

ALAN M. ARAKAWA
Mayor



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2018 FEB -8 AM 10:28

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February 7, 2018

Honorable Alan M. Arakawa
Mayor, County of Maui
200 South High Street
Wailuku, Hawaii 96793

For Transmittal to:

Honorable Don S. Guzman, Chair
Parks, Recreation, Energy and
Legal Affairs Committee
200 South High Street
Wailuku, Hawaii 96793

APPROVED FOR TRANSMITTAL


Mayor

2/7/18
Date

Dear Chair Hokama,

**SUBJECT: WAIEHU MUNICIPAL GOLF COURSE OPERATIONS
AND IMPROVEMENTS (PRL-30)**

This is in response to your letter dated February 2, 2018 requesting information on the golf courses financial reporting status as a propriety fund and other related information. Please find our responses to your information inquiry below;

1. Please provide the pros and cons of reporting the Golf Course Special Fund as a proprietary fund. Provide specific references to Generally Accepted Accounting Principles ("GAAP") and reporting requirements as prescribed by the Governmental Accounting Standards Board ("GASB").

Response: As an overview, proprietary funds focus on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds. The National Council on Governmental Accounting Statement No. 1 (NCGAS 1) defines the purpose of enterprise funds as, "...to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs

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(expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through users charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes."

Pros for reporting under a proprietary fund;

- *Provides compliance with GASB 34. GASB 34 was introduced to provide more relevant information that will result in greater accountability by state and local governments and enhance the understandability and usefulness of the annual financial reports to users of these reports to enable them to make more informed economic, social, and political decisions.*
- *Provides effective financial information to constituencies in a consistent and clear format. Specifically, the information provided by governments should contribute to accountability in financial position and results of operations, actual financial results, efficiency and effectiveness of operations and maintenance of governmental assets.*
- *The extent of general government support is specifically identified and the true cost of the operation is transparent.*
- *Provides for the accounting of fixed assets and depreciation that can give a good indication of the value of resources devoted to providing the service and the level of investment required to maintain those resources.*

Cons for reporting under a proprietary fund;

- *Requires somewhat more accounting time to keep the funds separate and to account for the annual depreciation of assets. However, this time is currently absorbed by the Accounts staff and removal would provide only a nominal amount of time savings.*
2. Explain what effect repealing Section 13.16.040, Maui County Code, relating to the Golf Course Fund, would have on the reporting of the fund in the CAFR. Please

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provide specific positive or negative outcomes and references to GAAP and GASB requirements.

Response: Enterprise (Proprietary) funds generally are used to report activities that the government operates more like a business. These activities generally become the government's business-type activities in the government-wide financial statements. Under GASB Statement No. 34, the use of an enterprise fund normally is restricted to activities "for which a fee is charged to external users for goods or services".

The effect of repealing Section 13.16.040, Maui County Code, removes the statutory requirement under GASB 34 to account for the Golf Course under an enterprise fund. However, in discussions with the County of Maui external auditor N&K CPA's, Inc., they indicated that even without the aforementioned Maui County Code section the reporting of the Waiehu Golf Course operations as an enterprise fund is the proper reporting format for business-type activity.

Thank you for the opportunity to provide information regarding this matter and should you have any further questions, please feel free to contact me at Ext. 7474.

Sincerely,



MARK R. WALKER
Director of Finance

cc: Steve Tesoro, Accounting System Administrator
Marci Sato, Deputy Director