

May 2, 2019

VIA EMAIL & HAND DELIVERY

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

VIA EMAIL & HAND DELIVERY

The Honorable Scott K. Saiki
Speaker, House of Representatives
415 South Beretania Street
Hawaii State Capitol, Room 431
Honolulu, Hawaii 96813

RE: Financial Audit of the Department of Land and Natural Resources

Dear President Kouchi and Speaker Saiki:

The financial audit of the Department of Land and Natural Resources for the fiscal year ended June 30, 2017, was issued on April 3, 2019. The Office of the Auditor retained N&K CPAs, Inc. to perform the financial audit. For your information, we are attaching a copy of the two-page Auditor's Summary of the financial audit report.

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

http://files.hawaii.gov/auditor/Reports/2017_Audit/DLNR2017.pdf; and

http://files.hawaii.gov/auditor/Reports/2017_Audit/DLNR_Summary_2017.pdf.

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

Very truly yours,

Leslie H. Kondo
State Auditor

LHK:RTS:emo
Enclosures

ec/attach (Auditor's Summary only): Senators

Representatives

Brian Takeshita, House Chief Clerk

Carol Taniguchi, Senate Chief Clerk

Auditor's Summary

Financial Audit of the Department of Land and Natural Resources

Financial Statements, Fiscal Year Ended June 30, 2017



PHOTO: DEPARTMENT OF LAND AND NATURAL RESOURCES

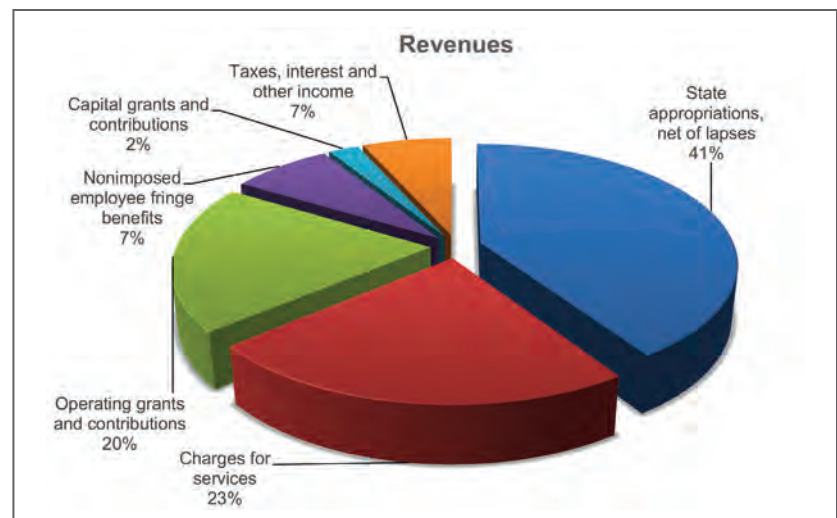
THE PRIMARY PURPOSE of the audit was to form an opinion on the fairness of the presentation of the financial statements for the Department of Land and Natural Resources (DLNR), as of and for the fiscal year ended June 30, 2017. The audit was conducted by N&K CPAs, Inc.

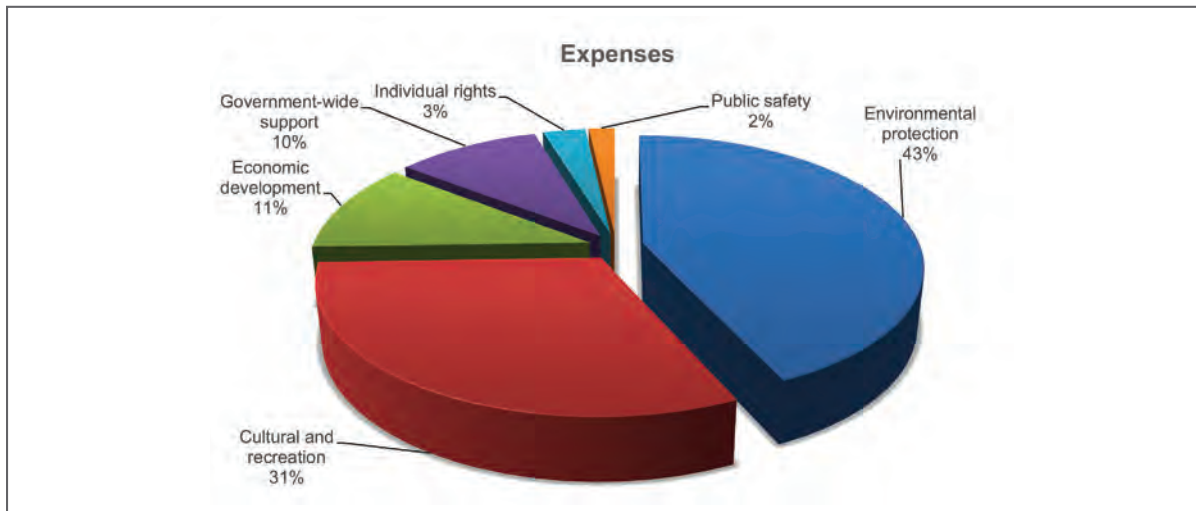
About the Department

DLNR manages, administers, and exercises control over public lands, water resources, minerals, and all other interests therein and exercises such powers of disposition as authorized by law. DLNR also manages and administers the State's parks, historical sites, forests, forest reserves, fisheries, wildlife sanctuaries, game management areas, public hunting areas, and natural area reserves. DLNR is headed by the Board of Land and Natural Resources.

Financial Highlights

FOR THE FISCAL YEAR ended June 30, 2017, DLNR reported total revenues of \$177 million and total expenses and transfers of \$193.3 million, resulting in a decrease in net position of \$16.3 million. Revenues consisted of \$72 million from State appropriations, net of lapses, \$41 million from charges for services, \$35.1 million from operating grants and contributions, \$13.2 million from nonimposed employee fringe benefits, \$3.9 million from capital grants, and \$11.8 million from taxes, interest, and other income.





Total expenses and transfers of \$193.3 million consisted of \$81.9 million for environmental protection, \$59.3 million for cultural and recreation, \$20.9 for economic development, \$18.6 million for government-wide support, \$5.5 million for individual rights, and \$3.4 million for public safety. Total transfer to others amounted to \$3.7 million.

As of June 30, 2017, total assets of \$799 million exceeded total liabilities of \$34.9 million by \$764.1 million. Total assets included cash of \$280.3 million, receivables of \$4.2 million, and land and net capital assets of \$514.5 million. Total liabilities included vouchers and accrued payables of \$22.5 million, amount due to the State of \$5.9 million, unearned revenues of \$5.1 million, and general obligation bonds payable of \$1.4 million.

Auditors' Opinion

DLNR RECEIVED AN UNMODIFIED OPINION that the financial statements were presented fairly, in all material respects, in accordance with generally accepted accounting principles.

Findings

THE AUDITORS IDENTIFIED four material weaknesses and one other matter that are required to reported in accordance with *Government Auditing Standards*.

Material Weaknesses (4)

- Improve recordkeeping to prepare accrual basis financial statements.
- Improve accounting for construction in progress.
- Reconcile security deposits to cash held.
- Update allowance for uncollectible accounts and formalize procedures to follow-up on delinquent accounts.

Other Matter

- Remit funds due to others on a timely basis.

For the complete report and financial statements visit our website at:
http://files.hawaii.gov/auditor/Reports/2017_Audit/DLNR2017.pdf

**FINANCIAL AUDIT OF THE
DEPARTMENT OF LAND AND NATURAL RESOURCES
STATE OF HAWAII**

Fiscal Year Ended June 30, 2017

**Submitted by
The Auditor
State of Hawaii**



N&K CPAs, Inc.
ACCOUNTANTS|CONSULTANTS

April 3, 2019

Mr. Leslie Kondo, State Auditor
Office of the Auditor
State of Hawaii
Board of Land and Natural Resources
State of Hawaii, Department of Land and
Natural Resources

Dear Mr. Kondo and the Board of Land and Natural Resources:

This is our report on the financial audit of the Department of Land and Natural Resources of the State of Hawaii (DLNR) as of and for the fiscal year ended June 30, 2017. Our audit was conducted in accordance with the terms of our contract with the Office of the Auditor, State of Hawaii.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the DLNR's basic financial statements as of and for the fiscal year ended June 30, 2017. More specifically, the objectives of the audit were as follows:

1. To provide a basis for opinions on the fairness of the DLNR's basic financial statements as of and for the fiscal year ended June 30, 2017.
2. To consider the DLNR's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements.
3. To perform tests of the DLNR's compliance with laws, regulations, contracts, and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D, Hawaii Revised Statutes), and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

SCOPE OF THE AUDIT

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America as prescribed by the American Institute of Certified Public Accountants; and *Government Auditing Standards*, issued by the Comptroller General of the United States. The scope of our audit included an examination of the transactions and accounting records of the DLNR for the fiscal year ended June 30, 2017.

ORGANIZATION OF THE REPORT

This report is presented in four parts as follows:

- Part I - The basic financial statements and related notes of the DLNR as of and for the fiscal year ended June 30, 2017, and our opinions on the basic financial statements and supplementary information.
- Part II - Our report on internal control over financial reporting and on compliance and other matters.
- Part III - The schedule of findings.
- Part IV - Response as provided by the DLNR.

We wish to express our sincere appreciation for the excellent cooperation and assistance extended by the officers and staff of the DLNR.

Sincerely,



Blake Isobe
Principal

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

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

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PART I
FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii
Board of Land and Natural Resources
State of Hawaii, Department of Land and Natural Resources

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, 2017, 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, 2017, and the respective changes in financial position, and, where applicable, the respective budgetary comparison for the General Fund and Other Major Funds for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State 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, 2017, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 8 - 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the

information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual nonmajor fund financial statements are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2019, 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
April 3, 2019

**Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS
Fiscal Year Ended June 30, 2017**

As management of the Department of Land and Natural Resources (the DLNR), we offer readers of these financial statements this narrative overview and analysis of the financial activities of DLNR for the fiscal year ended June 30, 2017. 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 2017

- The assets of the DLNR exceeded its liabilities at June 30, 2017, by \$764.1 million. Of this amount, \$221.9 million is unrestricted and may be used to meet the DLNR's ongoing obligations.
- As of the close of the current fiscal year, the DLNR's governmental funds reported a combined ending fund balance of \$259.6 million.
- During the year, the DLNR's governmental funds total revenue was \$177.0 million and expenses totaled \$204.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

**Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2017**

Government-Wide Financial Statements

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

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

- Governmental Funds - These funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

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

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

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

Government-Wide Financial Statements

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

Other information

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

**Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2017**

DEPARTMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, changes in net position may serve over time as a useful indicator of the DLNR's financial position. As of June 30, 2017, the DLNR's total net position was approximately \$764.1 million.

The largest part of the DLNR's net position reflects its investment in capital assets (land, buildings, improvements, and equipment), less any related debt used to acquire those assets that are still outstanding. The DLNR uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the DLNR's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following is a comparative statement of net position:

Government-wide Statements of Net Position
June 30,
(Amounts in millions)

	<u>Governmental activities</u>		<u>Increase</u>
	<u>2017</u>	<u>2016</u>	<u>(decrease)</u>
Assets:			
Current	\$ 284.4	\$ 307.5	\$ (23.1)
Noncurrent (capital assets, net of depreciation)	<u>514.5</u>	<u>499.1</u>	<u>15.4</u>
Total assets	\$ <u><u>798.9</u></u>	\$ <u><u>806.6</u></u>	\$ <u><u>(7.7)</u></u>
Liabilities:			
Current	\$ 25.7	\$ 19.0	\$ 6.7
Noncurrent	<u>9.1</u>	<u>7.1</u>	<u>2.0</u>
Total liabilities	<u>34.8</u>	<u>26.1</u>	<u>8.7</u>
Net position:			
Investment in capital assets	513.1	497.5	15.6
Restricted	29.1	29.2	(0.1)
Unrestricted	<u>221.9</u>	<u>253.8</u>	<u>(31.9)</u>
Total net position	<u>764.1</u>	<u>780.5</u>	<u>(16.4)</u>
Total liabilities and net position	\$ <u><u>798.9</u></u>	\$ <u><u>806.6</u></u>	\$ <u><u>(7.7)</u></u>

Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2017

DLNR's net position decreased by \$16.4 million for the fiscal year ended June 30, 2017. The \$15.4 million increase in capital assets are due to the acquisition of land and improvements.

Analysis of the DLNR's Operations: The following table provides a summary of the DLNR's operations for the year ended June 30, 2017:

Government-wide Changes of Net Position
Fiscal years ending June 30,
(Amounts in millions)

	Governmental activities		Increase
	2017	2016	(decrease)
Revenues:			
Program revenues:			
Charges for services	\$ 41.0	\$ 43.5	\$ (2.5)
Operating grants and contributions	35.1	41.7	(6.6)
Capital grants and contributions	3.9	2.2	1.7
General revenues:			
State allotted appropriations, net of lapses	72.0	95.2	(23.2)
Non-imposed employee wages and fringe benefits	13.2	10.5	2.7
Conveyance taxes	6.8	6.6	0.2
Liquid fuel taxes	1.9	1.9	0.0
Transient accommodations taxes	2.4	--	2.4
Interest and investment earnings	0.7	0.5	0.2
Total	\$ 177.0	\$ 202.1	\$ (25.1)
Transfers, net	\$ (3.7)	0.4	(4.1)
Expenses:			
Economic development	\$ 20.9	13.0	7.9
Environmental protection	81.9	109.5	(27.6)
Cultural and recreation	59.3	48.3	11.0
Public safety	3.4	3.8	(0.4)
Individual rights	5.5	5.9	(0.4)
Government wide support	18.7	18.1	0.6
Total	189.7	198.6	(8.9)
Change in net position	\$ (16.4)	\$ 3.9	\$ (20.3)

Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2017

There was a \$6.6 million decrease in operating grants and contributions and a \$1.7 million increase in capital grants and contributions. There was a decrease of \$8.9 million in total expenditures mainly due to decrease in capital outlays as well as operational expenditures. The decrease of \$23.2 million in State allotted appropriations is a result of adjustments made to various accounts for non-recurring costs and discontinuation of separate appropriation Acts.

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.

The General Fund is the primary operating fund of the DLNR. At the end of the current fiscal year, there was \$15.3 million encumbrance balance that remained after the current year's net gain in the General Fund and reflected as assigned fund balance in accordance with GASB Statement No: 54.

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

The Federal Grant Fund accounts for funds received from a variety of federal grantor agencies for specific purposes ranging from restoration, protection, and acquisition of natural resources to assistance following a natural disaster. Total federal grant expenditures for the year approximated \$21.5 million from nearly 130 individual grants.

The Ocean-Based Recreation Fund accounts for revenues collected to implement the boating and ocean recreation program. Deposits into this fund include a portion of the liquid fuel tax used by recreational boaters. Revenues were approximately \$16.7 million and expenditures were approximately \$16.8 million.

The Capital Projects Fund received approximately \$23.8 million of State allotted appropriations 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 FY 2017 was \$27.7 million before transfers.

Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2017

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

Comparison of Balance Sheets
June 30,
(in millions)

	Assets			Liabilities			Fund Balances		
	2017	2016	Change	2017	2016	Change	2017	2016	Change
General Fund	\$ 19.4	\$ 18.5	\$ 0.9	\$ 4.1	\$ 4.8	\$ (0.7)	\$ 15.3	\$ 13.7	\$ 1.6
Federal Grant Fund	11.5	7.3	4.2	11.5	7.3	4.2	--	--	--
Ocean-Based Recreation Fund	11.2	12.7	(1.5)	1.5	0.5	1.0	9.7	12.2	(2.5)
Capital Projects Fund	137.5	172.3	(34.8)	5.9	4.4	1.5	131.6	167.9	(36.3)
Other Governmental Funds	<u>106.6</u>	<u>96.7</u>	<u>9.9</u>	<u>3.6</u>	<u>3.2</u>	<u>0.4</u>	<u>103.0</u>	<u>93.5</u>	<u>9.5</u>
Total	<u>\$ 286.2</u>	<u>\$ 307.5</u>	<u>\$ (21.3)</u>	<u>\$ 26.6</u>	<u>\$ 20.2</u>	<u>\$ 6.4</u>	<u>\$ 259.6</u>	<u>\$ 287.3</u>	<u>\$ (27.7)</u>

Comparison of Revenues and Expenditures
Fiscal years ending June 30,
(in millions)

	2017	2016
Revenues		
State allotted appropriations, net lapses	\$ 72.0	\$ 95.2
Intergovernmental revenue	34.5	43.9
Nonimposed employee wages and fringe benefits	13.2	10.5
Charges for services	45.5	43.5
Taxes	11.1	8.5
Interest and investment earnings	0.7	0.5
Total revenues	<u>177.0</u>	<u>202.1</u>
Expenditures		
Economic development	9.5	10.4
Environmental protection	71.7	93.1
Cultural and recreation	42.8	35.4
Public safety	1.6	1.8
Individual rights	5.4	5.8
Governmentwide support	18.5	17.8
Capital improvement projects	54.9	60.8
Principal and interest on long-term debt	0.3	0.3
Total expenditures	<u>204.7</u>	<u>225.4</u>
Excess of revenues over (under) expenditures before transfers	<u>\$ (27.7)</u>	<u>\$ (23.3)</u>

**Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2017**

BUDGETARY HIGHLIGHTS

General Fund - Actual expenditures for general funded programs were \$2.6 million less than the budgeted expenditures due to budget restrictions and vacancy savings.

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

Ocean-Based Recreation Fund - This special fund is the primary operating fund for the Division of Boating and Ocean Recreation. Actual revenue collected was \$3.9 million less than budgeted due to the late implementation of fee increases and the leasing out of fast lands under the jurisdiction of DOBOR. Expenditures of this special fund are supported by the revenue it generates; a lower than anticipated revenue collection means curtailment of its expenditures, resulting in expenditure levels being less than budgeted.

AGENCY FUNDS

Agency Funds account for assets held by DLNR in a trustee or agency capacity for other State departments, individuals and organizations. Agency funds held for others at the end of FY 2017 was \$35.7 million, an increase of 3.8 million from FY 2016.

CAPITAL ASSETS

At the end of fiscal year 2017, the DLNR had invested approximately \$514.5 million (net of accumulated depreciation) in a broad range of capital assets. There was a net increase of \$18.8 million. A major portion net increase in non-depreciable assets related to costs incurred for construction in progress of \$29.6 million, with construction in progress also reduced by \$11.6 million for projects completed. The \$14.8 million net increase of depreciable assets includes \$11.7 million in land and building improvements, \$1.8 million in acquisition and adjustments on furniture and equipment costs, and \$1.3 million in vehicles. This increase is offset by net depreciation adjustments of \$18.4 million.

See Note E to the financial statements for a description of capital assets activities for the fiscal year ended June 30, 2017.

DEBT ADMINISTRATION

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

The accrued vacation balance as of June 30, 2017 was \$8.5 million, an increase of \$0.5 million from fiscal year 2016.

Department of Land and Natural Resources
State of Hawaii
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
Fiscal Year Ended June 30, 2017

The outstanding balance of the State of Hawaii general obligation bonds allocated to the DLNR is approximately \$1.4 million as of June 30, 2017. 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 general fund.

See Note F to the financial statements for details of the accrued vacation liability and general obligations bonds outstanding as of June 30, 2017.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Department has entered into three agreements with the 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.

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, 2017**

	Governmental Activities
ASSETS	
Current assets	
Cash	\$ 280,265,271
Receivables	
Federal grants	3,241,910
General leases and licenses, net of allowance for losses of \$1,006,124	966,780
	284,473,961
Noncurrent assets	
Capital assets, net of accumulated depreciation	514,457,417
Total assets	\$ 798,931,378
LIABILITIES AND NET POSITION	
Current liabilities	
Vouchers and contracts payable	\$ 10,095,772
Accrued wages and employee benefits	3,856,407
Accrued compensated absences, current portion	2,443,089
General obligation bonds, current portion	180,601
Due to State Treasury	4,020,663
Unearned revenues	5,066,591
Noncurrent liabilities	
General obligation bonds, less current portion	1,225,968
Accrued compensated absences, less current portion	6,062,187
Notes payable to State Treasury	1,859,135
Total liabilities	34,810,413
Net position	
Net investment in capital assets	513,050,848
Restricted	29,088,395
Unrestricted	221,981,722
Total net position	764,120,965
Total liabilities and net position	\$ 798,931,378

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, 2017

		Program revenues			
Expenses	Charges for Services	Operating, Grants and Contributions	Capital Grants and Contributions		Net revenue (expenses) and change in net position
					Governmental activities
Governmental activities:					
Economic development	\$ 20,909,001	\$ 431,484	\$ 2,288,021	\$ --	\$ (18,189,496)
Environmental protection	81,914,823	198,157	19,859,878	--	(61,856,788)
Cultural and recreation	59,324,371	20,173,719	7,662,680	3,913,369	(27,574,603)
Public safety	3,355,810	588,366	338,330	--	(2,429,114)
Individual rights	5,525,470	6,097,724	745,542	--	1,317,796
Government-wide support	<u>18,646,147</u>	<u>13,467,097</u>	<u>4,227,332</u>	<u>--</u>	<u>(951,718)</u>
Total governmental activities	\$ <u>189,675,622</u>	\$ <u>40,956,547</u>	\$ <u>35,121,783</u>	\$ <u>3,913,369</u>	\$ <u>(109,683,923)</u>
	General revenues:				
	State allotted appropriations, net of lapses				72,006,881
	Nonimposed employee wages and fringe benefits				13,174,560
	Conveyance taxes				6,800,000
	Liquid fuel taxes				1,911,912
	Transient accommodations taxes				2,400,000
	Interest and investment earnings				<u>716,299</u>
	Total general revenues				<u>97,009,652</u>
	Transfers				<u>(3,691,048)</u>
	Change in net position				(16,365,319)
	Net position at June 30, 2016				<u>780,486,284</u>
	Net position at June 30, 2017				\$ <u>764,120,965</u>

See accompanying notes to the basic financial statements.

Department of Land and Natural Resources
State of Hawaii
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General Fund	Federal Grant Fund	Ocean-Based Recreation Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and short-term cash investments held in State Treasury	\$ 19,387,281	\$ 8,381,692	\$ 10,047,812	\$ 137,364,559	\$ 105,083,927	\$ 280,265,271
Receivables:						
Federal grants	--	3,135,433	--	106,477	--	3,241,910
General leases and licenses, net of allowance for losses	--	--	443,775	--	523,005	966,780
Due from Federal Grant Fund	--	--	670,594	--	1,092,480	1,763,074
Total Assets	\$ 19,387,281	\$ 11,517,125	\$ 11,162,181	\$ 137,471,036	\$ 106,699,412	\$ 286,237,035
LIABILITIES:						
Vouchers and contracts payable	\$ 2,135,157	\$ 2,151,107	\$ 544,436	\$ 4,343,852	\$ 921,220	\$ 10,095,772
Accrued wages and employee benefits payable	1,961,126	256,359	460,731	--	1,178,191	3,856,407
Due to State Treasury	--	4,020,663	--	--	--	4,020,663
Due to Special Revenue Funds	--	1,763,074	--	--	--	1,763,074
Unearned revenue	--	3,025,922	517,862	--	1,522,807	5,066,591
Notes payable to State Treasury	--	300,000	--	1,559,135	--	1,859,135
Total Liabilities	4,096,283	11,517,125	1,523,029	5,902,987	3,622,218	26,661,642
FUND BALANCES:						
Restricted	--	--	--	--	29,088,395	29,088,395
Committed	--	--	9,639,152	--	73,988,799	83,627,951
Assigned	15,290,998	--	--	131,568,049	--	146,859,047
Unassigned	--	--	--	--	--	--
Total Fund Balances	15,290,998	--	9,639,152	131,568,049	103,077,194	259,575,393
Total Liabilities and Fund Balances	\$ 19,387,281	\$ 11,517,125	\$ 11,162,181	\$ 137,471,036	\$ 106,699,412	\$ 286,237,035

**Department of Land and Natural Resources
State of Hawaii
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2017**

Total fund balances - governmental funds	\$	259,575,393
 Amounts reported for governmental activities in the statement of net position are different because:		
 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capital Assets		
Governmental capital assets	\$ 739,696,453	
Less accumulated depreciation	<u>(225,239,036)</u>	514,457,417
 Accrued compensated absences are not due in the current period and therefore are not reported in the governmental funds.		
		(8,505,276)
 Bonds payable is not due in the current period and, therefore, is not reported in the funds.		
		<u>(1,406,569)</u>
 Net position of governmental activities	 \$	 <u>764,120,965</u>

See accompanying notes to the basic financial statements.

Department of Land and Natural Resources
State of Hawaii
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Fiscal Year Ended June 30, 2017

	General Fund	Federal Grant Fund	Ocean-Based Recreation Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
State allotments, net	\$ 52,111,377	\$ --	\$ --	\$ 19,895,504	\$ --	\$ 72,006,881
Nonimposed employee fringe benefits	13,174,560	--	--	--	--	13,174,560
Intergovernmental revenue	--	21,561,674	--	3,913,369	9,063,580	34,538,623
General leases, licenses and permits	--	--	14,353,636	--	18,264,847	32,618,483
Fees and service charges	--	--	528,297	--	7,809,767	8,338,064
Taxes, fuel and others	--	--	1,662,101	--	9,449,811	11,111,912
Interest	--	7,344	45,298	1,964	661,693	716,299
Other	--	5,201	99,841	--	4,391,488	4,496,530
Total Revenues	<u>\$ 65,285,937</u>	<u>\$ 21,574,219</u>	<u>\$ 16,689,173</u>	<u>\$ 23,810,837</u>	<u>\$ 49,641,186</u>	<u>\$ 177,001,352</u>
EXPENDITURES:						
Economic development	\$ 5,244,579	\$ 2,206,850	\$ --	\$ --	\$ 2,075,132	\$ 9,526,561
Environmental protection	50,254,931	12,102,222	--	--	9,296,723	71,653,876
Culture and recreation	12,459,706	6,926,918	16,482,725	--	6,965,365	42,834,714
Public safety	--	338,229	--	--	1,241,219	1,579,448
Individual rights	--	--	--	--	5,440,792	5,440,792
Government-wide support	106,855	--	--	--	18,343,520	18,450,375
Capital improvement projects	--	--	--	54,889,196	--	54,889,196
Debt Service:						
Principal on long-term debt	--	--	225,571	--	--	225,571
Interest on long-term debt	--	--	76,987	--	--	76,987
Total Expenditures	<u>68,066,071</u>	<u>21,574,219</u>	<u>16,785,283</u>	<u>54,889,196</u>	<u>43,362,751</u>	<u>204,677,520</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,780,134)</u>	<u>--</u>	<u>(96,110)</u>	<u>(31,078,359)</u>	<u>6,278,435</u>	<u>(27,676,168)</u>
OTHER FINANCING SOURCES (USES):						
Transfers In	36,522	1,143,992	23,070,955	--	65,307,879	89,559,348
Transfers Out	--	(1,143,992)	(25,071,678)	(3,727,572)	(63,307,154)	(93,250,396)
Total Other Financing Sources (Uses)	<u>36,522</u>	<u>--</u>	<u>(2,000,723)</u>	<u>(3,727,572)</u>	<u>2,000,725</u>	<u>(3,691,048)</u>
Net Change in Fund Balances	<u>(2,743,612)</u>	<u>--</u>	<u>(2,096,833)</u>	<u>(34,805,931)</u>	<u>8,279,160</u>	<u>(31,367,216)</u>
Fund Balances, Beginning of Year	<u>18,034,610</u>	<u>--</u>	<u>11,735,985</u>	<u>166,373,980</u>	<u>94,798,034</u>	<u>290,942,609</u>
Fund Balances, End of Year	<u>\$ 15,290,998</u>	<u>\$ --</u>	<u>\$ 9,639,152</u>	<u>\$ 131,568,049</u>	<u>\$ 103,077,194</u>	<u>\$ 259,575,393</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, 2017**

Net change in fund balances - total government funds		\$ (31,367,216)
 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	\$ 34,546,125	
Loss on disposal of capital assets	(5,183)	
Less current fiscal year depreciation	<u>(19,235,812)</u>	15,305,130
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		(528,804)
Bond principal retirements		<u>225,571</u>
 Change in net position of governmental activities		 \$ <u>(16,365,319)</u>

See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - GENERAL FUND
Fiscal Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual on Budgetary Basis</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
State allotments	\$ <u>57,455,806</u>	\$ <u>57,956,759</u>	\$ <u>55,826,415</u>	\$ <u>(2,130,344)</u>
EXPENDITURES				
Economic development	4,789,147	4,703,673	4,474,543	229,130
Environmental protection	42,711,679	42,926,556	41,890,998	1,035,558
Culture and recreation	9,864,980	10,154,228	8,963,202	1,191,026
Government-wide support	<u>90,000</u>	<u>172,302</u>	<u>--</u>	<u>172,302</u>
	<u>57,455,806</u>	<u>57,956,759</u>	<u>55,328,743</u>	<u>2,628,016</u>
Excess of revenues over expenditures	\$ <u>--</u>	\$ <u>--</u>	\$ <u>497,672</u>	\$ <u>497,672</u>

See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) – FEDERAL GRANT FUND
Fiscal Year Ended June 30, 2017**

	Budgeted Amounts		Actual on Budgetary Basis	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Federal grants	\$ <u>32,238,014</u>	\$ <u>32,238,014</u>	\$ <u>21,886,136</u>	\$ <u>(10,351,878)</u>
	<u>32,238,014</u>	<u>32,238,014</u>	<u>21,886,136</u>	<u>(10,351,878)</u>
EXPENDITURES				
Economic development	3,499,669	3,499,669	520,474	2,979,195
Environmental protection	19,659,862	19,659,862	6,780,048	12,879,814
Culture and recreation	8,653,835	8,653,835	3,719,671	4,934,164
Public safety	<u>424,648</u>	<u>424,648</u>	<u>71,966</u>	<u>352,682</u>
	<u>32,238,014</u>	<u>32,238,014</u>	<u>11,092,159</u>	<u>21,145,855</u>
Excess of revenues over expenditures	\$ <u> --</u>	\$ <u> --</u>	\$ <u>10,793,977</u>	\$ <u>10,793,977</u>

See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources
State of Hawaii
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS) - OCEAN-BASED RECREATION FUND
Fiscal Year Ended June 30, 2017**

	Budgeted Amounts		Actual on Budgetary Basis	Variance Favorable (Unfavorable)
	Original	Final		
REVENUES				
Revenues	\$ <u>20,835,417</u>	\$ <u>20,835,417</u>	\$ <u>16,969,497</u>	\$ <u>(3,865,920)</u>
	<u>20,835,417</u>	<u>20,835,417</u>	<u>16,969,497</u>	<u>(3,865,920)</u>
EXPENDITURES				
Culture and recreation	<u>20,835,417</u>	<u>20,835,417</u>	<u>18,398,047</u>	<u>2,437,370</u>
	<u>20,835,417</u>	<u>20,835,417</u>	<u>18,398,047</u>	<u>2,437,370</u>
Excess of expenditures over revenues	\$ <u> --</u>	\$ <u> --</u>	\$ <u>(1,428,550)</u>	\$ <u>(1,428,550)</u>

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, 2017**

	Agency Funds
ASSETS	
Cash and short-term cash investments held in State Treasury	\$ 34,848,407
Receivables:	
General leases and licenses, net	<u>849,142</u>
Total Assets	\$ <u>35,697,549</u>
LIABILITIES	
Due to State Treasury	\$ 30,142,699
Due to other State Agencies	616,978
Unearned revenues	1,246,943
Deposits	<u>3,690,929</u>
Total Liabilities	\$ <u>35,697,549</u>

See accompanying notes to the basic financial statements.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE A - FINANCIAL REPORTING ENTITY

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

The DLNR is a part of the executive branch of the State. The financial statements of the DLNR are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the DLNR. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2017, and the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America (GAAP). The State Comptroller maintains the central accounts for all state funds and publishes the State's Comprehensive Annual Financial Report, which includes the DLNR's financial activities.

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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Government-Wide Financial Statements

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

Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DLNR considers revenues to be available if they are collected within 60 days of the end of the current fiscal year.

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include employees' vested vacation, which are recorded as expenditures when utilized or paid. The amount of accumulated vacation at June 30, 2017 has been reported only in the government-wide financial statements.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fiduciary Funds

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

(3) ***Fund Accounting***

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

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

Governmental Funds

General Fund - The general fund is the main operating fund of the DLNR. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

Special Revenue Funds - Special revenue funds are used to account for proceeds of specific revenue sources that are restricted to expenditures for specified purposes. Revenues are primarily from assessments and fees. DLNR's major special revenue funds are as follows:

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

Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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

Fund Balance

In the fund financial statements, Governmental Funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

The DLNR classifies fund balances based primarily on the extent to which a government is bound to follow constraints on how resources can be spent in accordance with GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. Classifications include:

Restricted - Balances that are restricted for specific purposes by external parties such as creditors, grantors, or 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 management to be used for specific purposes, but are neither restricted nor committed.

Unassigned - Residual balances that are not contained in the other classifications.

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

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

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

- (4) **Cash and Cash Equivalents** - Cash and cash equivalents consist of amounts held in the State Treasury. The State Director of Finance (Director) is responsible for safekeeping of all monies paid into the State Treasury. The Director may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool system. Funds in the investment pool accrue interest based on the average weighted cash balances of each account. The State requires that depository banks pledge as collateral, governmental securities held in the name of the State for deposits not covered by federal deposit insurance.

Information relating to the cash and investments in State Treasury is determined on a statewide basis and not for individual departments and agencies. Information regarding the carrying amount and corresponding bank balances of the investment pool and collateralization of investment pool balances is included in the State's comprehensive annual financial report.

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

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

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

- (7) **Compensated Absences** - Employees are credited with vacation at the rate of 96 to 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment. Such accumulated vacation has been accrued and reflected in the statement of net position.
- (8) **Accumulated Sick Leave** - Sick leave accumulates at the rate of one and three-quarters working days for each month of service without limit, but may be taken only in the event of illness and is not convertible to pay upon termination of employment. However, a State employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the State's Employees' Retirement System (ERS). At June 30, 2017, accumulated sick leave was approximately \$23.6 million.
- (9) **Long-term Obligations** - In the government-wide financial statements, long-term debt are reported as liabilities in the statement of net position. Initial-issue bond premiums and discounts are deferred and amortized over the life of the bonds using the effective-interest method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the life of the refunding debt or the remaining life of the refunded debt. Amortization of bond premiums or discounts, and deferred amounts on refunding are included in interest expense. Bond issuance costs are expensed as incurred.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (10) **Program Revenues** - Appropriations represent the authorizations granted by the State Legislature that permit a state agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended or encumbered at the end of the fiscal year.
- (11) **Intrafund and Interfund Transactions** - Significant transfers of financial resources between activities included within the same fund are offset within that fund. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the basic financial statements.
- (12) **Risk Management** - The DLNR is exposed to various risks for losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; natural disasters; and injuries to employees. A liability for a claim for a risk of loss is established if information indicates that it is probable that a liability has been incurred at the date of the basic financial statements and the amount of the loss is reasonably estimable.
- (13) **Deferred Compensation Plan** - The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the State's or the DLNR's basic financial statements.
- (14) **Use of Estimates** - The preparation of the basic financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
- (15) **Recently Issued Accounting Pronouncements** - The GASB issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The Statement replaces GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, and

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NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. The Statement will require the liability of employers for defined benefit OPEB to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service, less the amount of the OPEB plan's fiduciary net position. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

The GASB issued Statement No. 82, Pension Issues an amendment of GASB Statements No. 67, No. 68, and No. 73. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. GASB Statement No. 82 was effective for the DLNR's financial statements for the year ending June 30, 2017. The adoption of Statement No. 82 had no impact on the DLNR's financial statements.

The GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Management has not yet determined the effect this Statement will have on the DLNR's financial statements.

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

NOTE C - BUDGETING AND BUDGETARY CONTROL

Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected by the DLNR as budgeted revenues are those estimates as compiled by the Council on Revenues and the State Director of Finance. Budgeted expenditures for the DLNR's general fund are provided to the Department of Budget and Finance, 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.

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NOTE C - BUDGETING AND BUDGETARY CONTROL (Continued)

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

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

A reconciliation of revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2017, to revenues in excess of expenditures presented in GAAP, is set forth as follows:

	<u>General</u>	<u>Federal Grants Fund</u>	<u>Ocean-Based Recreation</u>
Excess of revenues over (under) expenditures - actual on a budgetary basis	\$ 497,672	\$ 10,793,977	\$ (1,428,550)
Reserved for encumbrance at fiscal year end	16,132,650	3,786,209	3,755,268
Expenditures for liquidation of prior fiscal year encumbrances	(20,090,039)	(13,820,628)	(2,169,428)
Net accrued revenues and expenditures	<u>679,583</u>	<u>(759,558)</u>	<u>(253,400)</u>
Deficiency of revenues over expenditures - GAAP basis	\$ <u>(2,780,134)</u>	\$ <u> --</u>	\$ <u>(96,110)</u>

NOTE D - RECEIVABLES

At June 30, 2017, receivables for general leases and licenses for governmental funds consisted of the following:

Rents, fees and licenses	\$ 1,972,904
Less allowance for doubtful accounts	<u>(1,006,124)</u>
	<u>\$ 966,780</u>

The DLNR also has a general lease installment agreement with a lessee for accounts receivable of the trust and agency fund which totaled \$134,232 at June 30, 2017. This agreement provides for interest rate at 5.0% and matures on April 14, 2027.

At June 30, 2017, receivables for general leases and licenses for fiduciary funds consisted of the following:

Rents, fees and licenses	\$ 1,393,684
Less allowance for doubtful accounts	<u>(544,542)</u>
	<u>\$ 849,142</u>

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June 30, 2017**

NOTE E - CAPITAL ASSETS

For the fiscal year ended June 30, 2017, capital assets activity for the DLNR was as follows:

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
Government activities:				
Capital asset, not being depreciated:				
Land and improvements	\$ 234,568,506	\$ 760,000	\$ --	\$ 235,328,506
Construction in progress	<u>93,321,612</u>	<u>29,632,639</u>	<u>(11,565,938)</u>	<u>111,388,313</u>
Total capital assets not being depreciated	<u>327,890,118</u>	<u>30,392,639</u>	<u>(11,565,938)</u>	<u>346,716,819</u>
Capital assets, being depreciated:				
Land improvements	263,898,858	11,230,538	--	275,129,396
Buildings and improvements	69,863,317	531,337	--	70,394,654
Furniture and equipment	20,403,445	1,844,430	(45,758)	22,202,117
Vehicles	<u>23,941,694</u>	<u>2,113,119</u>	<u>(801,346)</u>	<u>25,253,467</u>
Total capital assets being depreciated	<u>378,107,314</u>	<u>15,719,424</u>	<u>(847,104)</u>	<u>392,979,634</u>
Less accumulated depreciation for:				
Land improvements	(139,959,208)	(13,997,207)	--	(153,956,415)
Buildings and improvements	(33,403,210)	(1,837,717)	--	(35,240,927)
Furniture and equipment	(15,000,935)	(1,409,490)	40,575	(16,369,850)
Vehicles	<u>(18,481,792)</u>	<u>(1,991,398)</u>	<u>801,346</u>	<u>(19,671,844)</u>
Total accumulated depreciation	<u>(206,845,145)</u>	<u>(19,235,812)</u>	<u>841,921</u>	<u>(225,239,036)</u>
Government activities, net	\$ <u>499,152,287</u>	\$ <u>26,876,251</u>	\$ <u>(11,571,121)</u>	\$ <u>514,457,417</u>

Depreciation expense was charged to functions as follows:

	<u>Amount</u>
Economic development	\$ 1,493,043
Environmental protection	7,603,610
Culture and recreation	8,209,029
Public safety	1,622,969
Individual rights	90,514
Government-wide support	<u>216,647</u>
	<u>\$ 19,235,812</u>

**Department of Land and Natural Resources
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NOTE F - LONG-TERM LIABILITIES

The change in long-term liabilities during the fiscal year ended June 30, 2017, was as follows:

	Accrued Vacation	General Obligation Bonds
Balance at July 1, 2016	\$ 7,976,472	\$ 1,632,140
Additions	3,903,474	--
Reductions	<u>(3,374,670)</u>	<u>(225,571)</u>
Balance at June 30, 2017	8,505,276	1,406,569
Less: current portion	<u>(2,443,089)</u>	<u>(180,601)</u>
	<u>\$ 6,062,187</u>	<u>\$ 1,225,968</u>

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, 2017 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.	\$ 19
Series DG bonds dated June 15, 2005; due in varying annual installments beginning in July 2009 through July 2017; interest at 5.00% payable semi-annually.	63,038
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.	956,394
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.	<u>387,118</u>
	<u>\$ 1,406,569</u>

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NOTE F - LONG-TERM LIABILITIES (Continued)

The approximate annual requirements to amortize the general obligation bond's debt and related interest are as follows:

Fiscal year ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 180,602	\$ 68,542	\$ 249,144
2019	123,407	61,253	184,660
2020	129,570	55,091	184,661
2021	136,041	48,626	184,667
2022	142,819	41,827	184,646
2023-2027	<u>694,130</u>	<u>94,646</u>	<u>788,776</u>
Total	\$ <u>1,406,569</u>	\$ <u>369,985</u>	\$ <u>1,776,554</u>

NOTE G - 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 \$13,100,200 for the fiscal year ended June 30, 2017, have been reported as revenues and expenditures in the general fund of the DLNR.

NOTE H - RETIREMENT BENEFITS

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

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

Benefits Provided - The ERS Pension Trust is comprised of three pension classes for membership purposes and considered to be a single plan for accounting purposes since all assets of the ERS may legally be used to pay the benefits of any of the ERS members or beneficiaries. The ERS provides retirement, disability and death benefits with three membership classes known as the noncontributory, contributory and hybrid retirement classes. The three classes provide a monthly retirement allowance equal to the benefit multiplier (generally 1.25% or 2%) multiplied by the average final compensation multiplied by years of credited service. Average final compensation for members hired prior to July 1, 2012 is an average of the highest salaries during any three years of credited service, excluding any salary paid in lieu of vacation for members hired January 1, 1971 or later and the average of the highest salaries during any five years of credited service including any salary paid in lieu of vacation for members hired prior to January 1, 1971. For members hired after June 30, 2012, average final compensation is an average of the highest salaries during any five years of credited service excluding any salary paid in lieu of vacation.

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NOTE H - RETIREMENT BENEFITS (Continued)

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

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

Noncontributory Class

Retirement Benefits - General employees' retirement benefits are determined as 1.25% of average final compensation multiplied by the years of credited service. Employees with ten years of credited service are eligible to retire at age 62. Employees with 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.

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NOTE H - 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.

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NOTE H - 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.

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NOTE H - 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 2017 were 25.0% for police officers and fire fighters and 17.00% for all other employees. Contributions to the pension plan from the DLNR were approximately \$10,131,000 for the year ended June 30, 2017.

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 Comprehensive Annual Financial Report (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.

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NOTE H - 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 of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The actuarial valuation of the EUTF does not provide other postemployment benefits (OPEB) information by department or agency. Accordingly, the State's policy on the accounting and reporting for OPEB is to only allocate a portion of the State's Annual Required Contribution (ARC), interest, and any adjustment to the ARC, to component units and proprietary funds that are reported separately in stand-alone departmental financial statements or in the State's CAFR. The State's CAFR includes the required footnote disclosures and required supplementary information on the State's OPEB plan.

Post-retirement health care and insurance benefits paid by the State on behalf of the DLNR for the fiscal years ended June 30, 2017, 2016, and 2015, was approximately \$3,476,000, \$4,005,000, and \$4,001,000, respectively.

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NOTE I - RISK MANAGEMENT

The State 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. 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) - Claims under \$10,000 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 \$5 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.

Self-Insured Risks - The State generally self-insures its automobile no-fault and workers' compensation losses. Automobile losses are administered by third-party administrators. The State administers its workers' compensation losses. The State records a liability for risk financing and insurance related losses, including incurred but not reported, if it is determined that a loss has been incurred and the amount can be reasonably estimated.

At June 30, 2017, 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.

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE J - 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, 2017 were as follows:

Fund	Amount
General Fund	\$ 16,361,147
Federal Grant Fund	9,136,166
Ocean-Based Recreation Fund	3,643,829
Capital Projects Fund	83,529,252
Non-Major Governmental Funds	<u>17,785,658</u>
	<u>\$ 130,456,052</u>

- (2) **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.

- (3) **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 Department of Budget and Finance (DBF), State of Hawaii, 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 DBF 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, 2017, the outstanding balance on this note payable was \$1,559,135.

The DLNR also received a temporary loan from the DBF to prepay costs that are reimbursable by federal grants. The outstanding balance on this loan was \$300,000 as of June 30, 2017.

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

**Department of Land and Natural Resources
State of Hawaii
NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2017**

NOTE K - LEASE COMMITMENTS

The DLNR leases equipment from third-party lessors under various operating leases expiring through 2023. Future minimum lease rentals under noncancelable operating leases with terms of one year or more at June 30, 2017 were as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 240,000
2019	163,000
2020	104,000
2021	52,000
2022	10,000
2023	<u>3,000</u>
	<u>\$ 572,000</u>

Total rent expense related to the above leases for the fiscal year ended June 30, 2017 amounted to approximately \$312,000.

NOTE L - 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, 2017, DLNR held cash of approximately \$30,583,000 received as ceded land revenues in the current and prior years. These amounts are reported on the statement of fiduciary net position - agency funds and are reflected in the due to State Treasury, due to other State agencies, and unearned revenues liability accounts.

NOTE M - INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2017 consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
General Fund	\$ 36,522	\$ --
Federal Grant Fund	1,143,992	1,143,992
Ocean-Based Recreation Fund	23,070,955	25,071,678
Capital Projects Fund	--	3,727,572
Other Governmental Funds	<u>65,307,879</u>	<u>63,307,154</u>
	<u>\$ 89,559,348</u>	<u>\$ 93,250,396</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.

SUPPLEMENTARY INFORMATION

Department of Land and Natural Resources
State of Hawaii
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

	Special Land Development Fund	Special Land Development Fund - Other	Land Conservation Fund	Bureau of Conveyances Fund	Commercial Fisheries Fund	Forest Stewardship Fund	Wildlife Revolving Fund	Conservation Resource Enforcement Fund	Natural Area Reserves Fund	Historic Preservation Fund	Na Ala Hele Park Development Fund	Subtotal Carried Forward
ASSETS:												
Cash and short-term cash investments held in State Treasury Receivables:	\$ 18,349,839	\$ 1,254,314	\$ 20,567,919	\$ 1,294,288	\$ 249,081	\$ 766,487	\$ 445,341	\$ 703,379	\$ 15,399,460	\$ 290,820	\$ 160,727	\$ 59,481,755
General leases and licenses, net of allowance for losses	144,070	--	--	--	--	3,821	--	--	--	--	--	147,891
Due from Federal Grant Fund	--	--	--	--	36,275	182	--	--	850,000	199,221	--	1,085,678
Total Assets	\$ 18,494,009	\$ 1,254,314	\$ 20,567,919	\$ 1,294,288	\$ 285,356	\$ 770,490	\$ 445,341	\$ 703,379	\$ 16,249,460	\$ 490,041	\$ 160,727	\$ 60,715,324
LIABILITIES:												
Vouchers and contracts payable	\$ 179,632	\$ 160,392	\$ 609	\$ --	\$ 21,344	\$ --	\$ --	\$ 20,235	\$ --	\$ --	\$ --	\$ 382,212
Accrued wages and employee benefits payable	288,892	24,859	16,082	228,132	4,215	--	14,371	139,389	--	--	32,879	748,819
Unearned revenue	1,256,704	--	--	--	--	25,383	--	--	--	--	--	1,282,087
Total Liabilities	1,725,228	185,251	16,691	228,132	25,559	25,383	14,371	159,624	--	--	32,879	2,413,118
FUND BALANCES:												
Restricted	--	--	--	--	--	--	--	--	--	--	--	--
Committed	16,768,781	1,069,063	20,551,228	1,066,156	259,797	745,107	430,970	543,755	16,249,460	490,041	127,848	58,302,206
Total Fund Balances	16,768,781	1,069,063	20,551,228	1,066,156	259,797	745,107	430,970	543,755	16,249,460	490,041	127,848	58,302,206
Total Liabilities and Fund Balances	\$ 18,494,009	\$ 1,254,314	\$ 20,567,919	\$ 1,294,288	\$ 285,356	\$ 770,490	\$ 445,341	\$ 703,379	\$ 16,249,460	\$ 490,041	\$ 160,727	\$ 60,715,324

**Department of Land and Natural Resources
State of Hawaii
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017**

	Subtotal Brought Forward	Sport-Fish Restoration Fund	State Parks Operations Fund	Turtle Bay Conservation Fund	Water and Land Development Fund	Donations, Gifts and Grants Fund	In-Lieu Fee Mitigation Program Fund	Ecosystem Protection and Restoration Fund	International Union for Conservation of Nature Fund	Donations, Gifts and Grants - Private & Gov't Fund	Subtotal Carried Forward
ASSETS:											
Cash and short-term cash investments held in State Treasury	\$ 59,481,755	\$ 65,797	\$ 2,710,465	\$ 6,000,000	\$ 1,341,395	\$ 19,617	\$ 6,174,692	\$ 5,620	\$ 19,874	\$ 18,105,495	\$ 93,924,710
Receivables:											
General leases and licenses, net of allowance for losses	147,891	--	375,114	--	--	--	--	--	--	--	523,005
Due from Federal Grant Fund	1,085,678	--	--	--	--	--	--	--	--	--	1,085,678
Total Assets	\$ 60,715,324	\$ 65,797	\$ 3,085,579	\$ 6,000,000	\$ 1,341,395	\$ 19,617	\$ 6,174,692	\$ 5,620	\$ 19,874	\$ 18,105,495	\$ 95,533,393
LIABILITIES:											
Vouchers and contracts payable	\$ 382,212	--	\$ 134,631	\$ --	\$ --	\$ --	\$ 13,301	\$ --	\$ --	\$ 110,879	\$ 641,023
Accrued wages and employee benefits payable	748,819	1,329	213,298	--	31,346	--	--	--	--	732	995,524
Unearned revenue	1,282,087	--	239,131	--	--	--	--	--	--	--	1,521,218
Total Liabilities	2,413,118	1,329	587,060	--	31,346	--	13,301	--	--	111,611	3,157,765
FUND BALANCES:											
Restricted	--	--	--	--	--	19,617	6,161,391	--	--	17,993,884	24,174,892
Committed	58,302,206	64,468	2,498,519	6,000,000	1,310,049	--	--	5,620	19,874	--	68,200,736
Total Fund Balances	58,302,206	64,468	2,498,519	6,000,000	1,310,049	19,617	6,161,391	5,620	19,874	17,993,884	92,375,628
Total Liabilities and Fund Balances	\$ 60,715,324	\$ 65,797	\$ 3,085,579	\$ 6,000,000	\$ 1,341,395	\$ 19,617	\$ 6,174,692	\$ 5,620	\$ 19,874	\$ 18,105,495	\$ 95,533,393

**Department of Land and Natural Resources
State of Hawaii
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017**

	Subtotal Brought Forward	Assistance in Managing Land Fund	Kahoolawe Rehabilitation Trust Fund	Endangered Species Trust Fund	Dam and Reservoir Safety Fund	Native Resources and Fire Protection Fund	Water Resources Fund	Water Resources Trust Fund	Natural Physical Environment Fund	Natural Physical Environment Trust Fund	Total Other Governmental Funds								
ASSETS:																			
Cash and short-term cash investments held in State Treasury	\$ 93,924,710	\$ 124,929	\$ 415,046	\$ 4,386,764	\$ 3,229,660	\$ 1,193,539	\$ 1,056,131	\$ 272,093	\$ 465,032	\$ 16,023	\$ 105,083,927								
Receivables:																			
General leases and licenses, net of allowance for losses	523,005	--	--	--	--	--	--	--	--	--	523,005								
Due from Federal Grant Fund	1,085,678	--	--	--	6,802	--	--	--	--	--	1,092,480								
Total Assets	<u>\$ 95,533,393</u>	<u>\$ 124,929</u>	<u>\$ 415,046</u>	<u>\$ 4,386,764</u>	<u>\$ 3,236,462</u>	<u>\$ 1,193,539</u>	<u>\$ 1,056,131</u>	<u>\$ 272,093</u>	<u>\$ 465,032</u>	<u>\$ 16,023</u>	<u>\$ 106,699,412</u>								
LIABILITIES:																			
Vouchers and contracts payable	\$ 641,023	\$ --	\$ --	\$ 280,197	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 921,220								
Accrued wages and employee benefits payable	995,524	--	--	3,717	47,462	--	--	--	114,050	17,438	1,178,191								
Unearned revenue	1,521,218	--	--	--	--	--	1,589	--	--	--	1,522,807								
Total Liabilities	<u>3,157,765</u>	<u>--</u>	<u>--</u>	<u>283,914</u>	<u>47,462</u>	<u>--</u>	<u>1,589</u>	<u>--</u>	<u>114,050</u>	<u>17,438</u>	<u>3,622,218</u>								
FUND BALANCES:																			
Restricted	24,174,892	124,929	415,046	4,102,850	--	--	--	272,093	--	(1,415)	29,088,395								
Committed	68,200,736	--	--	--	3,189,000	1,193,539	1,054,542	--	350,982	--	73,988,799								
Total Fund Balances	<u>92,375,628</u>	<u>124,929</u>	<u>415,046</u>	<u>4,102,850</u>	<u>3,189,000</u>	<u>1,193,539</u>	<u>1,054,542</u>	<u>272,093</u>	<u>350,982</u>	<u>(1,415)</u>	<u>103,077,194</u>								
Total Liabilities and Fund Balances	<u>\$ 95,533,393</u>	<u>\$ 124,929</u>	<u>\$ 415,046</u>	<u>\$ 4,386,764</u>	<u>\$ 3,236,462</u>	<u>\$ 1,193,539</u>	<u>\$ 1,056,131</u>	<u>\$ 272,093</u>	<u>\$ 465,032</u>	<u>\$ 16,023</u>	<u>\$ 106,699,412</u>								

Department of Land and Natural Resources
State of Hawaii
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

	Special Land Development		Special Land Development Fund - Other		Land Conservation Fund	Bureau of Conveyances Fund		Commercial Fisheries Fund		Forest Stewardship Fund		Wildlife Revolving Fund		Conservation Resource Enforcement Fund		Natural Area Reserves Fund		Historic Preservation Fund		Na Ala Hele Park Development Fund		Subtotal Carried Forward
	Fund		Fund			Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	Fund	
REVENUES:																						
Intergovernmental revenue	\$ 3,000,000		\$ --		\$ --		\$ --		\$ --		\$ --		\$ --		\$ --		\$ --		\$ 237,500		\$ --	\$ 3,237,500
General leases, licenses and permits	13,405,338		--		--		--	199,049		232,435		340,945		--	2,132		--	48,811		--	14,177,767	
Fees and service charges	61,760		--		--	6,097,724		--		--	2,110		--	400,001		--	--	85		32,596	6,245,133	
Taxes, fuel and others	--		--		6,800,000		--	--		--	--		--	3,169		118,578		--		249,811	7,449,812	
Interest	117,252		7,727		165,748	6,033	2,185	6,671	1,813	80,918	263,045	98		88,881		--		85		1,061	430,335	
Other	61,892		45		--	7,193	100	--	--	--	--	--		2,395		--		375,290		283,553	504,547	
Total Revenues	\$ 16,648,242		\$ 7,772		\$ 6,965,748	\$ 6,110,953	\$ 201,334	\$ 320,024	\$ 607,913	\$ 407,687	\$ 118,578	\$ 375,290	\$ 283,553	\$ 32,045,094								
EXPENDITURES:																						
Current:																						
Economic development	\$ --		\$ 1,029,879		\$ --		\$ 189,713	\$ 465,778	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 2,093,120		\$ 210,290		\$ --		\$ --	\$ 1,685,370	
Environmental protection	--		477,850		--		--	--	--	--	415,874		--	--		--		87,105		449,205	2,781,260	
Culture and recreation	--		438,162		--		--	--	--	--	--		--	--		--		--		--	1,390,346	
Public safety	--		--		--		--	--	--	--	--		--	--		--		--		--	--	
Individual rights	--		--		--		--	--	--	--	--		--	--		--		--		--	5,440,792	
Government-wide support	9,597,318		--		5,835,069	5,440,792	--	--	--	--	--	--	--	--		--		--		--	15,432,387	
Total Expenditures	9,597,318		1,945,891		5,835,069	5,440,792	189,713	465,778	415,874	2,093,120	210,290	87,105	449,205	26,730,155								
Excess (Deficiency) of Revenues Over Expenditures	7,048,924		(1,938,119)		1,130,679	670,161	(145,754)	192,039	(91,712)	(1,685,433)		288,185	(165,652)	5,314,939								
OTHER FINANCING SOURCES (USES):																						
Transfers In	7,920,200		2,363,605		14,738,976	61,661	180,980	345,650	216,473	2,228,087	--	1,068	262,675	28,319,375								
Transfers Out	(11,527,496)		(191,770)		(14,738,976)	(165,285)	(255,017)	(474,509)	(250,462)	(281,591)	--	(2,418)	(18,756)	(27,906,280)								
Total Other Financing Sources (Uses)	(3,607,296)		2,171,835		--	(103,624)	(74,037)	(128,859)	(33,989)	1,946,496	--	(1,350)	243,919	413,095								
Net Change in Fund Balances	3,441,628		233,716		1,130,679	566,537	(62,416)	(274,613)	158,050	261,063	(91,712)	286,835	78,267	5,728,034								
Fund Balances, Beginning of Year	13,327,153		835,347		19,420,549	499,619	322,213	1,019,720	272,920	282,692	16,341,172	203,206	49,581	52,574,172								
Fund Balances, End of Year	\$ 16,768,781		\$ 1,069,063		\$ 20,551,228	\$ 1,066,156	\$ 259,797	\$ 745,107	\$ 430,970	\$ 543,755	\$ 16,249,460	\$ 490,041	\$ 127,848	\$ 58,302,206								

**Department of Land and Natural Resources
State of Hawaii
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017**

	Subtotal Brought Forward	Sport-Fish Restoration Fund	State Parks Operations Fund	Turtle Bay Conservation Fund	Water and Land Development Fund	Donations, Gifts and Grants Fund	In-Lieu Fee Mitigation Program Fund	Ecosystem Protection and Restoration Fund	International Union for Conservation of Nature Fund	Donations, Gifts and Grants - Private & Gov't Fund	Subtotal Carried Forward
REVENUES:											
Intergovernmental revenue	\$ 3,237,500	\$ --	\$ --	\$ 4,500,000	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 738,346	\$ 8,475,846
General leases, licenses and permits	14,177,767	26,038	4,001,763	--	--	--	--	--	--	--	18,205,568
Fees and service charges	6,245,133	--	839,523	--	--	--	--	--	--	--	7,084,656
Taxes, fuel and others	7,449,812	--	1,999,999	--	--	--	--	--	--	--	9,449,811
Interest	430,335	385	12,287	--	12,714	--	35,741	--	--	108,820	600,282
Other	504,547	590	53,275	--	--	19,520	--	--	--	1,145,919	1,723,851
Total Revenues	\$ 32,045,094	\$ 27,013	\$ 6,906,847	\$ 4,500,000	\$ 12,714	\$ 19,520	\$ 35,741	\$ --	\$ --	\$ 1,993,085	\$ 45,540,014
EXPENDITURES:											
Current:											
Economic development	\$ 1,685,370	\$ --	\$ --	\$ --	\$ 389,083	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 2,074,453
Environmental protection	2,781,260	--	--	--	--	--	205,812	(2,048)	2,042,394	--	5,027,418
Culture and recreation	1,390,346	24,767	5,550,252	--	--	--	--	--	--	--	6,965,365
Public safety	--	--	--	--	--	--	--	--	--	--	--
Individual rights	5,440,792	--	--	--	--	--	--	--	--	--	5,440,792
Government-wide support	15,432,387	--	--	--	--	9,480	--	--	--	2,884,215	18,326,082
Total Expenditures	26,730,155	24,767	5,550,252	--	389,083	9,480	205,812	(2,048)	2,042,394	2,884,215	37,894,110
Excess (Deficiency) of Revenues Over Expenditures	5,314,939	2,246	1,356,595	4,500,000	(376,369)	10,040	(170,071)	2,048	(2,042,394)	(891,130)	7,705,904
OTHER FINANCING SOURCES (USES):											
Transfers In	28,319,375	50,494	1,116,519	2,625,000	1,493,457	--	5,849,436	5,620	--	17,708,480	57,168,381
Transfers Out	(27,906,280)	(50,494)	(1,250,304)	(2,625,000)	(1,686,745)	--	(5,849,436)	(5,620)	--	(17,808,329)	(57,182,208)
Total Other Financing Sources (Uses)	413,095	--	(133,785)	--	(193,288)	--	--	--	--	(99,849)	(13,827)
Net Change in Fund Balances	5,728,034	2,246	1,222,810	4,500,000	(669,657)	10,040	(170,071)	2,048	(2,042,394)	(99,079)	7,692,077
Fund Balances, Beginning of Year	52,574,172	62,222	1,275,709	1,500,000	1,879,706	9,577	6,331,462	3,572	2,062,268	18,984,863	84,683,551
Fund Balances, End of Year	\$ 58,302,206	\$ 64,468	\$ 2,498,519	\$ 6,000,000	\$ 1,310,049	\$ 19,617	\$ 6,161,391	\$ 5,620	\$ 19,874	\$ 17,993,884	\$ 92,375,628

Department of Land and Natural Resources
State of Hawaii
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2017

	Subtotal Brought Forward	Assistance in Managing Land Fund	Kahoolawe Rehabilitation Trust Fund	Endangered Species Trust Fund	Dam and Reservoir Safety Fund	Native Resources and Fire Protection Fund	Water Resources Fund	Water Resources Trust Fund	Natural Physical Environment Fund	Natural Physical Environment Trust Fund	Total Other Governmental Funds
REVENUES:											
Intergovernmental revenue	\$ 8,475,846	\$ --	\$ --	\$ 361,991	\$ --	\$ --	\$ --	\$ 225,743	\$ --	\$ --	\$ 9,063,580
General leases, licenses and permits	18,205,568	--	2,425	--	--	--	56,854	--	--	--	18,264,847
Fees and service charges	7,084,656	--	18,987	112,971	588,366	--	4,787	--	--	--	7,809,767
Taxes, fuel and others	9,449,811	--	--	--	--	--	--	--	--	--	9,449,811
Interest	600,282	771	1,617	16,387	22,853	6,891	7,509	--	5,383	--	661,693
Other	1,723,851	--	371,175	2,151,369	101	--	5,240	100,000	39,752	--	4,391,488
Total Revenues	\$ 45,540,014	\$ 771	\$ 394,204	\$ 2,642,718	\$ 611,320	\$ 6,891	\$ 74,390	\$ 325,743	\$ 45,135	\$ --	\$ 49,641,186
EXPENDITURES:											
Current:											
Economic development	\$ 2,074,453	\$ 679	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 2,075,132
Environmental protection	5,027,418	--	497,690	2,029,493	--	7,285	225,700	53,650	1,371,660	83,827	9,296,723
Culture and recreation	6,965,365	--	--	--	--	--	--	--	--	--	6,965,365
Public safety	--	--	--	--	1,241,219	--	--	--	--	--	1,241,219
Individual rights	5,440,792	--	--	--	--	--	--	--	--	--	5,440,792
Government-wide support	18,326,082	--	--	--	--	--	--	--	--	17,438	18,343,520
Total Expenditures	37,834,110	679	497,690	2,029,493	1,241,219	7,285	225,700	53,650	1,371,660	101,265	43,362,751
Excess (Deficiency) of Revenues Over Expenditures	7,705,904	92	(103,486)	613,225	(629,899)	(394)	(151,310)	272,093	(1,326,525)	(101,265)	6,278,435
OTHER FINANCING SOURCES (USES):											
Transfers In	57,168,381	115,568	347,736	2,123,965	2,590,089	366,428	756,320	--	1,739,542	99,850	65,307,879
Transfers Out	(57,182,208)	(115,568)	(347,736)	(2,123,965)	(1,750,193)	(366,428)	(791,739)	--	(629,317)	--	(63,307,154)
Total Other Financing Sources (Uses)	(13,827)	--	--	--	839,896	--	(35,419)	--	1,110,225	99,850	2,000,725
Net Change in Fund Balances	7,692,077	92	(103,486)	613,225	209,997	(394)	(186,729)	272,093	(216,300)	(1,415)	8,279,160
Fund Balances, Beginning of Year	84,683,551	124,837	518,532	3,489,625	2,979,003	1,193,933	1,241,271	--	567,282	--	94,798,034
Fund Balances, End of Year	\$ 92,375,628	\$ 124,929	\$ 415,046	\$ 4,102,850	\$ 3,189,000	\$ 1,193,539	\$ 1,054,542	\$ 272,093	\$ 350,982	\$ (1,415)	\$ 103,077,194

PART II

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

**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**

INDEPENDENT AUDITOR'S REPORT

To the Auditor
State of Hawaii
Board of Land and Natural Resources
State of Hawaii, Department of Land and Natural Resources

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, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated April 3, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies 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 2017-001 to 2017-004 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2017-005.

Department's Response to Findings

The Department's response to the findings identified in our audit is described in Part IV, Corrective Action Plan. 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
April 3, 2019

PART III
SCHEDULE OF FINDINGS

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS
Fiscal Year Ended June 30, 2017**

Ref. No. Financial Statement Internal Control Findings

2017-001 Improve Recordkeeping to Prepare Accrual Basis Financial Statements

Criteria:

Accounting principles generally accepted in the United States of America 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.

Condition:

The financial reports generated by the State of Hawaii Department Accounting and General Services (DAGS) accounting system does not present accrual-basis financial information. State agencies must maintain or prepare schedules to capture accrual information from the DAGS accounting system in order to prepare proper financial statements in accordance with accounting principles generally accepted in the United States of America.

The DLNR did not have adequate accounting schedules to properly prepare accrual-basis financial statements. The audit for the fiscal year ended June 30, 2017 was halted to allow time for the DLNR to have the appropriate schedules prepared.

Cause:

Adequate supporting schedules for accrual-basis financial reporting were not maintained or completed timely for the audit.

Effect:

Audit work was halted as all schedules needed for the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America were not available. Without complete and accurate financial information on an accrual-basis, management is unable to make fully informed decisions. In addition, reports submitted to external parties may be misstated.

Recommendation:

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

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

Management agrees with the finding and recommendation. See Corrective Action Plan on page 66.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2017**

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

2017-002 Improve Accounting for Construction in Progress

Criteria:

Accounting principles generally accepted in the United States of America require that assets be transferred from construction work in progress to capital assets when they are placed in service or are available to be placed in service. In addition, the DLNR's accounting policy for normal maintenance and repairs is to expense these costs as incurred.

Condition:

The DLNR administrative service office prepares a construction work in progress schedule in excel to calculate the roll-forward balance of on-going projects and determine projects that were completed, placed into service to be capitalized as a tangible asset, or expensed as repairs and maintenance. We noted multiple instances where a project was not capitalized properly or timely, and old projects that should have been expensed were still included in the roll-forward balance as an on-going project.

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 addition and deletion information that is entered into the FAIS, review of the quarterly reports, and notification to the administrative service office of any errors. These FAIS reports are reviewed by the administrative service office quarterly and reconciled to the roll-forward spreadsheet to identify any projects completed to be removed from the roll-forward spreadsheet.

Cause:

Divisions did not always notify the administrative service office of errors in the quarterly FAIS reports. In addition, the administrative service office did not always recognize an addition reported on the FAIS report as a project that had been completed, and therefore should have been removed from the roll-forward spreadsheet of on-going projects to be either expensed as normal maintenance and repairs, or recorded as a capital asset to be depreciated.

Effect:

There was an overstatement of the amount of construction in progress for on-going projects at year end and an understatement of capital assets, accumulated depreciation, and depreciation expenses or repairs and maintenance expenses for projects that were not subject to capitalization.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2017**

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

2017-002 Improve Accounting for Construction in Progress (Continued)

Recommendation:

The DLNR should establish formal procedures to ensure that errors in the FAIS reports and completed construction work in progress and projects are communicated timely by the divisions to the administrative service office in order to properly capitalize, depreciate capital assets and expense costs for completed projects in the appropriate accounting period. The DLNR should also establish procedures to maintain and reconcile the construction in progress schedule throughout the year in order to have accurate year-end balances of on-going projects as well as the appropriate capitalization, depreciation and expensing of repairs and maintenance costs accounted for, to produce meaningful and accurate financial statements.

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

Management agrees with the finding and recommendation. See Corrective Action Plan on page 66.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2017**

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

2017-003 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 in the deposit accounts 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 supposed to be returned to the lessee upon termination of their lease if no balances are owed for rents or other charges. These funds are then 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.

Effect:

As of June 30, 2017, 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. Security deposit amounts identified for past tenants that were delinquent in rents and fees should be transferred and applied against those delinquent rents and fees. Reconciliations should be done monthly in order to properly remit funds back to tenants or apply them to back rents and fees on a timely basis.

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

Management agrees with the finding and recommendation. See Corrective Action Plan on page 66.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2017**

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

2017-004 Update Allowance for Uncollectible Accounts and Formalize Procedures to Follow-up on Delinquent Receivable Accounts

Criteria:

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

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

Condition:

We noted that the accounts receivable aging schedules for rentals of State lands and small boat harbors contained receivable accounts in which the Land Division or the Boating and Ocean Recreation Division had identified as not collectible. The listing contained some receivables from 2004 and also included notes on the status of collection efforts or whether the lessee was bankrupt or deceased. However the receivable amounts still 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.

Cause:

DLNR does not have formal written standardized procedures 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 appear 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.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2017**

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

2017-004 Update Allowance for Uncollectible Accounts and Formalize Procedures to Follow-up on Delinquent Receivable Accounts (Continued)

Effect:

The net realizable value of the receivables reported in the Ocean-Based Recreation fund as receivable, and the amounts reported in the Agency fund as amounts as receivable and owed to the State general fund or other State agencies are overstated. The accounts receivable systems also continue to list amounts that are deemed uncollectible.

Recommendation:

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

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

Management agrees with the finding and recommendation. See Corrective Action Plan on page 66.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2017**

Ref. No. Compliance and Other Matters Findings

2017-005 Remit Funds Due to Others on a Timely Basis

Criteria:

Act 178, SLH 2006 requires that the State remit \$3,775,000 on a quarterly basis to Office of Hawaiian Affairs (OHA). Section 5 of that Act also requires DLNR to provide an annual accounting of all receipts collected from ceded lands for the prior fiscal year and remitted to OHA since the funds are collected and remitted to OHA from several different State agencies. Funds remitted to OHA in excess of the \$15,100,000 annual payment are requested by the State's Department of Budget and Finance (B&F) to be paid back to the State.

Condition:

The DLNR collects revenues from the use of ceded lands and small boat harbor facilities under its jurisdiction. The ceded lands revenues are allocated between OHA and the State of Hawaii. Amounts owed to OHA are deposited into the DLNR's trust account for OHA and amounts that belong to the State are deposited into the DLNR's General Fund Receipts Trust Holding Account (GFRTHA).

Amounts owed to OHA are usually transferred quarterly to OHA. However, as of June 30, 2017, the DLNR held approximately \$715,000 of funds from small boat harbor operations that were due to OHA. Of this amount, \$117,260 were for ceded land revenues collected prior to the 2017 fiscal year.

As of June 30, 2017, the DLNR also held funds of approximately \$29,868,000 in the GFRTHA. Of this amount, \$26,532,000 were for funds collected in years prior to the fiscal year 2017 with the oldest funds collected from fiscal year 2008.

Cause:

The DLNR believes that the funds must be held in the event the collection of revenues derived from the use/rental of ceded lands on a Statewide basis is not sufficient to meet the State's \$3,775,000 quarterly obligation (\$15,100,000 annually) to OHA with any shortfalls paid from the GFRTHA fund.

Effect:

Although the funds due to OHA held in the DLNR trust account and the GFRTHA account receive investment earnings allocated by B&F from the investment pool in which these funds are held, it does not seem appropriate that these funds, as part of the State's revenues, are being held idle instead of being available to the State and OHA programs/operations.

**Department of Land and Natural Resources
State of Hawaii
SCHEDULE OF FINDINGS (Continued)
Fiscal Year Ended June 30, 2017**

Ref. No. Compliance and Other Matters Findings (Continued)

2017-005 Remit Funds Due to Others on a Timely Basis (Continued)

Recommendation:

Ceded land related revenues should be remitted quarterly to OHA. For funds collected from years prior to the current year, if the total amount of funds already remitted to OHA met the State's annual obligation to OHA, these funds should be transferred to B&F who maintains a trust account for funds collected from ceded lands in excess of the annual required OHA payment.

Annually and at least after the annual accounting of receipts from ceded lands, the DLNR should communicate with B&F the amount of ceded land revenues in excess of the required funds to be transferred to OHA. Excess funds should then be transferred to B&F. The amount of funds in the DLNR's GFRTHA account held at year end should only relate to funds collected for that current year. Funds collected from prior year revenue activities should not be held.

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

Management agrees with the finding and recommendation. See Corrective Action Plan on page 66.

PART IV

DEPARTMENTAL RESPONSE

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

DAVID Y. IGE
GOVERNOR OF
HAWAII



STATE OF HAWAII
DEPARTMENT OF LAND AND NATURAL RESOURCES

POST OFFICE BOX 621
HONOLULU, HAWAII 96809

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

ROBERT K. MASUDA
FIRST DEPUTY

M. KALEO MANUEL
DEPUTY DIRECTOR - WATER

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

April 3, 2019

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

Dear Mr. Isobe:

The Department of Land and Natural Resources has reviewed your audit findings and recommendations. We respectfully submit the enclosed corrective action plan for the fiscal year ended June 30, 2017.

If you have any questions regarding this plan, please call Cynthia Gomez, Fiscal Management Officer, at (808) 587-0340.

Sincerely yours,

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

Suzanne D. Case
Chairperson, BLNR

PART III SCHEDULE OF FINDINGS

2017-001 Improve Recordkeeping to Prepare Accrual Basis Financial Statements (Page 57)

Corrective Action Plan:

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

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

Anticipated Completion Date: Ongoing

2017-002 Improve Accounting for Construction in Progress (Page 59)

Corrective Action Plan:

Concur. DLNR will implement better controls to track substantial completion and acceptance of work in order to inform the applicable DLNR ser division of such costs for inclusion on their DAGS Fixed Assets Inventory System (FAIS). The Engineering Division (ENG) will make more extensive use of eSign to assist in tracking completed construction projects as they will have a copy of applicable documents sent to a central email address for ENG Project Control Branch to monitor and take appropriate action. Upon receiving notification from ENG, DLNR divisions will ensure that the completed construction projects are reported timely in the FAIS.

DLNR has made significant progress to update the construction in progress schedule and will continue to work to improve the maintenance and reconciliation of the construction in progress schedule to ensure that completed construction work in progress projects are capitalized or expensed timely and that accurate information is reported on the schedule

Responsible Official(s): Alyson Yim, Engineer, ENG Division
Piikea Tomczyk, Administrative Services Assistant, Parks
Cynthia C. Gomez, Fiscal Management Officer

Anticipated Completion Date: Ongoing

2017-003 Reconcile Security Deposits to Cash Held

(Page 60)

Corrective Action Plan:

Concur. The DLNR Division of Boating and Ocean Recreation (DOBOR) is currently reconciling the security deposits in the Boating Security Deposits account and expects to complete the reconciliation by June 30, 2019.

The DLNR Land Division (Land) and ASO are working together to reconcile the balances in the Temporary Deposits account.

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

Anticipated Completion Date: June 30, 2019

**2017-004 Update Allowance for Uncollectible Accounts and Formalize
Procedures to Follow-up on Delinquent Receivable Accounts**

(Page 61)

Corrective Action Plan:

Concur. DOBOR has approximately \$118,000 of outstanding receivables approved for write-off by the Board of Land and Natural Resources (BLNR) and has submitted the receivables to the Office of the Attorney General (OAG) for removal from DOBOR records. The OAG requested additional information that DOBOR does not collect, so DOBOR and the OAG are currently working to ascertain if there is other information that can be submitted that would allow the OAG to complete their determination.

Land Division (Land) will request the OAG Civil Recoveries Division to assist in collection efforts. If the OAG is unable to assist, Land will procure a collection agency to pursue the collection of delinquent accounts on Land's behalf. Accounts the collection agency returns to Land as uncollectible will be submitted to the BLNR for approval to write off the account balances. Land will also build on its current written procedures for write offs to facilitate the process.

Responsible Official(s): Kevin Yim, Boating Staff Officer, DOBOR
Russell Tsuji, Administrator, Land Division

Anticipated Completion Date: June 30, 2019

**DEPARTMENT OF LAND AND NATURAL RESOURCES
CORRECTIVE ACTION PLAN
JUNE 30, 2017**

2017-005 Remit Funds Due to Others on a Timely Basis

(Page 63)

Corrective Action Plan:

Concur. DOBOR worked with the Department of Budget and Finance (B&F) and transferred all small boat harbor ceded land receipts owed to the Office of Hawaiian Affairs (OHA) in February 2018. DOBOR has established policies and procedures to ensure that all small boat harbor ceded land receipts owed to OHA are transferred to OHA annually.

DLNR transferred all funds owed from the Ceded Land Proceeds, General Fund Portion accounts for FY 2016 and prior years to the state general fund in August 2017, per request from B&F. DLNR will coordinate with B&F to ensure that the State portion of ceded land revenues is transferred timely to the State's general fund.

Responsible Official(s): Kevin Yim, Boating Staff Officer, DOBOR
Cynthia C. Gomez, Fiscal Management Officer

Anticipated Completion Date: June 30, 2018