>62.2</u>	<u>70.2</u>	<u>(8.0)</u>	<u>2.8</u>	<u>1.5</u>	<u>1.3</u>	<u>59.4</u>	<u>68.7</u>	<u>(9.3)</u>
Total	<u>\$ 316.7</u>	<u>\$ 307.8</u>	<u>\$ 8.9</u>	<u>\$ 43.3</u>	<u>\$ 31.5</u>	<u>\$ 11.8</u>	<u>\$ 273.4</u>	<u>\$ 276.3</u>	<u>\$ (2.9)</u>

**Department of Land and Natural Resources  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Year Ended June 30, 2019**

**FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS (Continued)**

Comparison of Revenues  
Fiscal Years Ended June 30, 2019 and 2018  
(Amounts in millions)

	<u>Gross Appropriations</u>			<u>Lapsed Appropriations</u>			<u>Other Revenues</u>			<u>Total Revenues</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>	<u>2019</u>	<u>2018</u>	<u>Change</u>
General Fund	\$ 64.7	\$ 55.2	\$ 9.5	\$ (0.6)	\$ 1.2	\$ (1.8)	\$ 16.9	\$ 15.2	\$ 1.7	\$ 81.0	\$ 69.2	\$ 11.8
Federal Grant Fund	--	--	--	--	--	--	25.8	24.3	1.5	25.8	24.3	1.5
Ocean-Based Recreation Fund	--	--	--	--	--	--	17.9	18.9	(1.0)	17.9	18.9	(1.0)
Special Land Development Fund	--	--	--	--	--	--	21.1	20.8	0.3	21.1	20.8	0.3
Land Conservation Fund	--	--	--	--	--	--	7.0	6.9	0.1	7.0	6.9	0.1
Capital Projects Fund	34.6	51.8	(17.2)	(4.9)	6.8	(11.7)	--	0.5	(0.5)	29.7	45.5	(15.8)
Other Governmental Funds	--	--	--	--	--	--	28.0	21.8	6.2	28.0	21.8	6.2
Total	\$ <u>99.3</u>	\$ <u>107.0</u>	\$ <u>(7.7)</u>	\$ <u>(5.5)</u>	\$ <u>8.0</u>	\$ <u>(13.5)</u>	\$ <u>116.7</u>	\$ <u>108.4</u>	\$ <u>8.3</u>	\$ <u>210.5</u>	\$ <u>207.4</u>	\$ <u>3.1</u>

**Department of Land and Natural Resources  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Year Ended June 30, 2019**

**FINANCIAL ANALYSIS OF THE DEPARTMENT'S GOVERNMENTAL FUNDS (Continued)**

Comparison of Statements of Revenues, Expenditures, and Changes in Fund Balances  
Fiscal Years Ended June 30, 2019 and 2018  
(Amounts in millions)

	Revenues			Expenditures			Net Transfers			Net Changes in Fund Balances		
	2019	2018	Change	2019	2018	Change	2019	2018	Change	2019	2018	Change
General Fund	\$ 81.0	\$ 69.2	\$ 11.8	\$ 78.7	\$ 69.4	\$ 9.3	\$ --	\$ --	\$ --	\$ 2.3	\$ (0.2)	\$ 2.5
Federal Grant Fund	25.8	24.3	1.5	25.8	24.3	1.5	--	--	--	--	--	--
Ocean-Based Recreation Fund	17.9	18.9	(1.0)	15.2	14.4	0.8	(0.8)	(2.4)	1.6	1.9	2.1	(0.2)
Special Land Development Fund	21.1	20.8	0.3	8.0	8.0	--	(6.6)	(7.5)	0.9	6.5	5.3	1.2
Land Conservation Fund	7.0	6.9	0.1	0.4	0.3	0.1	(0.5)	(1.8)	1.3	6.1	4.8	1.3
Capital Projects Fund	29.7	45.5	(15.8)	36.8	43.7	(6.9)	(1.1)	2.0	(3.1)	(8.2)	3.8	(12.0)
Other Governmental Funds	<u>28.0</u>	<u>21.8</u>	<u>6.2</u>	<u>30.9</u>	<u>27.8</u>	<u>3.1</u>	<u>(6.4)</u>	<u>10.2</u>	<u>(16.6)</u>	<u>(9.3)</u>	<u>4.2</u>	<u>(13.5)</u>
Total	\$ <u>210.5</u>	\$ <u>207.4</u>	\$ <u>3.1</u>	\$ <u>195.8</u>	\$ <u>187.9</u>	\$ <u>7.9</u>	\$ <u>(15.4)</u>	\$ <u>0.5</u>	\$ <u>(15.9)</u>	\$ <u>(0.7)</u>	\$ <u>20.0</u>	\$ <u>(20.7)</u>



**Department of Land and Natural Resources  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Year Ended June 30, 2019**

**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  
June 30, 2019 and 2018  
(Amounts in millions)

	<u>2019</u>	<u>2018</u>	<u>Change</u>
<b>ASSETS</b>			
Cash and short-term cash	\$ 8.5	\$ 11.9	\$ (3.4)
investments held in State Treasury			
Receivables:			
General leases and licenses, net of allowance for doubtful accounts	<u>0.7</u>	<u>0.7</u>	<u>--</u>
Total assets	<u>\$ 9.2</u>	<u>\$ 12.6</u>	<u>\$ (3.4)</u>
<b>LIABILITIES</b>			
Refunds due to tenants	\$ 0.3	\$ --	\$ 0.3
Due to State Treasury	3.4	6.5	(3.1)
Due to other State agencies	0.5	1.2	(0.7)
Unearned revenues	1.1	1.1	--
Deposits	<u>3.9</u>	<u>3.8</u>	<u>0.1</u>
Total liabilities	<u>\$ 9.2</u>	<u>\$ 12.6</u>	<u>\$ (3.4)</u>

In compliance with Executive Order 06-06, which carries out the requirements of Act 178, SLH 2006, DLNR established holding accounts to accumulate the general fund's share of receipts derived from the use of ceded land. 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 2019, cash and short term investments decreased by approximately \$3.4 million primarily due to the remittance of excess funds to the State of Hawaii Treasury. Additionally, the DLNR transferred \$6.7 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 approximately \$4.6 million less than the budgeted expenditures primarily due to cost savings from vacant positions and budget restrictions imposed on the General Fund.

**Department of Land and Natural Resources  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Year Ended June 30, 2019**

**BUDGETARY HIGHLIGHTS (Continued)**

Federal Grant Fund - 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.

Ocean Based Recreation Fund - Actual expenditures for the Ocean Based Recreation Fund were approximately \$0.7 million less than the budgeted expenditures primarily due a legislative adjustment which used general funds to fund eighteen positions previously funded by special revenue funds.

Special Land Development Fund - Actual expenditures for the Special Land Development Fund were approximately \$12.5 million less than the budgeted expenditures primarily due to budgeted expenditures related to contracts for the planning and entitlement of State lands in Pulehunui, Maui, and for costs related to a new district land office in Hilo, Hawaii, that were not expended during fiscal year 2019.

Land Conservation Fund - Actual expenditures for the Land Conservation Fund were approximately \$3.7 million less than the budgeted expenditures primarily due to encumbrances for three approved grant awards that were not expended in fiscal year 2019.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

As of June 30, 2019, the DLNR had invested approximately \$519.8 million (net of accumulated depreciation) in a broad range of capital assets. There was a net increase of approximately \$7.9 million as of the year ended June 30, 2019. Non-depreciable assets decreased by approximately \$31.5 million primarily due to approximately \$58.7 million in construction projects completed, offset by approximately \$18.3 million of construction in progress costs and \$8.9 million in non-depreciable land and improvement additions. Depreciable assets, net of accumulated depreciation increased by approximately \$39.4 million primarily due to increases of \$53.0 million in land improvements, \$5.7 million in buildings and improvements, \$1.4 million in vehicles, and \$0.5 million in furniture and equipment, offset by current year depreciation of \$20.7 million and net disposals of \$0.5 million.

See Note D to the financial statements for a description of capital assets activities for the fiscal year ended June 30, 2019.

Long-term liabilities consist of accrued vacation, State of Hawaii reimbursable general obligation bonds, and notes payable to the State Treasury.

The outstanding balance of the State of Hawaii general obligation bonds allocated to the DLNR is approximately \$34.6 million as of June 30, 2019. 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.

**Department of Land and Natural Resources  
State of Hawaii  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
Fiscal Year Ended June 30, 2019**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

See Note G to the financial statements for a description of the outstanding State of Hawaii general obligations bonds allocated to the DLNR as of June 30, 2019.

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

In December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China. In March 2020, the World Health Organization ("WHO") classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally. The COVID-19 pandemic and public health emergency has had a significant negative impact on the revenues of the DLNR. The DLNR expects that other financial impact could occur, however, the related financial impact and duration cannot be reasonably estimated at this time.

The DLNR has entered into three agreements with the State Department of Budget and Finance for loans up to \$5 million to temporarily fund grant reimbursable costs on Federal Aid projects for ferry system improvements in Maui County. The DLNR serves as a sub-recipient to the State Department of Transportation for these projects and is required to pay its vendors' invoices prior to submitting claims for reimbursement.

For the period ended June 30, 2019, management has determined that there are no other currently 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, 2019**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash and cash equivalents	\$ 306,704,786
Receivables	
Federal grants	3,940,412
General leases and licenses, net of allowance for doubtful accounts of \$1,022,088	917,024
Total current assets	311,562,222
Noncurrent assets	
Capital assets, net of accumulated depreciation	519,798,257
Total noncurrent assets	519,798,257
Total assets	\$ 831,360,479
<b>LIABILITIES AND NET POSITION</b>	
Current liabilities	
Vouchers and contracts payable	\$ 14,097,420
Retainage payable	2,489,586
Accrued wages and employee benefits payable	3,657,644
Interest payable	246,179
Accrued compensated absences, current portion	2,809,421
General obligation bonds, current portion	1,699,570
Due to other State agencies	196,638
Due to State Treasury	9,185,790
Unearned revenues	6,156,659
Total current liabilities	40,538,907
Noncurrent liabilities	
General obligation bonds, less current portion	32,867,991
Accrued compensated absences, less current portion	5,314,799
Notes payable to State Treasury	2,309,135
Total noncurrent liabilities	40,491,925
Total liabilities	81,030,832
Net position	
Net investment in capital assets	485,238,371
Restricted	31,511,013
Unrestricted	233,580,263
Total net position	750,329,647
Total liabilities and net position	\$ 831,360,479

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, 2019**

		Program revenues				
Expenses	Charges for Services	Operating, Grants and Contributions	Capital Grants and Contributions		Net Revenue (Expenses) and Change in Net Position	
Governmental activities:						
Economic development	\$ 24,571,335	\$ 680,632	\$ 8,846,450	\$ 1,532	\$ (15,042,721)	
Environmental protection	73,498,641	870,515	20,261,803	--	(52,366,323)	
Cultural and recreation	65,168,763	21,203,198	6,865,419	252,366	(36,847,780)	
Public safety	4,990,428	582,286	258,361	--	(4,149,781)	
Individual rights	7,033,474	7,968,429	--	--	934,955	
Government-wide support	<u>10,435,586</u>	<u>17,854,143</u>	<u>1,853,582</u>	<u>--</u>	<u>9,272,139</u>	
Total governmental activities	<u>\$ 185,698,227</u>	<u>\$ 49,159,203</u>	<u>\$ 38,085,615</u>	<u>\$ 253,898</u>	<u>\$ (98,199,511)</u>	
		General revenues:				
					93,718,895	
					16,919,136	
					6,800,000	
					214,756	
					4,500,000	
					<u>986,519</u>	
			Total general revenues		<u>123,139,306</u>	
			Transfers		<u>(15,707,886)</u>	
			Change in net position		9,231,909	
			Net position at June 30, 2018, as previously reported		749,399,827	
			Prior period adjustment		<u>(8,302,089)</u>	
			Net position at June 30, 2018, as restated		<u>741,097,738</u>	
			Net position at June 30, 2019		<u>\$ 750,329,647</u>	

See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources**  
**State of Hawaii**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2019**

	<u>General Fund</u>	<u>Federal Grant Fund</u>	<u>Ocean-Based Recreation Fund</u>	<u>Special Land Development Fund</u>	<u>Land Conservation Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>								
Cash and short-term cash investments held in State Treasury	\$ 23,088,497	\$ 9,538,769	\$ 13,545,560	\$ 30,132,274	\$ 33,186,109	\$ 135,896,222	\$ 61,317,355	\$ 306,704,786
Receivables:								
Federal grants	--	3,822,734	--	--	--	117,678	--	3,940,412
General leases and licenses, net of allowance for doubtful accounts	--	--	647,303	39,022	--	--	230,699	917,024
Due from other State agencies	--	--	--	14,151	--	--	152,880	167,031
Due from Capital Projects Fund	--	--	--	1,999,986	--	--	--	1,999,986
Due from Federal Grant Fund	<u>1,194,355</u>	<u>--</u>	<u>1,244,841</u>	<u>--</u>	<u>--</u>	<u>41,169</u>	<u>647,706</u>	<u>3,128,071</u>
Total assets	<u>\$ 24,282,852</u>	<u>\$ 13,361,503</u>	<u>\$ 15,437,704</u>	<u>\$ 32,185,433</u>	<u>\$ 33,186,109</u>	<u>\$ 136,055,069</u>	<u>\$ 62,348,640</u>	<u>\$ 316,857,310</u>
<b>LIABILITIES:</b>								
Vouchers and contracts payable	\$ 3,404,972	\$ 1,556,909	\$ 712,859	\$ 351,518	\$ 35	\$ 6,293,729	\$ 1,777,398	\$ 14,097,420
Retainage payable	--	--	--	--	--	2,489,586	--	2,489,586
Accrued wages and employee benefits payable	2,272,282	228,629	355,055	232,343	13,504	--	555,831	3,657,644
Due to State Treasury	1,194,355	4,293,479	--	--	1,803,811	1,894,145	--	9,185,790
Due to other State agencies	--	--	351,872	--	--	--	11,797	363,669
Due to other governmental funds	--	3,128,071	--	--	--	1,999,986	--	5,128,057
Unearned revenue	--	3,404,415	349,143	1,153,669	--	744,240	505,192	6,156,659
Notes payable to State Treasury	--	750,000	--	--	--	1,559,135	--	2,309,135
Total liabilities	<u>6,871,609</u>	<u>13,361,503</u>	<u>1,768,929</u>	<u>1,737,530</u>	<u>1,817,350</u>	<u>14,980,821</u>	<u>2,850,218</u>	<u>43,387,960</u>
<b>FUND BALANCES:</b>								
Restricted	--	--	--	--	--	--	31,511,013	31,511,013
Committed	--	--	13,668,775	30,447,903	31,368,759	--	27,987,409	103,472,846
Assigned	<u>17,411,243</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>121,074,248</u>	<u>--</u>	<u>138,485,491</u>
Total fund balances	<u>17,411,243</u>	<u>--</u>	<u>13,668,775</u>	<u>30,447,903</u>	<u>31,368,759</u>	<u>121,074,248</u>	<u>59,498,422</u>	<u>273,469,350</u>
Total liabilities and fund balances	<u>\$ 24,282,852</u>	<u>\$ 13,361,503</u>	<u>\$ 15,437,704</u>	<u>\$ 32,185,433</u>	<u>\$ 33,186,109</u>	<u>\$ 136,055,069</u>	<u>\$ 62,348,640</u>	<u>\$ 316,857,310</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, 2019**

<b>Total fund balances - Governmental funds</b>	<b>\$</b>	<b>273,469,350</b>
 <b>Amounts reported for governmental activities in the statement of net position are different because:</b>		
 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capital assets		
Governmental capital assets	\$ 766,258,816	
Less accumulated depreciation	<u>(246,460,559)</u>	519,798,257
 Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.		
		(8,124,220)
 Bonds payable are not due in the current period and, therefore, is not reported in the funds.		
		(34,567,561)
 Interest payable is not due in the current period and, therefore, is not reported in the funds.		
		<u>(246,179)</u>
 <b>Net position of governmental activities</b>	 <b>\$</b>	 <b><u>750,329,647</u></b>

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, 2019**

	General Fund	Federal Grant Fund	Ocean-Based Recreation Fund	Special Land Development Fund	Land Conservation Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>								
State allotments, net	\$ 64,056,214	\$ --	\$ --	\$ --	\$ --	\$ 29,662,680	\$ --	\$ 93,718,894
Nonimposed employee wages and fringe benefits	16,919,136	--	--	--	--	--	--	16,919,136
Intergovernmental revenue	--	25,795,481	--	--	--	--	--	25,795,481
General leases, licenses and permits	--	--	15,108,476	11,317,706	241	--	5,036,887	31,463,310
Fees and service charges	--	--	924,777	6,536,196	--	--	10,211,712	17,672,685
Taxes, fuel and others	--	--	1,757,887	3,000,000	6,800,000	--	1,749,865	13,307,752
Interest	--	1,639	76,281	173,052	192,018	1,532	543,530	988,052
Other	15,545	--	25,705	60,586	--	--	10,418,516	10,520,352
Total revenues	<u>80,990,895</u>	<u>25,797,120</u>	<u>17,893,126</u>	<u>21,087,540</u>	<u>6,992,259</u>	<u>29,664,212</u>	<u>27,960,510</u>	<u>210,385,662</u>
<b>EXPENDITURES:</b>								
Economic development	8,729,764	8,741,846	--	--	--	--	1,287,509	18,759,119
Environmental protection	52,272,333	10,178,590	--	--	--	--	10,250,906	72,701,829
Culture and recreation	14,521,076	6,660,132	15,017,687	--	--	--	7,994,710	44,193,605
Public safety	2,928,945	216,552	--	--	--	--	1,549,357	4,694,854
Individual rights	--	--	--	--	--	--	6,962,120	6,962,120
Government-wide support	260,781	--	--	8,147,492	462,262	--	--	8,870,535
Capital improvement projects	--	--	--	--	--	36,841,490	--	36,841,490
Debt service:								
Principal on long-term debt	--	--	123,407	--	--	--	1,535,000	1,658,407
Interest on long-term debt	--	--	61,253	--	--	--	1,000,069	1,061,322
Total expenditures	<u>78,712,899</u>	<u>25,797,120</u>	<u>15,202,347</u>	<u>8,147,492</u>	<u>462,262</u>	<u>36,841,490</u>	<u>30,579,671</u>	<u>195,743,281</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,277,996</u>	<u>--</u>	<u>2,690,779</u>	<u>12,940,048</u>	<u>6,529,997</u>	<u>(7,177,278)</u>	<u>(2,619,161)</u>	<u>14,642,381</u>
<b>OTHER FINANCING SOURCES (USES):</b>								
Transfers in	--	1,465,332	26,059,575	15,509,269	22,400,459	527,580	63,839,453	129,801,668
Transfers out	--	(1,465,332)	(26,847,938)	(22,064,810)	(22,873,963)	(1,614,002)	(70,237,097)	(145,103,142)
Total other financing uses	<u>--</u>	<u>--</u>	<u>(788,363)</u>	<u>(6,555,541)</u>	<u>(473,504)</u>	<u>(1,086,422)</u>	<u>(6,397,644)</u>	<u>(15,301,474)</u>
Net change in fund balances	<u>2,277,996</u>	<u>--</u>	<u>1,902,416</u>	<u>6,384,507</u>	<u>6,056,493</u>	<u>(8,263,700)</u>	<u>(9,016,805)</u>	<u>(659,093)</u>
Fund balances, beginning of fiscal year, as previously reported	15,133,247	--	11,766,359	24,063,396	25,312,266	131,495,780	68,515,227	276,286,275
Prior period adjustment	--	--	--	--	--	(2,157,832)	--	(2,157,832)
Fund balances, beginning of fiscal year, as restated	<u>15,133,247</u>	<u>--</u>	<u>11,766,359</u>	<u>24,063,396</u>	<u>25,312,266</u>	<u>129,337,948</u>	<u>68,515,227</u>	<u>274,128,443</u>
Fund balances, end of fiscal year	<u>\$ 17,411,243</u>	<u>\$ --</u>	<u>\$ 13,668,775</u>	<u>\$ 30,447,903</u>	<u>\$ 31,368,759</u>	<u>\$ 121,074,248</u>	<u>\$ 59,498,422</u>	<u>\$ 273,469,350</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, 2019**

<b>Total Net change in fund balances - Government funds</b>	\$	(659,093)
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**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	\$ 28,621,973	
Current fiscal year depreciation	<u>(20,739,821)</u>	7,882,152

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	342,767
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Change in interest payable 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	7,676
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Bond principal repayment	<u>1,658,407</u>
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<b>Change in net position of governmental activities</b>	\$	<u><u>9,231,909</u></u>
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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, 2019**

**ASSETS**

Cash and short-term cash investments held in State Treasury	\$	8,507,308
Receivables:		
General leases and licenses, net of allowance for doubtful accounts of \$640,266		700,640
Total assets	\$	9,207,948

**LIABILITIES**

Due to State Treasury	\$	3,384,771
Unearned revenues		1,150,118
Due to other State agencies		517,789
Refunds due to tenants		263,682
Deposits		3,891,588
Total liabilities	\$	9,207,948

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, 2019**

**NOTE A - FINANCIAL REPORTING ENTITY**

- (1) **Introduction** - The Department of Land and Natural Resources (the "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 and the changes in financial position of that portion of only 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, 2019, 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 financial statements for the State annually, 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

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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. Non-major 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.

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Expenditures generally are recorded when a liability is incurred, as under the accrual basis of 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, 2019 has been reported only in the government-wide financial statements.

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 legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, sets forth minimum criteria for the determination of major funds. The non-major funds are combined in a single column in the fund financial statements and detailed in the supplementary information section.

**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:

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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.

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.

Land Conservation Fund - The Legislature established the Land Conservation Fund ("Fund") in 2005 to provide permanent adequate funding for land conservation by dedicating proceeds from the real estate conveyance tax to the Fund (2005 Hawai'i Session Laws Act 156, Section 1). The revenues are used for the acquisition of interests or rights in land having value as a resource to the State, the payment of debt service on state financial instruments relating to the acquisition of interests or rights in land having value as a resource to the State, annual administration costs for the Land Conservation Fund, and costs related to the operation, maintenance, and management of lands acquired by way of the Land Conservation Fund.

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.

**Governmental Fund Balances**

The DLNR accounts for governmental fund balances through a hierarchical fund balance classification structure based primarily on the extent to which a government is bound to follow constraints on how resources can be spent. Classifications include:

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Restricted* – Balances 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* – Balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the State legislature.

*Assigned* – Balances that are constrained by the policy board or management for specific purposes, but are neither restricted nor committed.

*Unassigned* – Balances that are 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.

**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.

**Department of Land and Natural Resources  
State of Hawaii  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires disclosures over common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. Investments can be categorized by type, maturity, and custodian to determine the level of interest rate, credit, and custodial risk assumed by the 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 and fair value leveling table of the State's cash pool are included in the State's Comprehensive Annual Financial Report ("CAFR") which may be obtained from the State Department of Accounting and General Services' ("DAGS") website: <https://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.

Depreciation expense is recorded in the government-wide financial statements utilizing 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
Vehicles	\$ 5,000	5 years



**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (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 Employees' Retirement System of the State of Hawai'i ("ERS"). At June 30, 2019, accumulated sick leave was approximately \$24,900,000.
- (9) **Long-term Liabilities** - 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.

- (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.

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (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 eligible State employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but has the duty of due care that would be required of an ordinary prudent investor. 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** – During fiscal year 2019, the DLNR implemented GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of this Statement is to address accounting and financial reporting for certain asset retirement obligations related to tangible capital assets. This statement requires recognition of a liability for legal obligations to perform asset retirement activities related to tangible capital assets. This Statement did not have any effect on the DLNR's financial statements.

The GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve the guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management has not yet determined the effect this Statement will have on the DLNR's basic financial statements.

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows 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 June 15, 2021. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

During fiscal year 2019, the DLNR implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to governmental financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The applicable disclosures related to this Statement are included in the respective notes for debt.

The GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement replaces paragraph 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Management is early implementing this Statement for the fiscal year ending June 30, 2020. 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 Interests – an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improve the relevance of financial statement information of certain component units. 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. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The GASB issued Statement No. 92, *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87 and Implementation Guide 2019-3, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance.
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021.
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021.
- The requirements related to the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

The GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an IBOR. The requirements of this Statement, except for paragraphs 11b, 13, and 14 are effective for reporting periods beginning after June 15, 2020. The requirement in paragraph 11b is effective for reporting periods ending after December 31, 2021. The requirements of paragraphs 13 and 14 are effective for fiscal years periods are beginning after June 15, 2021 and all reporting periods thereafter. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

The GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements ("PPPs"). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements ("APAs"). The requirements of this Statement are effective for reporting periods beginning after June 15, 2022 and all reporting periods thereafter. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

**Department of Land and Natural Resources  
State of Hawaii  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. The requirements of this Statement are effective immediately. That objective is accomplished by postponing the effective dates of certain provisions in statements and implementation guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (“SBITAs”) for government end users (governments). The requirements of this Statement are effective for fiscal years beginning after June 15, 2022 and all reporting periods thereafter. Management has not yet determined the effect this Statement will have on the DLNR’s financial statements.

The GASB issued Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (“OPEB”) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (“IRC”) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that

**Department of Land and Natural Resources  
State of Hawaii  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
June 30, 2019**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

- (16) **Subsequent Events** – On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the “COVID-19 outbreak”) and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As a result, the full magnitude that the COVID-19 outbreak will have on the DLNR's financial condition, liquidity, and future results of operations is uncertain. Management is actively monitoring the global situation and the effects on its financial condition. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the DLNR is not able to reasonably estimate the effects of the COVID-19 outbreak on its, financial condition, liquidity, or results of operations.

**NOTE C - RECEIVABLES**

At June 30, 2019, receivables for general leases and licenses for governmental funds consisted of the following:

Rents, fees and licenses	\$	1,939,112
Less allowance for doubtful accounts		<u>(1,022,088)</u>
	\$	<u>917,024</u>

The DLNR also has two general lease installment settlement agreements with lessees for accounts receivable of the agency fund for approximately \$112,000 and \$60,000 at June 30, 2019. These agreements provide for interest rates at 5.0% and 1.0%, respectively. The agreements are due in April 2027 and September 2020, respectively.

**Department of Land and Natural Resources  
State of Hawaii  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
June 30, 2019**

**NOTE C - RECEIVABLES (Continued)**

At June 30, 2019, receivables for general leases and licenses for agency funds consisted of the following:

Rents, fees and licenses	\$	1,340,906
Less allowance for doubtful accounts		<u>(640,266)</u>
	\$	<u>700,640</u>

**NOTE D - CAPITAL ASSETS**

For the fiscal year ended June 30, 2019, capital assets activity for the DLNR was as follows:

	Balance July 1, 2018	Prior Period Adjustment	Balance July 1, 2018 As Restated	Additions	Deductions	Balance June 30, 2019
Government activities:						
Capital asset, not being depreciated:						
Land and improvements	\$ 235,328,506	\$ --	\$ 235,328,506	\$ 8,913,800	\$ --	\$ 244,242,306
Construction in progress	<u>123,634,264</u>	<u>(12,656,407)</u>	<u>110,977,857</u>	<u>18,263,801</u>	<u>(58,726,877)</u>	<u>70,514,781</u>
Total capital assets not being depreciated	<u>358,962,770</u>	<u>(12,656,407)</u>	<u>346,306,363</u>	<u>27,177,601</u>	<u>(58,726,877)</u>	<u>314,757,087</u>
Capital assets, being depreciated:						
Land improvements	285,660,820	(15,437,649)	270,223,171	52,987,662	--	323,210,833
Buildings and improvements	70,805,345	--	70,805,345	5,739,216	(867,013)	75,677,548
Furniture and equipment	24,250,822	454,266	24,705,088	518,294	(67,404)	25,155,978
Vehicles	<u>25,632,475</u>	<u>937,194</u>	<u>26,569,669</u>	<u>1,385,501</u>	<u>(497,800)</u>	<u>27,457,370</u>
Total capital assets being depreciated	<u>406,349,462</u>	<u>(14,046,189)</u>	<u>392,303,273</u>	<u>60,630,673</u>	<u>(1,432,217)</u>	<u>451,501,729</u>
Less accumulated depreciation for:						
Land improvements	(171,194,892)	20,961,384	(150,233,508)	(15,056,229)	--	(165,289,737)
Buildings and improvements	(37,047,961)	--	(37,047,961)	(1,876,024)	460,601	(38,463,384)
Furniture and equipment	(17,945,855)	(67,011)	(18,012,866)	(1,750,158)	54,372	(19,708,652)
Vehicles	<u>(21,063,162)</u>	<u>(336,034)</u>	<u>(21,399,196)</u>	<u>(2,057,410)</u>	<u>457,820</u>	<u>(22,998,786)</u>
Total accumulated depreciation	<u>(247,251,870)</u>	<u>20,558,339</u>	<u>(226,693,531)</u>	<u>(20,739,821)</u>	<u>972,793</u>	<u>(246,460,559)</u>
Government activities, net	\$ <u>518,060,362</u>	\$ <u>(6,144,257)</u>	\$ <u>511,916,105</u>	\$ <u>67,068,453</u>	\$ <u>(59,186,301)</u>	\$ <u>519,798,257</u>

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE D - CAPITAL ASSETS (Continued)**

Depreciation expense for the fiscal year ended June 30, 2019 was charged to functions as follows:

Economic development	\$ 1,195,036
Environmental protection	3,351,862
Culture and recreation	15,538,039
Public safety	199,578
Individual rights	87,894
Government-wide support	<u>367,412</u>
	<u>\$ 20,739,821</u>

**NOTE E - 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.

As of June 30, 2019, the DLNR held cash of approximately \$3,902,000 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 and due to other State agencies balances.

During the fiscal year ended June 30, 2019, the DLNR's special revenue funds were charged by the Department of Budget and Finance ("B&F"), approximately \$3,791,000 in central service and administration fees. As of June 30, 2019, the DLNR owed the B&F approximately \$197,000.

**NOTE F - 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, 2019, 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 \$750,000 as of June 30, 2019.



**Department of Land and Natural Resources  
State of Hawaii  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
June 30, 2019**

**NOTE G - LONG-TERM LIABILITIES**

The change in long-term liabilities during the fiscal year ended June 30, 2019, was as follows:

	Accrued Vacation	General Obligation Bonds
Balance at July 1, 2018	\$ 8,466,987	\$ 36,225,968
Additions	3,794,845	--
Reductions	(4,137,612)	(1,658,407)
Balance at June 30, 2019	8,124,220	34,567,561
Less: Current portion	(2,809,421)	(1,699,570)
	\$ 5,314,799	\$ 32,867,991

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, 2019 are as follows:

	Amount
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.	\$ 10
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.	778,528
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.	324,023
Series EU bonds dated October 2015; due in varying annual installments beginning in October 2018 through October 2035; interest at various interest rates payable semi-annually.	<u>33,465,000</u>
	\$ <u>34,567,561</u>

**Department of Land and Natural Resources  
State of Hawaii  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
June 30, 2019**

**NOTE G - LONG-TERM LIABILITIES (Continued)**

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,892,474	823,187	2,715,661
2025-2029	9,781,697	3,296,969	13,078,666
2030-2034	10,915,000	1,744,344	12,659,344
2035-2036	<u>4,895,000</u>	<u>171,309</u>	<u>5,066,309</u>
Total	<u>\$ 34,567,561</u>	<u>\$ 9,818,370</u>	<u>\$ 44,385,931</u>

Interest cost of approximately \$1,061,000 was expensed for the fiscal year ended June 30, 2019.

**Department of Land and Natural Resources  
State of Hawaii  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
June 30, 2019**

**NOTE H – FUND BALANCE**

Fund balance constraints by purpose as of June 30, 2019 were as follows:

	<u>Major Special Revenue Funds</u>							<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Federal Grant Fund</u>	<u>Ocean-Based Recreation Fund</u>	<u>Special Land Development Fund</u>	<u>Land Conservation Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	
<b>FUND BALANCES:</b>								
Restricted:								
Economic development	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 23,813	\$ 23,813
Environmental protection	--	--	--	--	--	--	10,061,612	10,061,612
Government-wide support	--	--	--	--	--	--	21,425,588	21,425,588
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>31,511,013</u>	<u>31,511,013</u>
Committed:								
Economic development	--	--	--	--	--	--	3,913,517	3,913,517
Environmental protection	--	--	--	--	--	--	4,820,759	4,820,759
Culture and recreation	--	--	13,668,775	--	--	--	4,042,832	17,711,607
Public safety	--	--	--	--	--	--	3,602,604	3,602,604
Individual rights	--	--	--	--	--	--	4,602,336	4,602,336
Government-wide support	--	--	--	30,447,903	31,368,759	--	7,005,361	68,822,023
	<u>--</u>	<u>--</u>	<u>13,668,775</u>	<u>30,447,903</u>	<u>31,368,759</u>	<u>--</u>	<u>27,987,409</u>	<u>103,472,846</u>
Assigned:								
Land and natural resources	17,411,243	--	--	--	--	--	--	17,411,243
Capital improvement projects	--	--	--	--	--	121,074,248	--	121,074,248
	<u>17,411,243</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>121,074,248</u>	<u>--</u>	<u>138,485,491</u>
Unassigned								
	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total fund balances	\$ <u>17,411,243</u>	\$ <u>--</u>	\$ <u>13,668,775</u>	\$ <u>30,447,903</u>	\$ <u>31,368,759</u>	\$ <u>121,074,248</u>	\$ <u>59,498,422</u>	\$ <u>273,469,350</u>

**Department of Land and Natural Resources  
State of Hawaii  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
June 30, 2019**

**NOTE I - 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 \$16,919,000 for the fiscal year ended June 30, 2019, have been reported as revenues and expenditures in the general fund of the DLNR.

**NOTE J - INTERFUND TRANSFERS**

Interfund transfers for the year ended June 30, 2019 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
Federal Grant Fund	\$ 1,465,332	\$ 1,465,332
Ocean-Based Recreation Fund	26,059,575	26,847,938
Special Land Development Fund	15,509,269	22,064,810
Land Conservation Fund	22,400,459	22,873,963
Capital Projects Fund	527,580	1,614,002
Other Governmental Funds	<u>63,839,453</u>	<u>70,237,097</u>
	<u>\$ 129,801,668</u>	<u>\$ 145,103,142</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, 2019:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Special Land Development Fund	Capital Projects Fund	\$ 1,999,986
General Fund	Federal Grants Fund	1,194,355
Other Governmental Funds	Federal Grants Fund	647,706
Capital Projects Fund	Federal Grants Fund	41,169
Ocean-Based Recreation Fund	Federal Grants Fund	<u>1,244,841</u>
Total all funds		<u>\$ 5,128,057</u>

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE K - 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, 2019 were as follows:

<u>Fund</u>	<u>Amount</u>
General Fund	\$ 19,818,297
Federal Grant Fund	10,631,997
Ocean-Based Recreation Fund	3,285,685
Special Land Development Fund	2,717,739
Land Conservation Fund	9,098,579
Capital Projects Fund	80,881,500
Other Governmental Funds	13,001,489
	<u>\$ 139,435,286</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, 2019 were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2020	\$ 231,000
2021	164,000
2022	93,000
2023	61,000
2024	11,000
	<u>\$ 560,000</u>

Total rent expense related to the above leases was approximately \$321,000 for the fiscal year ended June 30, 2019.

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE K - COMMITMENTS AND CONTINGENCIES (Continued)**

(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.

**NOTE L - 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: <https://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.

**Department of Land and Natural Resources  
State of Hawaii  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
June 30, 2019**

**NOTE L - RETIREMENT BENEFITS (Continued)**

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.

*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.

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE L - RETIREMENT BENEFITS (Continued)**

*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.

*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.



**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE L - RETIREMENT BENEFITS (Continued)**

*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.

*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.

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE L - RETIREMENT BENEFITS (Continued)**

**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 2019 were 31.0% for police officers and fire fighters and 19.00% for all other employees. Contributions to the pension plan from the DLNR were approximately \$10,183,000 for the year ended June 30, 2019.

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 28.0% on July 1, 2017; 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 18.0% on July 1, 2017; 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.

**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.

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE L - RETIREMENT BENEFITS (Continued)**

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.

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 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 \$4,149,000 for the fiscal year ended June 30, 2019.

**Department of Land and Natural Resources**  
**State of Hawaii**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)**  
**June 30, 2019**

**NOTE M - 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.

**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.

**Department of Land and Natural Resources  
State of Hawaii  
NOTES TO THE BASIC FINANCIAL STATEMENTS (Continued)  
June 30, 2019**

**NOTE M - RISK MANAGEMENT (Continued)**

At June 30, 2019, 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 N - RESTATEMENT**

The accompanying financial statements have been restated to correct errors made in prior periods. These errors relate to the overstatement of capital assets and understatement of retainage payable. In fiscal year 2018 the DLNR overstated capital assets and CIP and understated retainage payable amounts related to costs incurred for construction in progress projects. Fund balance/net position at June 30, 2018, as previously reported, has been adjusted for the effect of these restatements as follows:

	<u>Fund Level</u>	
	<u>Governmental Funds</u>	<u>Government-Wide</u>
	<u>Capital Projects Fund</u>	<u>Governmental</u>
		<u>Activities</u>
Fund balance/net position at June 30, 2018, as previously reported	\$ 131,495,780	\$ 749,399,827
Misstatement of capital assets and construction in progress	--	(8,302,089)
Misstatement of retainage payable	<u>(2,157,832)</u>	<u>--</u>
Fund balance/net position at June 30, 2018, as restated	<u>\$ 129,337,948</u>	<u>\$ 741,097,738</u>

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

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND  
Fiscal Year Ended June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
State allotments	\$ <u>63,128,452</u>	\$ <u>68,099,284</u>	\$ <u>65,839,932</u>	\$ <u>(2,259,352)</u>
<b>EXPENDITURES</b>				
Economic development	7,185,028	7,293,650	6,516,459	777,191
Environmental protection	43,272,753	44,549,763	42,679,310	1,870,453
Culture and recreation	12,565,671	12,862,999	10,953,105	1,909,894
Government-wide support	105,000	105,000	104,402	598
Public safety	<u>--</u>	<u>3,287,872</u>	<u>3,287,872</u>	<u>--</u>
	<u>63,128,452</u>	<u>68,099,284</u>	<u>63,541,148</u>	<u>4,558,136</u>
Excess of revenues over expenditures	\$ <u><u>--</u></u>	\$ <u><u>--</u></u>	\$ <u><u>2,298,784</u></u>	\$ <u><u>2,298,784</u></u>

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (BUDGETARY BASIS) – FEDERAL GRANT FUND  
Fiscal Year Ended June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Federal grants	\$ <u>38,079,752</u>	\$ <u>26,430,777</u>	\$ <u>26,430,777</u>	\$ <u>--</u>
	<u>38,079,752</u>	<u>26,430,777</u>	<u>26,430,777</u>	<u>--</u>
<b>EXPENDITURES</b>				
Economic development	10,964,164	8,848,691	1,432,281	7,416,410
Environmental protection	18,069,968	11,175,712	5,791,055	5,384,657
Culture and recreation	8,581,303	6,239,941	4,770,510	1,469,431
Public safety	<u>464,317</u>	<u>166,433</u>	<u>21,388</u>	<u>145,045</u>
	<u>38,079,752</u>	<u>26,430,777</u>	<u>12,015,234</u>	<u>14,415,543</u>
Excess of revenues over expenditures	\$ <u>--</u>	\$ <u>--</u>	\$ <u>14,415,543</u>	\$ <u>14,415,543</u>



**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (BUDGETARY BASIS) – OCEAN-BASED RECREATION FUND  
Fiscal Year Ended June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Revenues	\$ <u>19,198,141</u>	\$ <u>17,886,460</u>	\$ <u>17,886,460</u>	\$ <u>--</u>
	<u>19,198,141</u>	<u>17,886,460</u>	<u>17,886,460</u>	<u>--</u>
<b>EXPENDITURES</b>				
Culture and recreation	<u>19,198,141</u>	<u>17,886,460</u>	<u>17,141,977</u>	<u>744,483</u>
	<u>19,198,141</u>	<u>17,886,460</u>	<u>17,141,977</u>	<u>744,483</u>
Excess of revenues over expenditures	\$ <u><u>--</u></u>	\$ <u><u>--</u></u>	\$ <u><u>744,483</u></u>	\$ <u><u>744,483</u></u>

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (BUDGETARY BASIS) – SPECIAL LAND DEVELOPMENT FUND  
Fiscal Year Ended June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Revenues	\$ 11,834,516	\$ 21,591,409	\$ 21,591,409	\$ --
	<u>11,834,516</u>	<u>21,591,409</u>	<u>21,591,409</u>	<u>--</u>
<b>EXPENDITURES</b>				
Government-wide support	<u>11,834,516</u>	<u>21,591,409</u>	<u>9,060,493</u>	<u>12,530,916</u>
	<u>11,834,516</u>	<u>21,591,409</u>	<u>9,060,493</u>	<u>12,530,916</u>
Excess of revenues over expenditures	\$ <u>    --</u>	\$ <u>    --</u>	\$ <u>12,530,916</u>	\$ <u>12,530,916</u>

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (BUDGETARY BASIS) – LAND CONSERVATION FUND  
Fiscal Year Ended June 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual on Budgetary Basis</u>	<u>Variance With Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Revenues	\$ <u>11,791,624</u>	\$ <u>10,589,066</u>	\$ <u>10,589,066</u>	\$ <u>--</u>
	<u>11,791,624</u>	<u>10,589,066</u>	<u>10,589,066</u>	<u>--</u>
<b>EXPENDITURES</b>				
Government-wide support	<u>11,791,624</u>	<u>10,589,066</u>	<u>6,916,981</u>	<u>3,672,085</u>
	<u>11,791,624</u>	<u>10,589,066</u>	<u>6,916,981</u>	<u>3,672,085</u>
Excess of revenues over expenditures	\$ <u><u>--</u></u>	\$ <u><u>--</u></u>	\$ <u><u>3,672,085</u></u>	\$ <u><u>3,672,085</u></u>

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF REVENUES AND EXPENDITURES -  
BUDGET AND ACTUAL (BUDGETARY BASIS)  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)  
Fiscal Year Ended June 30, 2019**

**NOTE A - BUDGETING AND BUDGETARY CONTROL**

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated periodically during 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 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.

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 schedules are presented on the budgetary basis.

A reconciliation of excess of revenues over expenditures on a budgetary basis for the fiscal year ended June 30, 2019 to excess of revenues over 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>	<u>Land Conservation</u>
Excess of revenues over expenditures - actual on a budgetary basis	\$ 2,298,784	\$ 14,415,543	\$ 744,483	\$ 12,530,916	\$ 3,672,085
Reserved for encumbrance at fiscal year end	17,269,387	5,518,673	3,308,475	1,474,118	4,399,815
Expenditures for liquidation of prior fiscal year encumbrances	(16,222,660)	(19,383,071)	(1,477,619)	(1,192,533)	(175,878)
Net accrued revenues and expenditures	<u>(1,067,515)</u>	<u>(551,145)</u>	<u>115,440</u>	<u>127,547</u>	<u>(1,366,025)</u>
Excess of revenues over expenditures - GAAP basis	\$ <u>2,277,996</u>	\$ <u>--</u>	\$ <u>2,690,779</u>	\$ <u>12,940,048</u>	\$ <u>6,529,997</u>

## **SUPPLEMENTARY INFORMATION**

**Department of Land and Natural Resources  
State of Hawaii  
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2019**

	Special Land Development Fund - Other	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	Sport-Fish Restoration Fund	Subtotal Carried Forward
<b>ASSETS:</b>											
Cash and short-term cash investments held in State Treasury	\$ 2,894,949	\$ 5,399,438	\$ 333,049	\$ 415,438	\$ 689,962	\$ 1,066,007	\$ 890,441	\$ 142,790	\$ 31,633	\$ 77,546	\$ 11,941,253
Receivables:											
General leases and licenses, net of allowance for doubtful accounts	--	--	--	20,080	--	--	--	--	--	--	20,080
Due from other State agencies	--	--	1,865	15,373	--	13,603	--	932	--	--	31,773
Due from Federal Grant Fund	8,652	--	16,011	106,052	--	101,367	--	294,593	--	--	526,675
Total assets	\$ 2,903,601	\$ 5,399,438	\$ 350,925	\$ 556,943	\$ 689,962	\$ 1,180,977	\$ 890,441	\$ 438,315	\$ 31,633	\$ 77,546	\$ 12,519,781
<b>LIABILITIES:</b>											
Vouchers and contracts payable	\$ 85,935	\$ 612,138	\$ 17,669	\$ 44,798	\$ 8,283	\$ 4,149	\$ --	\$ --	\$ 3,025	\$ --	\$ 775,997
Accrued wages and employee benefits payable	28,531	184,116	2,945	--	13,961	15,184	--	--	10,568	896	256,201
Due to other State agencies	--	848	--	--	--	--	--	--	10,949	--	11,797
Unearned revenue	--	--	--	18,576	--	--	--	--	--	--	18,576
Total liabilities	114,466	797,102	20,614	63,374	22,244	19,333	--	--	24,542	896	1,062,571
<b>FUND BALANCES:</b>											
Restricted	--	--	--	--	--	--	--	--	--	--	--
Committed	2,789,135	4,602,336	330,311	493,569	667,718	1,161,644	890,441	438,315	7,091	76,650	11,457,210
Total fund balances	2,789,135	4,602,336	330,311	493,569	667,718	1,161,644	890,441	438,315	7,091	76,650	11,457,210
Total liabilities and fund balances	\$ 2,903,601	\$ 5,399,438	\$ 350,925	\$ 556,943	\$ 689,962	\$ 1,180,977	\$ 890,441	\$ 438,315	\$ 31,633	\$ 77,546	\$ 12,519,781

**Department of Land and Natural Resources  
State of Hawaii  
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2019**

	Subtotal Brought Forward	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	Assistance in Managing Land Fund	Subtotal Carried Forward
<b>ASSETS:</b>											
Cash and short-term cash investments held in State Treasury	\$ 11,941,253	\$ 2,953,545	\$ 7,005,361	\$ 1,724,523	\$ --	\$ 6,022,612	\$ 5,686	\$ 19,874	\$ 21,751,907	\$ 23,813	\$ 51,448,574
Receivables:											
General leases and licenses, net of allowance for doubtful accounts	20,080	210,240	--	--	--	--	--	--	--	--	230,320
Due from other State agencies	31,773	92,219	--	2,003	--	--	--	--	--	--	125,995
Due from Federal Grant Fund	<u>526,675</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>526,675</u>
Total assets	<u>\$ 12,519,781</u>	<u>\$ 3,256,004</u>	<u>\$ 7,005,361</u>	<u>\$ 1,726,526</u>	<u>\$ --</u>	<u>\$ 6,022,612</u>	<u>\$ 5,686</u>	<u>\$ 19,874</u>	<u>\$ 21,751,907</u>	<u>\$ 23,813</u>	<u>\$ 52,331,564</u>
<b>LIABILITIES:</b>											
Vouchers and contracts payable	\$ 775,997	\$ 134,478	\$ --	\$ 19,955	\$ --	\$ 14,911	\$ --	\$ --	\$ 326,319	\$ --	\$ 1,271,660
Accrued wages and employee benefits payable											
benefits payable	256,201	151,800	--	16,089	--	--	--	--	--	--	424,090
Due to other State agencies	11,797	--	--	--	--	--	--	--	--	--	11,797
Unearned revenue	<u>18,576</u>	<u>485,852</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>504,428</u>
Total liabilities	<u>1,062,571</u>	<u>772,130</u>	<u>--</u>	<u>36,044</u>	<u>--</u>	<u>14,911</u>	<u>--</u>	<u>--</u>	<u>326,319</u>	<u>--</u>	<u>2,211,975</u>
<b>FUND BALANCES:</b>											
Restricted	--	--	--	--	--	6,007,701	--	--	21,425,588	23,813	27,457,102
Committed	<u>11,457,210</u>	<u>2,483,874</u>	<u>7,005,361</u>	<u>1,690,482</u>	<u>--</u>	<u>--</u>	<u>5,686</u>	<u>19,874</u>	<u>--</u>	<u>--</u>	<u>22,662,487</u>
Total fund balances	<u>11,457,210</u>	<u>2,483,874</u>	<u>7,005,361</u>	<u>1,690,482</u>	<u>--</u>	<u>6,007,701</u>	<u>5,686</u>	<u>19,874</u>	<u>21,425,588</u>	<u>23,813</u>	<u>50,119,589</u>
Total liabilities and fund balances	<u>\$ 12,519,781</u>	<u>\$ 3,256,004</u>	<u>\$ 7,005,361</u>	<u>\$ 1,726,526</u>	<u>\$ --</u>	<u>\$ 6,022,612</u>	<u>\$ 5,686</u>	<u>\$ 19,874</u>	<u>\$ 21,751,907</u>	<u>\$ 23,813</u>	<u>\$ 52,331,564</u>

**Department of Land and Natural Resources  
State of Hawaii  
COMBINING BALANCE SHEET – NON-MAJOR GOVERNMENTAL FUNDS  
June 30, 2019**

	Subtotal Carried Forward	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	Life Guard Services Fund	Total Other Governmental Funds
<b>ASSETS:</b>											
Cash and short-term cash investments held in State Treasury	\$ 51,448,574	\$ 578,325	\$ 3,618,973	\$ 3,724,589	\$ 370,626	\$ 764,881	\$ 130,874	\$ 605,594	\$ 8	\$ 74,911	\$ 61,317,355
Receivables:											
General leases and licenses, net of allowance for doubtful accounts	230,320	--	--	--	--	379	--	--	--	--	230,699
Due from other State agencies	125,995	--	--	21,763	--	4,695	--	427	--	--	152,880
Due from Federal Grant Fund	526,675	63,704	--	57,327	--	--	--	--	--	--	647,706
Total assets	<u>\$ 52,331,564</u>	<u>\$ 642,029</u>	<u>\$ 3,618,973</u>	<u>\$ 3,803,679</u>	<u>\$ 370,626</u>	<u>\$ 769,955</u>	<u>\$ 130,874</u>	<u>\$ 606,021</u>	<u>\$ 8</u>	<u>\$ 74,911</u>	<u>\$ 62,348,640</u>
<b>LIABILITIES:</b>											
Vouchers and contracts payable	\$ 1,271,660	\$ 9,314	\$ 324,580	\$ 168,881	\$ --	\$ 902	\$ --	\$ 2,061	\$ --	\$ --	\$ 1,777,398
Accrued wages and employee benefits payable	424,090	--	4,079	32,194	--	--	--	95,468	--	--	555,831
Due to other State agencies	11,797	--	--	--	--	--	--	--	--	--	11,797
Unearned revenue	504,428	--	--	--	--	764	--	--	--	--	505,192
Total liabilities	<u>2,211,975</u>	<u>9,314</u>	<u>328,659</u>	<u>201,075</u>	<u>--</u>	<u>1,666</u>	<u>--</u>	<u>97,529</u>	<u>--</u>	<u>--</u>	<u>2,850,218</u>
<b>FUND BALANCES:</b>											
Restricted	27,457,102	632,715	3,290,314	--	--	--	130,874	--	8	--	31,511,013
Committed	22,662,487	--	--	3,602,604	370,626	768,289	--	508,492	--	74,911	27,987,409
Total fund balances	<u>50,119,589</u>	<u>632,715</u>	<u>3,290,314</u>	<u>3,602,604</u>	<u>370,626</u>	<u>768,289</u>	<u>130,874</u>	<u>508,492</u>	<u>8</u>	<u>74,911</u>	<u>59,498,422</u>
Total liabilities and fund balances	<u>\$ 52,331,564</u>	<u>\$ 642,029</u>	<u>\$ 3,618,973</u>	<u>\$ 3,803,679</u>	<u>\$ 370,626</u>	<u>\$ 769,955</u>	<u>\$ 130,874</u>	<u>\$ 606,021</u>	<u>\$ 8</u>	<u>\$ 74,911</u>	<u>\$ 62,348,640</u>



**Department of Land and Natural Resources  
State of Hawaii  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS  
Fiscal Year Ended June 30, 2019**

	Special Land Development Fund - Other	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	Sport-Fish Restoration Fund	Subtotal Carried Forward
<b>REVENUES:</b>											
General leases, licenses and permits	\$ --	\$ --	\$ 344,701	\$ 193,798	\$ 559,532	\$ --	\$ --	\$ --	\$ --	\$ 27,392	\$ 1,125,423
Fees and service charges	--	7,968,429	--	149,357	1,230	1,894	--	59,022	50,229	--	8,230,161
Taxes, fuel and others	--	--	--	--	--	--	--	--	249,865	--	249,865
Interest	18,914	24,086	1,472	5,632	48,309	6,735	127,789	145	969	586	234,637
Other	--	--	--	82,687	1,080	--	--	30,430	--	--	114,197
Total revenues	\$ 18,914	\$ 7,992,515	\$ 346,173	\$ 431,474	\$ 610,151	\$ 8,629	\$ 127,789	\$ 89,597	\$ 301,063	\$ 27,978	\$ 9,954,283
<b>EXPENDITURES:</b>											
Current:											
Economic development	\$ 730,317	\$ --	\$ 177,057	\$ 340,333	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 1,247,707
Environmental protection	643,779	--	--	--	--	742,270	--	--	--	--	1,386,049
Culture and recreation	593,726	--	--	--	540,701	--	--	68,570	547,632	22,477	1,773,106
Public safety	--	--	--	--	--	--	--	--	--	--	--
Individual rights	--	6,962,120	--	--	--	--	--	--	--	--	6,962,120
Debt service:											
Principal on long-term debt	--	--	--	--	--	--	--	--	--	--	--
Interest on long-term debt	--	--	--	--	--	--	--	--	--	--	--
Total expenditures	1,967,822	6,962,120	177,057	340,333	540,701	742,270	--	68,570	547,632	22,477	11,368,982
Excess (deficiency) of revenues over (under) expenditures	(1,948,908)	1,030,395	169,116	91,141	69,450	(733,641)	127,789	21,027	(246,569)	5,501	(1,414,699)
<b>OTHER FINANCING SOURCES (USES):</b>											
Transfers in	3,990,467	2,334,333	122,988	78,985	--	1,579,425	15,140,382	9,388	249,425	57,146	23,562,539
Transfers out	(803,387)	(2,550,104)	(240,315)	(247,193)	--	(720,203)	(30,447,900)	(9,388)	(5,648)	(57,146)	(35,081,284)
Total other financing sources (uses)	3,187,080	(215,771)	(117,327)	(168,208)	--	859,222	(15,307,518)	--	243,777	--	(11,518,745)
Net change in fund balances	1,238,172	814,624	51,789	(77,067)	69,450	125,581	(15,179,729)	21,027	(2,792)	5,501	(12,933,444)
Fund balances, beginning of year	1,550,963	3,787,712	278,522	570,636	598,268	1,036,063	16,070,170	417,288	9,883	71,149	24,390,654
Fund balances, end of year	\$ 2,789,135	\$ 4,602,336	\$ 330,311	\$ 493,569	\$ 667,718	\$ 1,161,644	\$ 890,441	\$ 438,315	\$ 7,091	\$ 76,650	\$ 11,457,210

**Department of Land and Natural Resources**  
**State of Hawaii**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS**  
**Fiscal Year Ended June 30, 2019**

	<b>Subtotal Brought Forward</b>	<b>State Parks Operations Fund</b>	<b>Turtle Bay Conservation Fund</b>	<b>Water and Land Development Fund</b>	<b>Donations, Gifts and Grants Fund</b>	<b>In-Lieu Fee Mitigation Program Fund</b>	<b>Ecosystem Protection and Restoration Fund</b>	<b>International Union for Conservation of Nature Fund</b>	<b>Donations, Gifts and Grants - Private &amp; Gov't Fund</b>	<b>Assistance in Managing Land Fund</b>	<b>Subtotal Carried Forward</b>
<b>REVENUES:</b>											
General leases, licenses and permits	\$ 1,125,423	\$ 3,838,277	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 4,963,700
Fees and service charges	8,230,161	603,830	--	--	--	--	--	--	--	--	8,833,991
Taxes, fuel and others	249,865	--	1,500,000	--	--	--	--	--	--	--	1,749,865
Interest	234,637	20,364	--	13,669	--	50,958	49	--	140,428	1,105	461,210
Other	114,197	9,316	--	--	--	--	--	--	8,880,163	--	9,003,676
Total revenues	\$ 9,954,283	\$ 4,471,787	\$ 1,500,000	\$ 13,669	\$ --	\$ 50,958	\$ 49	\$ --	\$ 9,020,591	\$ 1,105	\$ 25,012,442
<b>EXPENDITURES:</b>											
Current:											
Economic development	\$ 1,247,707	\$ --	\$ --	\$ 464,417	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 102,965	\$ 1,815,089
Environmental protection	1,386,049	--	--	--	--	142,997	--	--	3,192,929	--	4,721,975
Culture and recreation	1,773,106	5,796,515	--	--	--	--	--	--	--	--	7,569,621
Public safety	--	--	--	--	--	--	--	--	--	--	--
Individual rights	6,962,120	--	--	--	--	--	--	--	--	--	6,962,120
Debt service:											
Principal on long-term debt	--	--	1,535,000	--	--	--	--	--	--	--	1,535,000
Interest on long-term debt	--	--	1,000,069	--	--	--	--	--	--	--	1,000,069
Total expenditures	11,368,982	5,796,515	2,535,069	464,417	--	142,997	--	--	3,192,929	102,965	23,603,874
Excess (deficiency) of revenues over (under) expenditures	(1,414,699)	(1,324,728)	(1,035,069)	(450,748)	--	(92,039)	49	--	5,827,662	(101,860)	1,408,568
<b>OTHER FINANCING SOURCES (USES):</b>											
Transfers in	23,562,539	3,540,530	8,040,430	1,760,473	--	5,750,042	--	--	15,285,897	125,673	58,065,584
Transfers out	(35,081,284)	(1,707,549)	(6,540,430)	(1,119,431)	(97)	(5,750,042)	--	--	(16,280,897)	(125,673)	(66,605,403)
Total other financing sources (uses)	(11,518,745)	1,832,981	1,500,000	641,042	(97)	--	--	--	(995,000)	--	(8,539,819)
Net change in fund balances	(12,933,444)	508,253	464,931	190,294	(97)	(92,039)	49	--	4,832,662	(101,860)	(7,131,251)
Fund balances, beginning of year	24,390,654	1,975,621	6,540,430	1,500,188	97	6,099,740	5,637	19,874	16,592,926	125,673	57,250,840
Fund balances, end of year	\$ 11,457,210	\$ 2,483,874	\$ 7,005,361	\$ 1,690,482	\$ --	\$ 6,007,701	\$ 5,686	\$ 19,874	\$ 21,425,588	\$ 23,813	\$ 50,119,589

**Department of Land and Natural Resources  
State of Hawaii  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS  
Fiscal Year Ended June 30, 2019**

	Subtotal Carried Forward	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	Life Guard Services Fund	Total Other Governmental Funds
<b>REVENUES:</b>											
General leases, licenses and permits	\$ 4,963,700	\$ 1,975	\$ --	\$ --	\$ --	\$ 71,212	\$ --	\$ --	\$ --	\$ --	\$ 5,036,887
Fees and service charges	8,833,991	45,601	708,444	582,286	--	41,390	--	--	--	--	10,211,712
Taxes, fuel and others	1,749,865	--	--	--	--	--	--	--	--	--	1,749,865
Interest	461,210	3,959	31,236	29,376	10,084	7,264	--	401	--	--	543,530
Other	9,003,676	165,200	1,128,362	41,808	--	594	--	78,876	--	--	10,418,516
Total revenues	\$ <u>25,012,442</u>	\$ <u>216,735</u>	\$ <u>1,868,042</u>	\$ <u>653,470</u>	\$ <u>10,084</u>	\$ <u>120,460</u>	\$ <u>--</u>	\$ <u>79,277</u>	\$ <u>--</u>	\$ <u>--</u>	\$ <u>27,960,510</u>
<b>EXPENDITURES:</b>											
Current:											
Economic development	\$ 1,815,089	\$ --	\$ (527,580)	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 1,287,509
Environmental protection	4,721,975	116,375	3,278,163	--	--	71,504	58,772	2,004,117	--	--	10,250,906
Culture and recreation	7,569,621	--	--	--	--	--	--	--	--	425,089	7,994,710
Public safety	--	--	--	1,549,357	--	--	--	--	--	--	1,549,357
Individual rights	6,962,120	--	--	--	--	--	--	--	--	--	6,962,120
Debt service:											
Principal on long-term debt	1,535,000	--	--	--	--	--	--	--	--	--	1,535,000
Interest on long-term debt	1,000,069	--	--	--	--	--	--	--	--	--	1,000,069
Total expenditures	23,603,874	116,375	2,750,583	1,549,357	--	71,504	58,772	2,004,117	--	425,089	30,579,671
Excess (deficiency) of revenues over (under) expenditures	1,408,568	100,360	(882,541)	(895,887)	10,084	48,956	(58,772)	(1,924,840)	--	(425,089)	(2,619,161)
<b>OTHER FINANCING SOURCES (USES):</b>											
Transfers in	58,065,584	408,836	--	1,313,621	370,626	713,604	--	2,467,182	--	500,000	63,839,453
Transfers out	(66,605,403)	(408,836)	(527,580)	(337,617)	(1,209,983)	(757,760)	(31,400)	(358,518)	--	--	(70,237,097)
Total other financing sources (uses)	(8,539,819)	--	(527,580)	976,004	(839,357)	(44,156)	(31,400)	2,108,664	--	500,000	(6,397,644)
Net change in fund balances	(7,131,251)	100,360	(1,410,121)	80,117	(829,273)	4,800	(90,172)	183,824	--	74,911	(9,016,805)
Fund balances, beginning of year	57,250,840	532,355	4,700,435	3,522,487	1,199,899	763,489	221,046	324,668	8	--	68,515,227
Fund balances, end of year	\$ <u>50,119,589</u>	\$ <u>632,715</u>	\$ <u>3,290,314</u>	\$ <u>3,602,604</u>	\$ <u>370,626</u>	\$ <u>768,289</u>	\$ <u>130,874</u>	\$ <u>508,492</u>	\$ <u>8</u>	\$ <u>74,911</u>	\$ <u>59,498,422</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, 2019, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated December 21, 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 2019-001 to 2019-004 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  
December 21, 2020

**PART III**  
**SCHEDULE OF FINDINGS**

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF FINDINGS  
Fiscal Year Ended June 30, 2019**

**Ref. No. Financial Statement Internal Control Findings**

**2019-001 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:**

The DLNR construction section maintains an on-going listing of active construction projects to determine whether memorandums have been prepared. This listing is also updated continually and used to prepare the semi-annual report due to DAGS on January 10 and August 10. The DLNR construction section informs engineering section of the completed projects. The DLNR engineering section prepares triplicate copies of the preliminary memorandum to the various divisions of assets placed in service to be capitalized as a tangible asset on a quarterly basis. One copy remains in engineering, another copy is forwarded to the applicable division and the remaining copy is forwarded to fiscal. Fiscal section attempts to follow up with the various divisions regarding the completion of SPO Form 17-A, Detail Inventory of Property Processing. However, if the fiscal section does not receive a response from the various divisions, no further attempts are made.

The DLNR's projects are maintained and accumulated in the DAGS Fixed Assets Inventory System ("FAIS") where quarterly transaction reports of additions and deletions to capital assets are generated. Divisions are responsible for the additions and deletions of information entered into the FAIS and for the review of the quarterly reports and notification to the fiscal section of any errors. These FAIS reports are reviewed by the fiscal section quarterly and reconciled to the roll-forward spreadsheet to identify any projects completed to be removed from the roll-forward spreadsheet. Projects are transferred only upon receipt of the SPO form 17-A.

The DLNR had the following errors in their capital asset balances noted during the audit for the fiscal year ended June 30, 2019:

- Approximately \$9.3 million in construction in progress (CIP) projects were completed and should have been transferred to capital asset inventory.
- Approximately \$1.4 million in capital asset additions were from prior years.
- Approximately \$2.3 million in capital assets were due to over-depreciated assets with negative net book values.
- Approximately \$1.6 million in costs were included in CIP projects that should not have been capitalized.



**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF FINDINGS  
Fiscal Year Ended June 30, 2019**

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

**2019-001 Improve Recordkeeping to Prepare Accrual Basis Financial Statements (Continued)**

- Approximately \$1.3 million in capital asset additions were capitalized as depreciable improvements and also as additions to CIP.
- Approximately \$2.5 million in CIP additions were due to unrecorded retainage payable.
- Approximately \$6.5 million in capital assets, net of accumulated depreciation, were transferred to the City and County of Honolulu, which remained in the capital asset inventory.

During our audit, we also noted that the Federal Grant Fund roll-forward schedule was not properly reconciled. The schedule did not include a complete listing of the appropriations and did not reconcile to the trial balance.

**Cause:**

The different divisions of the DLNR are responsible for timely notifying the fiscal section of errors noted in the quarterly FAIS reports. The divisions are also responsible for communicating to the fiscal section the additions reported on the FAIS report that should be capitalized and transferred from the CIP roll-forward spreadsheet of on-going projects or expensed as normal maintenance and repairs.

The Federal Grant roll-forward schedule has grants from the different divisions of the DLNR. The schedule requires numerous grants and appropriations to be tracked over multiple fiscal years by the different divisions of the DLNR.

**Effect:**

The DLNR was unable to prepare its financial statements in accordance with GAAP in a timely manner. The deficiencies in internal control over financial reporting resulted in misstatements in the financial statements. The DLNR's failure to timely complete reconciliations and identity errors in the financial reports could result in material errors and inaccurate financial information provided to management and the State.

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF FINDINGS  
Fiscal Year Ended June 30, 2019**

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

**2019-001 Improve Recordkeeping to Prepare Accrual Basis Financial Statements (Continued)**

**Recommendation:**

The DLNR should establish formal procedures to ensure that errors in the FAIS reports and completed CIP projects are communicated timely by the divisions to the fiscal section in order to properly capitalize, transfer, depreciate capital assets and expense costs for completed projects in the appropriate accounting period. In addition, the DLNR should also establish procedures to maintain and reconcile the CIP schedule throughout the year in order to maintain the correct balance of on-going projects at year end with appropriate capitalization, depreciation and expensing of repairs and maintenance costs accounted for to produce meaningful and accurate financial statements.

The DLNR should improve the coordination within the DLNR 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 DLNR and reconciliation procedures and formatting 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 pages 81 to 83.

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF FINDINGS (Continued)  
Fiscal Year Ended June 30, 2019**

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

**2019-002 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 security deposits 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 has not performed reconciliations for several years and the difference between the balance in the account and the reconciliation has grown.

**Effect:**

As of June 30, 2019, the cash balances for the Temporary Deposits account and the Boating Security Deposits account were greater 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.

**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 pages 81 to 83.

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF FINDINGS (Continued)  
Fiscal Year Ended June 30, 2019**

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

**2019-003 Update Allowance for Uncollectible Accounts and Formalize Procedures to Follow up on Delinquent Receivable Accounts**

**Criteria:**

Generally accepted accounting principles require that receivables be stated at its net realizable value. State of Hawaii policy requires that the approval from the Attorney General also be obtained to write-off a receivable once all efforts have been done to collect the receivable and it has been determined to not be collectible.

**Condition:**

We noted that accounts receivable aging schedules for rentals of State lands and small boat harbors included receivable accounts in which the Land Division or the Boating and Ocean Recreation Division 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 remained on the receivable listings. This was due to not obtaining proper approvals for write-offs from either the Land Board or submission to the Attorney General.

The allowance of uncollectible accounts balance also did not include amounts for receivables that are currently delinquent.

During the fiscal year ended June 30, 2019, the Land Division began to review write-off procedures and is currently in the process of determining if any revisions are appropriate. Once complete, they will implement the procedures uniformly.

**Cause:**

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

The allowance for uncollectible accounts appears to only include old receivables in which there is absolute certainty that no collection will be made. Current delinquencies are not included. The possible uncollectibility of current delinquencies is not factored into what is net realizable value.

**Effect:**

The net realizable value of the receivables reported in the Ocean-Based Recreation Fund and receivable amounts reported in the Agency Fund are overstated. The accounts receivable systems also continue to list amounts that are deemed uncollectible.

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF FINDINGS (Continued)  
Fiscal Year Ended June 30, 2019**

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

**2019-003 Update Allowance for Uncollectible Accounts and Formalize Procedures to Follow up on Delinquent Receivable Accounts (Continued)**

**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 pages 81 to 83.

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF FINDINGS (Continued)  
Fiscal Year Ended June 30, 2019**

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

**2019-004 Improve Documentation and Procedures for Accounts Receivable System**

**Criteria:**

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

As documentation relates to procedures, established written procedures 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/tasks, and potentially reduces mistakes due to improper performance of tasks. It allows management to guide operations without constant supervisory intervention.

**Condition:**

The Boating and Ocean Recreation Division uses a property management software to account for the rentals of State lands and other leases at small boat harbors. The receivable report from the new property management software was inaccurate and policies and procedures on tenant payments were not properly applied to the tenant balances. During the fiscal year ended June 30, 2019, the Boating and Ocean Recreation Division drafted procedures as it relates to the software. However, they are still in the process of implementing these procedures.

**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 has not fully implemented the policies and procedures over the new system which led to errors in the new system.

**Effect:**

As of June 30, 2019, the Boating and Ocean Recreation Division's property management software's balance for the tenant receivable balance is inaccurate.

**Department of Land and Natural Resources  
State of Hawaii  
SCHEDULE OF FINDINGS (Continued)  
Fiscal Year Ended June 30, 2019**

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

**2019-004 Improve Documentation and Procedures for Accounts Receivable System  
(Continued)**

**Recommendation:**

The Boating and Ocean Recreation Division should continue to implement 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 pages 81 to 83.

**PART IV**  
**CORRECTIVE ACTION PLAN**



**PART III SCHEDULE OF FINDINGS**

**2019-001 Improve Recordkeeping to Prepare Accrual Basis Financial Statements (Page 72)**

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 and financial reporting. The department will consistently utilize existing controls to track substantial completion and acceptance of work to ensure timely reporting of completed projects. The DLNR is establishing procedures to maintain and reconcile the CIP schedule throughout the year to maintain the correct balance of on-going projects at year end with appropriate capitalization, depreciation and expensing of repair and maintenance costs. The department will implement a closer oversight of the inventory management process to improve record keeping and reporting.

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): Carty Chang, Chief Engineer  
Edward Underwood, DOBOR Administrator  
David Smith, DOFAW Administrator  
Curt Cottrell, State Parks Administrator  
Jason Redulla, DOCARE Administrator  
Cynthia C. Gomez, Fiscal Management Officer

Anticipated Completion Date: June 30, 2021

**2019-002 Reconcile Security Deposits to Cash Held**

**(Page 75)**

Corrective Action Plan:

Concur. The DLNR Division of Boating and Ocean Recreation (DOBOR) has reconciled the security deposits in the Boating Security Deposits account as of June 30, 2020, and will continue to perform reconciliations on a monthly basis. 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 in 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 listings and the amount of cash held.

Responsible Official(s): Edward Underwood, DOBOR Administrator  
Kevin Moore, Land Division Assistant Administrator  
Cynthia C. Gomez, Fiscal Management Officer

Anticipated Completion Date: June 30, 2021

**2019-003 Update Allowance for Uncollectible Accounts and Formalize Procedures to Follow-up on Delinquent Receivable Accounts**

**(Page 76)**

Corrective Action Plan:

Concur. DOBOR will update the allowance for collectible accounts to include portions of current receivable delinquencies using its new Property Management software. DOBOR will submit 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 Division has formal written standard procedures for the write-off of uncollectible balances and will conduct a thorough review of the procedures to determine if further revisions are appropriate. Once that is complete, Land Division will implement the procedures uniformly.

Responsible Official(s): Edward Underwood, DOBOR Administrator  
Kevin Moore, Land Division Assistant Administrator

Anticipated Completion Date: June 30, 2021

**DEPARTMENT OF LAND AND NATURAL RESOURCES  
CORRECTIVE ACTION PLAN  
JUNE 30, 2019**

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**2019-004    Improve Documentation and Procedures for Accounts  
                  Receivable System**

**(Page 79)**

Corrective Action Plan:

Concur. DOBOR is still in the process of completing the documentation of the opening balance and finalizing written policies and procedures for the new system. DOBOR has since hired Oceanit Laboratories, Inc. to assist with the implementation of Yardi and to develop a procedures manual. The manual is available to all staff on the DOBOR server. It is being continually updated and revised when system processes are amended or added.

Responsible Official(s):                    Edward Underwood, DOBOR Administrator

Anticipated Completion Date:            June 30, 2021

**PART V**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Department of Land and Natural Resources  
State of Hawaii  
STATUS REPORT  
Fiscal Year Ended June 30, 2018**

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, 2018, dated January 8, 2020.

**SECTION II - FINANCIAL STATEMENT FINDINGS**

<u>Recommendations</u>	<u>Status</u>
<p><b>2018-001    Improve Recordkeeping to Prepare Accrual Basis Financial Statements (p. 65-66)</b></p> <p>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.</p>	<p>Not accomplished. Refer to current year finding number 2019-001.</p>
<p><b>2018-002    Reconcile Security Deposits to Cash Held (p. 66-67)</b></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. 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.</p>	<p>Partially accomplished. Refer to current year finding number 2019-002.</p>
<p><b>2018-003    Update Allowance for Uncollectible Accounts and Formalize Procedures to Follow-up on Delinquent Accounts (p. 67-68)</b></p> <p>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.</p>	<p>Partially accomplished. Refer to current year finding number 2019-003.</p>

**Department of Land and Natural Resources  
State of Hawaii  
STATUS REPORT  
Fiscal Year Ended June 30, 2018**

<b>Recommendations</b>	<b>Status</b>
<p><b>2018-004</b>    <b>Improve Documentation and Procedures for Accounts Receivable System (p. 69-70)</b></p> <p>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.</p>	<p>Partially accomplished. Refer to current year finding number 2019-004.</p>